

Statement of Senator John Kerry
Senate Finance Subcommittee on Long-term Growth and Debt Reduction
Hearing: “Saving for the 21st Century: Is America Saving Enough to be
Competitive in the Global Marketplace?”
April 6, 2006

Mr. Chairman, thank you for holding this hearing today on the extremely important topic of our national saving. This is an excellent forum to discuss a topic that we should be paying more attention to — whether we are saving enough as a country in order to remain globally competitive. When you take a good hard look at the nation’s current fiscal situation, there is cause for alarm.

I’m sure you have heard about the national debt clock in New York City. It keeps count of how our national debt grows, and you know what? It never stops increasing. According to recent news stories, the clock is about to reach its limit. Once it reaches \$10 trillion, there are no more numbers left in its counter. And, within the next few years, our debt is expected to reach over \$10 trillion — climbing from its current rate of \$8.4 trillion. It hasn’t always been this way. For two whole years, the clock was not even used. During that time, in 2000, the debt started declining, but the clock could not go backwards. So, it sat idle. Now, however, we are not concerned that the clock cannot be used. We have a new problem: we need a new clock to make room for the additional digit in our ever-expanding debt. Certainly those who created the clock never thought it would come to this.

It is almost hard to believe that back in 2000 we were having conversations about how to pay down the debt, and today we are talking about debt projections over \$10 trillion within a few years. Not too long ago, David Walker, Comptroller General of the United States testified before the Senate Budget Committee and commented that “our nation’s fiscal policy is on an imprudent and unsustainable course.” He further indicated that “we face a large and growing structural deficit due primarily to known demographic trends, rising health care costs, and lower revenues as a percentage of the economy.” He believes major policies and priorities need to be looked at in order “to recapture our future fiscal flexibility.” I completely agree with him and I expect that during this hearing we will delve into the details on why changes are needed.

A look at our fiscal situation shows how unsustainable our current course is. Less than a month ago, Congress increased the debt limit for the fourth time in five years for a total of \$3 trillion. The administration projects a deficit of \$423 billion for 2006, the largest in history. An individual’s share of the debt is \$28,000.

Not only is the amount of debt a problem, I am also concerned about the amount of debt that is foreign-held — almost \$2.2 trillion. Japan holds the most, \$685 billion. China holds \$258 billion. Even the Caribbean Banking Centers hold \$111 billion. Over 51 percent of the public debt is held by foreign investors.

Sixty percent of the foreign debt is held by official foreign investors. This is extremely dangerous: being dependent on foreign capital threatens our national security and our way of life. If foreign investors decided to stop financing our borrowing habits, our economy could spiral downward. If those investors began to withdraw their capital, our financial markets would plummet and interest rates would climb. This would filter down to American families. Homes, education, and cars would become more expensive. Their entire way of life would change.

Debt is more than a financial liability – it weakens our security, our diplomacy, and our trade policy. The negligence of our “borrow and spend” policies leaves us vulnerable to the priorities of foreign creditors. How do you go to a country that holds so much of your debt while your economy is closely linked to theirs, and make an argument about nuclear proliferation, human rights, democratization, or other issues that are of importance and great consequence to our country?

Not only is our country not saving, but individuals are not saving. American households are spending beyond their means. For the first time since the depression, the personal saving rate is negative. I am concerned about the implications of a negative personal saving rate as the baby boomers approach retirement.

I look forward to hearing the testimony of our distinguished panel. We have to understand the reasons why our budget is on an unsustainable path and the role that national saving plays in our economy over the long-term. We need to work together to put the budget back on a sustainable path, and just maybe the owners of the national debt clock will not need to purchase a new one.