Committee
On Finance
Max Baucus, Ranking Member

NEWS RELEASE http://finance.senate.gov

For Immediate Release
Thursday, September 29, 2005

Contact: Wendy Carey
202-224-4515

Floor Statement of U.S. Senator Max Baucus on Savings and Economic Competitiveness

(WASHINGTON, D.C.) U.S. Senator Max Baucus delivered the fifth speech in a series of floor statements addressing the United States' ability to compete in the world economy. As ranking member of the Senate Finance Committee, Baucus has played a leading role in shaping policy influencing the economy, international trade, and health care.

This past summer, Baucus began delivering speeches on America's role in the global economy, the importance of education in keeping a competitive edge, the importance opening new trade markets, and warning of the damaging effects rising health care costs have on American companies.

Today's speech addressed the importance of national savings and its impact on keeping America's economy strong. The floor statement follows:

Floor Statement of U.S. Senator Max Baucus
Savings and Economic Competitiveness

More than 10,000 years ago, on the eastern edge of the Mediterranean Sea, people became farmers. They started growing crops of emmer and einkorn wheat. They harvested the grain with curved, hand-held sickle-blades.

And 5,000 years ago, Mesopotamian farmers yoked cattle to pull plows. The plows' bronze-tipped blades cut deeply, greatly increasing productivity.

Today, in Ethiopia, wheat farmers still harvest their wheat with oxen or by hand. They use tools much like those invented 5,000 years ago. An Ethiopian wheat farmer harvests an acre of wheat in a week.

A few weeks ago, in Montana, a wheat farmer whom I know near Fort Benton, in Chouteau County, finished harvesting this year's hard-red spring-wheat crop. He and his family drive a John Deere 60 series STS combine that they bought for more than $225,000, a couple of years ago. STS stands for the "single-tine separator" system that the combine uses for threshing and separating. The combine's rotor technology yields a smooth, free-flowing crop stream, giving the farmer higher ground speeds and increased throughput capacity. This Fort Benton wheat farmer harvests 5 acres and 220 bushels of wheat in half an hour.

What the Ethiopian farmer can do in a week, the Montana farmer can do in 6 minutes.

There are a lot of reasons for the difference: land, climate, seed quality, farming skills. But one big difference between the productivity of farmers in Ethiopia and the productivity of farmers in Montana is their tools — their physical capital.

Capital distinguishes the modern age. Capital is the most important reason why the average American earns about $40,000 a year and the average sub-Saharan African earns about $600 a year. Capital makes American workers more productive and more competitive.

Mr. President, this is my fifth address to the Senate on competitiveness. Starting this summer, I spoke on competitiveness generally. I spoke on the role of education in competitiveness. I spoke on the role of trade in competitiveness. I spoke on the role of controlling health-care costs in competitiveness. And today, I wish to speak about the role of capital and savings in competitiveness.

Capital means financial wealth — especially that used to start or maintain a business. Many economists think of capital as one of three fundamental factors of production, along with land and labor.

Capital and the productivity that it engenders set apart developed economies from the developing world. With capital investment, the construction worker uses a backhoe, instead of a shovel. With capital investment, the accountant uses a calculator, instead of an abacus. With capital investment, the office worker uses a personal computer, instead of a pencil.

In the late 1950s, there were about 2,000 computers in the world. Each of these computers could process about 10,000 instructions per second.

Today, there are about 300 million computers. Each of them can process several hundred-million instructions per second.

In less than 50 years, the world's raw computing power has increased four-billion-fold. This sustained increase in productivity is unparalleled in history. Capital investment in information technology made it possible.

In 1960, capital investment in information technology was about 1 percent of our economy. By 1980, investment in IT increased to 2 percent of our economy. By 2000, investment in IT increased to 6 percent of our economy.

These are slow, single-digit increases in investment. But look at the revolutions that they ignited.

This information technology investment contributed to a new era of American worker productivity and competitiveness. That productivity continues today. In the mid-1990s, when the benefits of IT investment kicked in, American workers began producing nearly 4 percent more per hour. As increased productivity surged through the economy, the standard of living improved for the Nation.

Capital made possible this unprecedented productivity. Investment made possible this capital. And savings made possible this investment. Savings is the seed corn for productivity growth.

