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GIVING

A \$1-Billion Call for Change

Fed up with America's descent into debt, an investor starts a philanthropy to press for a new approach

BY MICHAEL ANFT

You wouldn't know it to look at him, but Peter G. Peterson is mad as hell.

Festering underneath his measured, soft-spoken demeanor is strong dissatisfaction with how the United States government is handling its long-term fiscal health.

A year ago, Mr. Peterson, 82, decided he couldn't take it anymore. So he and his colleagues took public the Blackstone Group, the private-equity firm he co-founded, and then used \$1-billion of his \$1.8-billion in proceeds from the sales of his stock to endow the Peter G. Peterson Foundation, which formally opened its doors this week. Its goals will be to run publicity and educational campaigns and make grants to groups that are working to put America on firmer financial footing.

Mr. Peterson, who rose from his upbringing in Nebraska as the son of Greek immigrants to become secretary of commerce under President Richard M. Nixon and then one of the country's leading corporate chief executives, hopes the new organization will succeed in driving home the message that the country's present course is unsustainable.

"There's a need for a foundation like ours because there aren't many like it," he says. "Most give money to large charities and universities. We want to find advocacy groups that are going to reach people, particularly young people, and tell them about what they'll be facing if we don't change course."

'Running on Empty'

Mr. Peterson has written five books over the past two decades outlining his concerns — books with titles like *On Borrowed Time*, *Running on Empty*, and *Will America Grow Up Before It Grows Old?*

He worries that America borrows too much from foreign banks to finance its trillions of dollars in debt. And he says the country hasn't saved for the future of its young people, who will see their plans for old age dashed if programs like Social Security and Medicare continue to be underfinanced. Meanwhile, health-care costs continue to strain the budgets of businesses, governments, and households, yet political parties lack the will to come up with a solution, he says.

And there is more that worries Mr. Peterson, whom some have called a modern-day Cassandra: The United States is not developing a properly educated work force for the future, its traditional energy resources are running low, and the proliferation of nuclear materials around the world threatens its security, he says.

His warnings, he is the first to admit, have done little to change the course of the nation.

"What's really troubling is that people in power aren't paying attention to much of this," says Mr. Peterson, as he sits in the foundation's Fifth Avenue offices, a breathtaking view of Central Park behind him. "They're either getting bad information about these problems or they're in denial about them."

Government Experience

As the foundation's offices here get slapped with new coats of paint and filled with new furniture, Mr. Peterson and the foundation's other board members — his wife, Joan Ganz Cooney, a co-founder of the Children's Television Workshop, and Michael, one of his five children — have begun assembling a leadership group that mirrors their views on national financial responsibility.

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(Mr. Peterson plans to set up foundations to be run by each of his children, a spokeswoman says.)

Chief among the new employees is David M. Walker, the Peterson foundation's president. Mr.

Walker, 56, served as the comptroller general of the U.S. Government Accountability Office — a watchdog agency that advises Congress on how taxpayer dollars are spent — for nine years.

In hopes of helping to shape public policy, the foundation will try to deliver its message to three distinct groups: younger people, business leaders, and the news media.

Perhaps the most daunting challenge it will face is making young people aware of what might befall them if the worst-case scenario Mr. Peterson and others have drawn up about the economy comes to be.

"We're leaving them a bill, not a bequest," says Mr. Walker.

Focus on Young People

Mr. Walker concedes that an elderly billionaire and a wonky baby boomer might not be the best deliverers of the bad news, at least not directly, to high-school and college students.

Emerging organizations of young people could make up much of the foundation's first batch of grantees, as could groups that attempt to lower the high-school dropout rate.

An interactive foundation Web site geared toward digitally savvy teenagers and young adults is in the works, Mr. Walker adds. And the foundation has ideas for using other electronic media to close the generation gap between the group and those it wants to help.

For example, Mr. Peterson and Mr. Walker are negotiating the purchase of an independently released documentary film, *I.O.U.S.A.*, that details what growing federal debt and the lack of a proper balance of payments into entitlement programs might mean for young people.

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"If we buy that movie and maximize its distribution by creating 10-minute versions of it for presentations, or if we give it away, we'll be fulfilling our mission," says Mr. Walker. "People need to see it — it represents the real inconvenient truth."

