April 6, 2006

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Highlights

Highlights of GAO-06-628T, a testimony to Subcommittee on Long-term Growth and Debt Reduction, Committee on Finance, United States Senate

NATIONAL SAVING

Current Saving Decisions Have Profound Implications for Our Nation's Future Well-Being

Why GAO Did This Study

The Chairman of the Senate Committee on Finance asked GAO to testify on our nation's low saving and discuss the implications for long-term economic growth.

National saving—the portion of a nation's current income not consumed—is the sum of saving by households, businesses, and all levels of government. National saving represents resources available for investment to replace old factories and equipment and to buy more and better capital goods. Higher saving and investment in a nation's capital stock contribute to increased productivity and stronger economic growth over the long term.

What GAO Recommends

GAO does not make any recommendations but lays out a few ideas for how the federal government can help increase national saving. The only sure way for the government to increase national saving is to reduce the budget deficit, which will require a three-pronged approach: restructure existing entitlement programs, reexamine the base of discretionary and other spending, and review and revise existing tax policy, including tax expenditures, which can operate like mandatory spending programs. The federal government can also explore saving incentives and education programs to encourage personal saving.

www.gao.gov/cgi-bin/getrpt?GAO-06-628T.

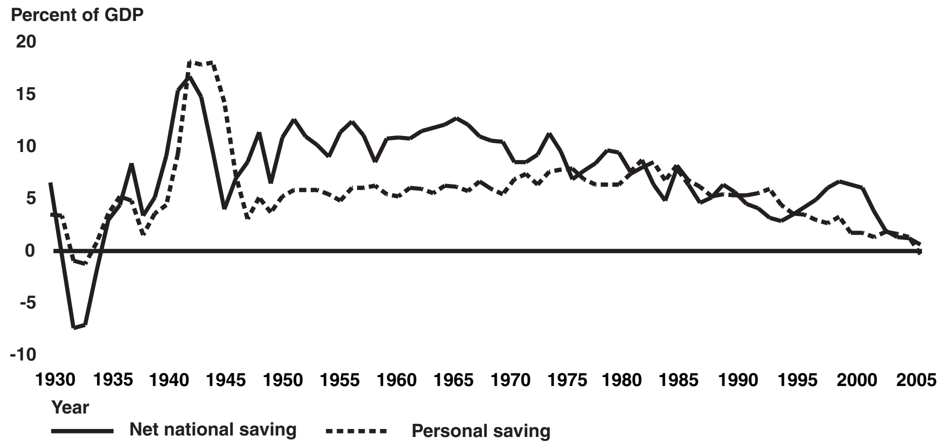
To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas J. McCool at (202) 512-2700 or mccoolt@gao.gov or Susan J. Irving at (202) 512-9142 or irvings@gao.gov.

What GAO Found

Our nation faces a number of deficits, including our nation's budget deficit, a saving deficit, and a current account deficit. Unfortunately, America has been heading in the wrong direction on all three deficits in recent years.

- In 2005 our nation's budget deficit was around $318 billion or 2.6 percent of GDP.
- For the first time since 1934, net national saving declined to less than 1 percent of GDP and the personal saving rate was slightly negative in 2005 (see figure).
- While the United States has run a current account deficit—or borrowed to finance domestic investment—over most of the last 25 years, the current account deficit hit an all time record—$782 billion, or over 6 percent of GDP in 2005.

Net National Saving and Personal Saving as a Percentage of GDP (1930-2005)



Source: GAO analysis of NIPA data from the Bureau of Economic Analysis (BEA).

Despite low national saving in recent years, economic growth has been high. However, we cannot let our recent good fortune lull us into complacency. If the net inflow of foreign investment were to diminish, so too would domestic investment and potentially economic growth if that saving is not offset by saving here in the U.S. Also, our nation faces daunting fiscal and demographic challenges, which provide even more of a reason to address our nation's low saving rates. Greater economic growth from saving more now would make it easier for future workers to bear the burden of financing Social Security and Medicare, but economic growth alone will not solve the long-term fiscal challenge. Tough choices are inevitable, and the sooner we act the better in order to allow the miracle of compounding to turn from enemy to ally.