National savings fuels investment. Investment provides capital to our workers. Capital ignites productivity. And productivity makes our economy accelerate.

Savings is what is left of income after consumption. National savings collects the surpluses of private households, businesses, and governments. When workers put part of their salaries into 401(k) plans, that adds to national savings. When companies hold on to their excess earnings and profits, that too adds to national savings. And when the government runs a budget surplus, that public sector savings adds to the national pool of savings, as well.

The three elements of national savings — household savings, corporate savings and public savings — are fundamental to economic competitiveness. Savings lets us invest in new factory equipment, machines, or tools. Savings lets us invest in high-technology innovations. Savings lets us invest in human, physical, and intellectual capital.

But America's level of national savings is dwindling. The decline of America's savings demands action.

At the end of last year, net national savings stood at just under 2 percent of gross domestic product. That is less than $2 for every $100 that our nation earns. This is down more than 70 percent since 2000. No other industrialized country in the world has such a low national savings rate.

If we break down national savings into its component parts, we can see why national savings has fallen off. First the good news: Corporate savings has held steady — even increased — over the past decade. But the good news ends there.

Personal savings — what American households are contributing to nation's savings — has fallen dramatically. Just 10 years ago, Americans saved about $4 of every $100 that our economy produced. By the end of 2004, we were saving just 99 cents. And today? The recent data show that personal savings has fallen even further, below zero.

In July, for every $100 of disposable income that Americans generated, we spent that $100, plus 60 cents more.

Rather than saving, American households are borrowing. In the 1980s, total household debt equaled about 70 percent of a year's after-tax income. By 2004, household debt equaled 107 percent of after-tax income.

And the bad news gets worse. As American households fish pennies out of the nation's piggy bank, there is a growing hole at the bottom. The public sector is draining national savings as the huge federal budget deficits grow.

In just 4 years, the federal government's contribution to national savings has gone from a positive contribution of more than 2 percent of the economy, to a drain of more than 3 percent. Instead of contributing $2 for every $100 the economy earns, the federal government's takes out $3 dollars. Government deficits are the chief cause of our abysmal national savings rate.

With national savings so low, how has America's economy remained an engine of growth?

We find the answer in Japan, Europe, China, and even the developing world. Americans have stopped saving. But the rest of the world has not.

Today, Americans turn to foreign lenders for our savings. The rest of the world has become America's creditor, happily lending their savings to our government, corporations, and households. Fully 80 percent of the world's savings come to America. The world's largest economy has become the world's largest debtor.

This is a big change. Between 1950 and the early 1980s, our foreign borrowing was balanced. Some years we borrowed from foreigners. And other years we lent. But for most years, we remained a net creditor.

Since then, our situation has dramatic reversed. We now depend on foreigners to fuel our economy.

Look at foreign and domestic investment flows. Last year, our net borrowing from foreign lenders totaled nearly $700 billion. This year, our net foreign borrowing could well exceed $800 billion.

This kind of borrowing adds up. As recently as 1985, America's had zero net foreign debt. Today, America's net foreign debt is the size of nearly 30 percent of our economy.

The last time that we had this level of foreign debt, Grover Cleveland lived in the White House. The last time that we had this level of foreign debt, 18 percent of Americans were unemployed, violent railroad strikes shook the nation, and a deep depression gripped the world economy.

What is worse, soon, the ratio of foreign debt to GDP will hit 50 percent. In 7 years, the ratio will hit 100 percent.

This is unprecedented, not just for the United States. It is unprecedented for any modern industrialized country.

We welcome foreign investment in America. Our economy's openness to the world's capital has helped keep our economy strong. Foreign investment fuels our economy and creates good American jobs.

But if we continue to become increasingly dependent on foreign capital, then we will have to pay the piper.

First, continued borrowing means an ever-growing claim on our nation's assets. The more that foreigners lend to America, the more dividend and interest payments they will collect.

In 2005, for the first time since these data were recorded, America will pay more on foreigners' investments in America than American investors earn on their investments abroad. This year, these payments could amount to $30 billion. By 2008, these payments could rocket to more than $260 billion.