Among the ideas he has for education is making grants to support research into games that explain macroeconomic concepts to high-school or college students.

The Peterson foundation will also mull over grant proposals and partnership possibilities with organizations that promote financial literacy among all age groups, and others that gather business executives together to talk about possible solutions to problems, such as health care, that make their enterprises more expensive to operate.

"Our idea is to coordinate campaigns so we can start a full-fledged movement," says Mr. Walker. "Ultimately, elected officials are going to have to make the tough decisions on these issues. But a lot of the ideas are going to come from outside Washington. There's a lot of educating we can do right now before we reach a point of crisis. The American people seem to get this, but our leaders don't. That's the real deficit right now — the leadership deficit."

Philanthropy Commission

Mr. Peterson says he is putting himself and his foundation out in front to fill the void.

Mr. Peterson learned the lessons of philanthropy from his father, who sent much of the money he made in the United States back home to Greece or gave it to local charities. During the Depression, he would feed poor people who knocked on the back door of the restaurant he started in Kearney, Neb.

After receiving a master's degree from the University of Chicago Graduate School of Business, Mr. Peterson ran an ad agency, then moved to Bell and Howell, where he eventually rose to become chief executive of the electronics company.

His reputation as an enterprising corporate leader and strict fiscal conservative won him attention in Washington, and he began to receive calls for help on public policy.

He counseled an influential committee on philanthropy created by John Rockefeller III to advise Congress and helped craft some of the regulations that continue to be prominent today, especially the requirement that foundations distribute at least 5 percent of their assets to charity every year.

Mr. Peterson stayed in Washington and was eventually named commerce secretary by President Nixon.

During the 1980s, he formed a Washington think tank, now called the Peterson Institute for International Economics, and rose to become chairman of the powerful Council on Foreign Relations, in Washington, a nonpartisan organization of scholars, business leaders, and politicians. Mr. Peterson is now chairman emeritus of the group.

Also during that decade, Mr. Peterson became president of Lehman Brothers, a New York

investment firm, and married Ms. Cooney, who is perhaps best known as a creator of *Sesame Street*.

Ms. Cooney's decades of experience in dealing with foundations have helped Mr. Peterson shape his views about running his own philanthropy.

But he has also sought out other experts, including the leaders of several private foundations and Rockefeller Philanthropy Advisors, a consulting group in New York that works with many wealthy individuals.

Melissa Berman, president of Rockefeller Philanthropy Advisors, says that the Peterson foundation represents a rare kind of client, the type that runs counter to the strategies of most foundations that attempt to make inroads into problems from the bottom up by developing well-considered projects, testing them to see if they work, and then expanding them if they do.

"What's unusual is that the Peterson foundation wants to bring systemic change to the United States," Ms. Berman says. "They're taking on big, messy problems that many foundations won't try to tackle."

Because the Peterson foundation will concentrate on educating the public and encouraging it to spur action on a broad spectrum of potential problems, she adds, it has moved into largely uncharted territory. Precisely because the foundation has staked out a new area, it may have increased its chances of success, she says.

"Mr. Peterson has a tight focus on each of these issues," says Ms. Berman. "Most people who start foundations have very specific goals like, say, improving treatment of pancreatic cancer, or a broader interest in a large issue, like the environment. The fact that Mr. Peterson has had a compelling interest for years in several specific areas will help drive the foundation forward."

Young vs. Old

Mr. Peterson's views are often controversial, especially his advocacy for spending more on the young and less on the old.

He has come out in favor of weighing ideas such as means testing — effectively, rationing benefits so that the least needy people get nothing or smaller benefits than others — and across-the-board benefits cuts for Medicare and Social Security recipients.

He and others contend that the elderly voting block — and organizations that represent it, like the AARP, in Washington, the largest national group that advocates for people 50 and older — have gained a disproportionate amount of political power.

When younger people have to pay more into the system to pay for health-care and retirement benefits for elderly people — as some experts predict will soon happen — their own prosperity is threatened. Mr. Peterson has written that, if trends and current benefits levels continue, low-wage workers at discount stores will be working longer hours to pay the Medicare bills of retired stockbrokers.

