

Senator John Kerry

Opening Statement for Hearing on US Foreign Policy and the Global Economic Crisis

Thank you for joining us. I don't have to tell you that America is not alone today in confronting economic crisis. What started here has now gone global, and continues to reverberate beyond our financial systems into the daily economic lives of people everywhere. And the reality is, we don't yet know where this crisis will end.

Today's hearing grows out of a roundtable discussion last month on this very topic, and we are very glad to have the full, formal participation of the Committee today.

Dennis Blair, the Director of National Intelligence, recently told Congress that "the primary near-term security concern of the United States is the global economic crisis and its geopolitical implications." That is an amazing statement given the ongoing risks we face from terrorism, two wars, and rogue nuclear programs in Iran and elsewhere. Blair warned that "time is probably our greatest threat. The longer it takes for the recovery to begin, the greater the likelihood of serious damage to U.S. strategic interests."

He also warned of "regime threatening instability"—and today's economic crisis has already brought down governments in Iceland and Latvia, and helped spark riots in Europe. Just this week the Prime Minister of Hungary offered his resignation over the economic situation there. This crisis is likely to be a driving geopolitical force for years to come, and the political ramifications could well become even more serious. If there is one lesson we should take away from the experience of too many countries, it is to never underestimate the severity of these economic challenges, or the urgency of tackling them head-on rather than deferring tough decisions.

Last week, several of us had the opportunity to speak with Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, and Bob Zoellick, President of the World Bank. We spoke about the snowballing financial crisis that is brewing in Central and Eastern Europe. If we don't act quickly, we risk replacing an era of promise and progress with one of soaring unemployment, instability, and a rollback of the influence and ideals we have spent decades building.

We also spoke about the need to strengthen our international financial defenses, particularly the IMF. I'm to join with Senator Lugar in supporting a dramatic increase in the IMF's capacity to respond to this crisis, as Treasury Secretary Geithner has proposed. The IMF, along with the World Bank, is the best channel we have to bolster emerging and developing markets as economies, banking systems and political systems collapse around them.

The upcoming G20 meeting in London will be an important opportunity to enlist global support for decisive action on this issue. Strengthening the IMF, however, must be just one component of a much larger challenge: we simply have to fix our banking systems—not just in America, but in every major financial center.

To be sure, our economy and the global economy have reached a moment of crisis. But as bad as the news has been, if we come up with the right solutions, there will be opportunities going

forward. There is a great advantage to being the first to move in global finance. Washington has waited too long already while our financial institutions remain frozen. Lending will not happen until banks have removed their toxic assets from the books, and we are counting on Treasury's plan announced this week to do just that.

As we put our own banking system in order, there will also be new challenges waiting for us abroad. We will have to confront the potential for increased political instability; large-scale failures of other countries' financial systems; escalating financial protection or trade wars that could help to deepen the crisis; increased poverty and hunger in the developing world; and competitors exploiting financial instability in ways that diminish our influence. And these problems are not confined to traditionally unstable corners of the globe: Europe too is in deep financial trouble, and Turkey, Indonesia, and Pakistan, three of our most important partners in the Muslim world, today face acute balance of payments crises.

We must also confront the fact that there is a great deal of anger out there among people who blame the model we exported. Even as we restore confidence in our markets, we will also need to find a strategy to project leadership, share burdens, and spread stability as this crisis continues to reverberate worldwide. And as we balance the domestic and global demands of this crisis, we should be warned that, in cutting corners for short-term savings, we risk creating far greater costs down the road.

We are fortunate to have with us today a terrific collection of innovative thinkers to paint a fuller picture of the new foreign policy dynamics this crisis creates: Martin Wolf is the Associate Editor and Chief Economics Commentator at the *Financial Times*; George Soros is the Chairman Soros Fund Management and Open Society; and Lawrence Lindsey is President and CEO of The Lindsey Group and Former Director of the National Economic Council.