That would be a quarter of a trillion dollars paid out that would not boost our productivity. That would a quarter of a trillion dollars that would increase foreign countries' standard of living, not ours.

That would be a quarter of a trillion dollars simply paying on our existing debt. More and more, we would have to borrow new amounts from foreign sources to pay back funds that we had already borrowed.

And that would be a quarter of a trillion dollars of behavior that one associates with a third-world economy, not the United States of America.

Secondly, foreigners are increasingly not investing their savings in America's productive sectors, but in U.S. government securities. Foreigners are frequently buying our government securities as part of schemes to manipulate currency markets and subsidize their exports. Those schemes further hurt our competitiveness and our future standard of living.

When 80 percent of the world's savings flow to just one country, the world economy is unbalanced. This imbalance creates dangerous problems and distortions in the U.S. economy and throughout the world.

Eventually, the pendulum will swing back. The world economy will return to equilibrium. Foreign investors will decide to rebalance their portfolios. They will reduce their lending to America. America will have to pay more for its borrowing. Interest rates will rise. This rebalancing could cause severe dislocations in our economy.

We can steer clear of some of these costs. But we can do so only if we consider them now and do what we can to secure our economy from sudden and difficult adjustments later.

Where do we look for solutions?

America must increase its own national savings. We must finance more of our own investment.

We must create a reliable and stable pool of investment funding to fulfill our investment needs. This saving will also make us more profitable in the long run. We will gain the returns on capital investment here. We will not send them abroad.

We will continue to welcome foreign savings to our shores. But America will have a higher stock of self-financed investment.

First we must plug the biggest leak in our national savings pool: the federal budget deficit. The federal government continues to run huge deficits. Prior to 2003, the record deficit was $290 billion in 1992. But in 2003, the government set a new record deficit of $375 billion dollars. In 2004, the government set an even higher record deficit of $412 billion dollars. This year, the government is projected to run a deficit of more than $300 billion dollars. The last 3 years have produced the 3 largest deficits in the Nation's history.

And now with the immense costs of Hurricane Katrina, Goldman Sachs now predicts that the deficits for the next 2 years will once again be about $400 billion. That would be 2 more years of deficits once again approaching record levels.

These deficits increase our national debt. At the end of fiscal year 2001, the government's debt held by the public was $3.3 trillion. By the end of this month, economists project that debt held by the public will rise to $4.6 trillion. This would be an increase of 40 percent in just 4 years.

There are times when deficits are appropriate. If the economy is in a recession, net borrowing by the federal government can help to restore prosperity and job growth. But with the economy humming along now, huge deficits no longer serve Americans well. Instead, these large deficits divert domestic and international savings away from productive economic sectors. These productive sectors need savings to invest in innovative capital goods that can boost productivity, help our economy to grow, and improve our nation's living standards.

We must be honest about our spending needs today and in the future. Budget forecasts for the near-term that neglect the costs of war and of neglect upcoming reductions in revenues — such as reform of the alternative minimum tax — serve no one but cynical political strategists. And the retirement of the baby boom generation beginning in 2008 will put enormous long-term pressure on the federal budget through increased Social Security, Medicaid, and Medicare spending. We must own up to these long-run problems.

Once we define the problem honestly, we must find ways to solve it.

First, we must restore the pay-as-you-go rules for both entitlement spending and tax cuts. We are stuck in a hole. We have to stop digging. We must pay for any new spending or tax cuts that we enact.

Until 2003, tough pay-as-you-go rules governed the Congressional budget process. But these rules expired in 2003. And a virtually meaningless alternative has taken their place. We must restore strong and meaningful pay-go rules.

Second, we must reduce the annual tax gap. As much as $350 billion of taxes went unpaid in 2001. Since then, the government has collected only $55 billion of that 2001 shortfall. These huge gaps occur every year. We cannot afford this tax gap.

Third, we must eliminate wasteful and unnecessary spending. For example, the Inspector General at the Department of Health and Human Services recently discovered that the government had paid nearly $12 million in benefits to recipients in Florida who had already died!

Fourth, we must eliminate wasteful and unfair tax breaks — such as abusive tax shelters and corporate tax loopholes.