Despite the intergenerational acrimony that Mr. Peterson's views might engender, AARP seems

When younger people have to pay for health-care and retirement benefits for elderly people, their own prosperity is threatened, a philanthropist says.

sanguine about the linchpin in his new foundation's mission. "It looks like what the Peterson foundation is getting at is very similar

to what we are trying to do — make sure that Social Security and Medicare are vital and available to future generations," says Drew Nannis, an AARP spokesman.

Jared Bernstein, a senior economist at the Economic Policy Institute, in Washington, like many other liberal economists, says that Mr. Peterson's prediction of an impending Social Security disaster are overblown.

A Social Security shortfall could be covered with proceeds gained via a repeal of the Bush tax cuts for the richest Americans, Mr. Bernstein says. But he agrees that health care and especially Medicare are facing a future of skyrocketing costs and insolvency.

'Positive Development'

Among groups that have sprouted in recent years to advocate that the government pay more attention to its balance sheets and to the future needs of people who are now young, the advent of the Peterson fund has been heartening.

"It gives any organization like ours a shot of confidence because it confirms that our issue is important enough to attract the attention of a prominent individual," says Yoni Gruskin, executive director of Concerned Youth of America, in Andover, Mass., a group Mr. Gruskin formed last year with three classmates at Phillips Academy. "Mr. Peterson has bet there are steps we can take to reduce the debt and the pain that would come with it."

Mr. Gruskin, who just completed his freshman year at the University of Pennsylvania, and his colleagues have formed chapters of their organization at four well-known universities and have embarked on an ambitious plan to create chapters at 24 more colleges this fall.

They are hoping that they can get some grant help from Peterson and that their ties to Mr.

“It’s one thing to reach children with very entertaining programming. It’s quite another to reach them when they’ve shown a pattern of disinterest.”

Walker, with whom Mr. Gruskin has developed a friendship, will pay some dividends. "He's the rock star of these issues," says Mr. Gruskin.

Pressing Elected Officials

Despite the excitement of nonprofit leaders, the foundation's progress will often be halting or incremental, especially at first, its leaders say.

"What we're taking on here is quite a challenge," says Ms. Cooney. "It's one thing to reach children with very entertaining programming. It's quite another to reach them when they've shown a pattern of disinterest."

In addition to testing ways to engage younger people, Mr. Peterson and Mr. Walker will continue to try to reach elected officials. Already they have testified before Congressional committees. They will make grants to the Concord Coalition, a public-policy group Mr. Peterson helped to found, to sponsor what it calls fiscal wake-up tours, to the tune of \$1.5-million over the next two years.

▪ **To read about Mr. Peterson's role on a pivotal Philanthropy advisory Committee go to *The Chronicle's* Web site at:**

<http://philanthropy.com/extras>

And Mr. Peterson, along with the financier Warren E. Buffett, has pledged a total of \$10-million to the Nuclear Threat Initiative, in Washington, a group formed in 2001 by the former U.S. senator Sam Nunn and the media mogul Ted Turner to halt the flow of high-grade nuclear materials around the world.

Mr. Walker says that the foundation's initial infusion of cash from Mr. Peterson — about \$116-million in the next year — will provide the beginnings of an endowment. Although he wouldn't specify the exact total of the grants to be made in the coming year or more, Mr. Walker says that the foundation won't limit itself to the legally required minimum. "We'll go beyond the 5-percent payout figure," he says.

The foundation's leaders are determined to make a difference as Mr. Peterson's money flows into the foundation over the next 10 years. "It might take years or it might not work," says Ms. Cooney.

Mr. Peterson says that given the sense of urgency on so many fronts, a quiet, backward-looking retirement would be out of the question. "I have more than enough, and it's time to do something important with it," he says. "When I was at the University of Chicago, I had a professor who said, 'If you have no alternative, you have no problem.' But doing nothing is no alternative — especially now."

PETER G. PETERSON FOUNDATION

Assets: The foundation now has \$116-million in assets; over the next 10 years Mr. Peterson plans to have provided at least \$1-billion.

What it supports: Advocacy campaigns that seek fiscal changes in national health-care policy, overhauling of government entitlement programs such as Medicare and Social Security, reduction of the federal debt and the national trade deficit, increased personal and government savings, improvement of schools, energy conservation, and stopping the proliferation of nuclear materials around the world

President: David M. Walker

Board members: Peter G. Peterson (chair), Joan Ganz Cooney, Michael Peterson

Web site: <http://www.pgpf.org>