Statement of Senator John Kerry
Senate Finance Subcommittee on Long-term Growth and Debt Reduction
Hearing: "America's Public Debt: How Do We Keep It From Rising?"
September 28, 2006

Mr. Chairman, thank you for holding this hearing today on the extremely important topic of addressing the public debt. This is an excellent forum to discuss a topic that we should be paying more attention to — how to reduce the rising federal debt. When you take a good hard look at the nation's current fiscal situation, there is cause for alarm. I look forward to hearing the solutions offered by our panel of experts.

The projection for the deficit for 2006 is expected to be lower than original projections, but it will still be around $260 billion. Back in 2001, a substantial surplus of $506 billion for 2006 was predicted by the Congressional Budget Office. Not only has that surplus never materialized, but the deficit for 2006 is expected to be the sixth largest in our history.

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. Congress has increased the debt limit for the fourth time in five years for a total of $3 trillion. An individual's share of the debt is $28,300.

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 54 percent of the public debt is held by foreign investors.

Over 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.

I am concerned that not enough attention is being given to our rising debt. With a lower deficit than originally projected for this year, some might believe that our fiscal house is getting in order. This would be an incorrect assumption. The annual deficit cannot be looked at in isolation. Each year that there is a deficit we are substantially increasing the public debt. The federal government's interest payments on the debt are the fastest growing category of federal spending over the next five years. Each dollar we spend on interest payments is a dollar not used on investing in our future. I would rather use this revenue to help with the cost of college education or to improve the solvency of Social Security.

Our increasing debt is impacting our global competitiveness. Earlier this week, the World Economic Forum ranked the economic competitiveness of countries. The United States dropped from first to sixth. The reason given was the increasing public debt. Simply put, the more money that is spent on servicing the debt is less money available for spending on school infrastructure or other investments that could boost productivity.

A deficit projection of $260 billion for 2006 is misleading because it includes the Social Security trust fund surplus. The long-term budget outlook is even bleaker if it is adjusted to include priorities of the Administration such as making the tax cuts permanent and Social Security privatization. Budget projections also do not reflect the full costs of the wars in Iraq and Afghanistan and addressing the individual alternative minimum tax. I commend the Concord Coalition for their effort in educating Americans about our fiscal situation and explaining the true budget picture. I am interested hearing the reaction that they have received across America to their Fiscal Wake Up Tour.

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 what can be done to change course. Our dialogue should address all aspects of this issue not just spending. This issue cannot be resolved by just cutting spending. We need to look at tax receipts and determine the impact recent tax cuts have had on the debt. We need to work together to put the budget back on a sustainable path.