Finally, we must slow the growth in healthcare costs. We cannot rein in budget deficits without controlling the growth in healthcare costs. The private sector cannot sustain its current healthcare cost growth. And neither can the public sector. We cannot clamp down on healthcare costs in the public sector alone. Providers will just shift healthcare costs to the private sector. Fortunately, solutions that contain private sector healthcare costs will likely also help contain public sector healthcare costs, as well.

Taking these five steps would go a long way towards reducing federal budget deficits and increasing national savings.

Increasing private savings is more complicated. We cannot adopt pay-as-you-go rules for families. Instead, we have to provide families with the tools that they need to develop their own growth plan.

The first tool is financial education. Too few Americans know how to develop a family budget. And too few know how to assess the risk of an adjustable rate mortgage when interest rates are rising.

We need to provide our children, and their parents and grandparents, with the tools that they need to make good financial decisions — to have more savings and less debt.

Programs like "Stash Your Cash" — a program to teach young people the basics of finance, saving, and investing — are a good start.

As part of "Stash Your Cash," this summer, 15 pigs — each one 4 feet tall and 750 pounds — appeared in the streets of Washington. And it was not just another political statement.

The colorful animals on street corners were oversized piggy banks. Local middle school students and artists painted each one.

"Stash Your Cash" gets to kids early. It teaches them financial vocabulary, how to create a budget, and how and why they should save for the future. It teaches middle-school students that creating a budget helps them understand where their money goes, ensures that they do not spend more than they earn, finds uses for money to achieve goals, and helps them set aside money for the future.

We all could benefit from these lessons. Savings is vital for our children's and our families' financial future. And what is vital for our families is vital for our Country.

Second, we need to make it easier to save.

The most successful savings programs are payroll-deduction savings through employer-sponsored 401(k) plans. We can make these programs even more successful by encouraging employers to enroll eligible employees automatically. Employees would opt out of saving instead of opting in. Without automatic enrollment, just two-thirds of eligible employees contribute to a 401(k) plan. With automatic enrollment, participation jumps to over 90 percent. The largest increases are among younger and lower-income employees.

But only half of private sector workers have a 401(k) or similar plan available to them. We need to bring payroll-deduction retirement savings to the other half.

Who is that other half? Part-time workers — those who put in less than 1,000 hours a year — do not have to be covered by 401(k) plans. Small employers are less likely to offer 401(k) plans, or similar arrangements, to their workers. And lower-income workers are less likely to have a plan available than moderate- and higher-income workers.

We have a voluntary pension system. We should not change that. But we can make savings opportunities available to more workers without forcing employers to provide more benefits.

Third, we need to make incentives for saving more progressive. Like many tax incentives, our current savings incentives give more bang-for-the-buck to those in the higher tax brackets.

In 2001, we took an important step toward fairness by creating the Saver's Credit. The Saver's Credit helps low-to-moderate-income taxpayers to save by providing a credit of up to half of the first $2,000 that they contribute to an IRA or 401(k) plan. More than 5 million taxpayers claimed this credit in 2001. It works. But it will expire after 2006. We must extend it. And we must expand it to cover those with no income tax liability.

In ancient times, people viewed the toil of farming as a curse. The ancient text tells how when man left the Garden of Eden, he heard God say:

> "Cursed be the ground because of you;
> By toil shall you eat of it
> All the days of your life:
> . . . .
> By the sweat of your brow
> Shall you get bread to eat,
> Until you return to the ground—
> For from it you were taken."

But now, increased investment, capital, and productivity have made it so that we may hear the blessing with which Moses blessed the children of Israel on the plains of Moab, across the River Jordan:

> "The Lord will give you abounding prosperity in . . . the offspring of your cattle, and the produce of your soil in the land that the Lord swore to your fathers to assign to you. The Lord will open for you His bounteous store, the heavens, to provide rain for your land in season and to bless all your undertakings. You will be creditor to many nations, but debtor to none."

From ancient times, the sages recognized that the terms "prosperity" and "debtor" rarely apply to the same country.

Let us return to being a country whose saving provides the seed corn that brings those blessings of "abounding prosperity."

Let us seek the blessings of being “creditor to many nations, but debtor to none.”

And let us do the work that we need to do to see that “[t]he Lord will [continue]. . . to bless all [the] undertakings” of this great Land.

# # #