

## The Bottom Line/Christopher Byron

# THE AWFUL TRUTH

DEAR MR LAMB -  
YOUR PROGRAM "BOOKNOTES" IS  
GREAT MAY I SUGGEST THIS  
FOR REVIEW?



**WORRIED MEN:** Peterson, Rudman, and Tsongas, backed by the National Debt Clock.

### PETE PETERSON SOUNDS THE ALARM

CALL HIM THE THINKING MAN'S ANSWER TO Ross Perot. Peter Peterson, the chairman of New York's Blackstone Group investment firm, has been pounding his desk for more than a decade about America's ever-swelling budget deficit. Now he has managed to get his concerns into a book—*Facing Up: How to Rescue the Economy From Crushing Debt & Restore the American Dream* (Simon & Schuster; \$22).

Like Perot, Peterson, 67, started out poor and wound up rich. And like Perot, Peterson has politics in his veins. He was secretary of Commerce in the Nixon years, and he has a knack for well-timed forays into the arena of public debate on economic and political matters.

In 1982, Peterson wrote a much-discussed article for *The New York Review of Books* warning of the impending bankruptcy of the Social Security system. Five years later, in the middle of the Reagan boom, he wrote a prescient and well-reasoned article for the *Atlantic Monthly* that enraged many of his Republican friends by predicting the bankruptcy of the entire economy if Washington's debt binge weren't halted.

Peterson co-founded and heads up a "grass roots" political-action group—the Concord Coalition—that he established, in cooperation with former senators Paul Tsongas and Warren Rudman, to give his ideas some clout in Washington. According to Peterson, the group now has 100

chapters in all 50 states, with 200,000 active, dues-paying members.

Peterson professes no desire to run for public office, but he clearly wants to stay involved. So, just as Perot has sought to spread his ideas—in part, at least—through books, Peterson is seeking to do the same with *Facing Up*, which will start appearing on store shelves around town next week.

This important book is bound to generate much discussion and debate. But *Facing Up* is not without flaws; the most notable is its so-called Action Plan for balancing the budget by the year 2000.

Peterson's plan has some good ideas, like reducing farm subsidies and enacting an "affluence test" to stop the wealthy from receiving various federal benefits they don't need. But much of the rest of the plan reads like a reprise of campaign Clintonomics. The worst part of the package is its counterproductive reliance on tax increases to help close the deficit.

Too bad, for the rest of *Facing Up* is excellent—a careful and well-reasoned analysis of just what the economy is headed for if federal spending keeps outstripping revenue.

The book's strongest feature is its compelling critique of so-called middle-class entitlements as an underappreciated cause of the deficit. Just how much money are well-off Americans receiving from fed-

eral programs? Peterson's figures are astounding. He reports that in 1991, 25 percent of all federal entitlements went to households with annual incomes of more than \$50,000.

Peterson argues that programs like Social Security have become padded hammocks for the well-off. He notes, for example, that households with annual incomes of more than \$100,000 get Social Security benefits that are, on average, twice the amount received by families with incomes of less than \$10,000.

If Peterson succeeds in provoking a national outcry over such obscenities, then that alone would seem enough to justify this book. Though it is hard to imagine the issue's getting very far in Washington at the moment, Peterson, sensibly enough, suggests a progressive affluence test for beneficiaries. As a result, families with annual incomes of \$30,000 would lose only one percent of their federal benefits. But higher up the income ladder, the losses would be steeper, topping out with families having annual incomes of more than \$200,000 losing fully 70 percent of their benefits.

Peterson claims that this and his other Action Plan savings would bring the budget into balance by 2000. By contrast, the Clinton program that was passed by Congress this past summer continues to forecast a deficit of at least \$200 billion by the end of the decade.

Better than either the Clinton or the Peterson program is a plan from Washington's Heritage Foundation. This plan calls for an annual growth cap of 2 percent on overall federal spending, plus a growth-oriented \$38-billion tax-cut package. A bill incorporating the package was introduced two weeks ago with 65 co-sponsors in the House of Representatives and 9 co-sponsors in the Senate.

Yet, whatever plan one chooses to support, *Facing Up* makes clear that something must be done. In a powerful series of 58

full-page charts, graphs, and tables, the book takes the reader from the depths of the Great Depression in 1933 through the sixties—decades whose rising productivity gave America a standard of living that was the envy of the world. But then came the seventies, when fiscal discipline went out the window and the inflationary pressures of the Vietnam war sent budget deficits skyward.

As deficits became a structural part of the budget, busi-

PETER G. PETERSON

**Facing Up**  
HOW TO RESCUE  
THE ECONOMY FROM  
CRUSHING DEBT  
& RESTORE THE  
AMERICAN DREAM

FOREWORD BY SENATORS  
WARREN B. RUDMAN & PAUL E. TSONGAS

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ness investment declined and worker productivity flattened out; for the past fifteen years, it has barely grown at all. Yet as America has stumbled, continuing productivity gains in the fast-growing economies of Asia have relentlessly closed the gap between the United States and its major competitors. Though the U.S. still remains the most productive country on earth, Japan and Europe will soon pull ahead, if present trends continue.

But slowing productivity in the U.S. has not been accompanied by slowing consumption. And so the U.S.'s savings rate has collapsed to the lowest level in the industrialized world, while personal consumption has remained higher than that of any other nation, even as the national debt has exploded. In the process, the economy has been visited by one plague of locusts after the next.

Among other setbacks, real wages have tumbled, and not even the entry of millions of married women into the work force has been enough to keep family incomes on the rise. As a consequence, a widening gap has opened between the rising living standards that Americans once expected as their birthright and the stagnating growth that has become the reality.

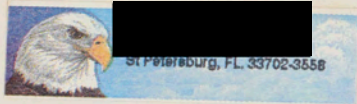
After declining through the sixties, the poverty rate has begun to rise, as America has fallen behind other industrialized nations in one "quality of life" category after another. Meanwhile, the American dream has become a mirage for the young. In 1950, a 30-year-old male was able to look forward to an income that would more than double by the time he was 50. In 1990, a 30-year-old could expect less than half that much improvement in his income by the year 2010.

With declining savings and soaring debt has come the destruction of one capital-intensive industry after another, from mining and metals to heavy machinery, forestry, and precision instruments. In their place have emerged millions upon millions of jobs in the "domestic services" industries—the stockbrokers and lawyers, the accountants and amusement-park tour guides who now form the backbone of the economy.

Reading this sobering material, which is outlined in clear, easy-to-follow fashion, is truly depressing. Although Peterson's solution may be flawed, he has certainly set forth the problem in stark terms: a generation so greedy that it is willing, in effect, to rob from its own children rather than save and invest for the next generation.

Unfortunately, given the realities of special-interest politics in America, what sensible person thinks that's about to change? So read this book, and ask yourself if America can really afford *any* new net spending—on health-care reform or aid to the PLO or anything else—when the economy is already crumbling under the weight of what has been spent already.





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