

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
at Hearing on Bipartisan Process Proposals for Long-Term Fiscal Stability
November 10, 2009**

Today's hearing will focus on proposals to establish a special bipartisan process to address the nation's unsustainable long-term fiscal imbalance. We have a number of distinguished witnesses.

Our first panel will include Senator Lieberman, Senator Voinovich, Senator Feinstein, Senator Bayh, Representative Cooper, and Representative Wolf. Senator Lieberman and Senator Voinovich teamed up to develop a proposal for a special bipartisan process. Senator Feinstein originally introduced a proposal with Senator Domenici, and is now working with Senator Cornyn. Senator Bayh co-sponsored the Conrad-Gregg Bipartisan Fiscal Task Force proposal and is a leading advocate for establishing such a bipartisan process. Representatives Cooper and Wolf authored their own bipartisan process proposal on the House side, which is very thoughtful and very constructive.

All of your proposals are similar to what Senator Gregg and I have offered in many respects. Most importantly, we all agree that some kind of special bipartisan process is going to be needed. The regular legislative process is simply not going to get it done.

Our second panel includes David Walker, the former Comptroller General and now head of the Peter Peterson Foundation, Doug Holtz-Eakin, the former Director of the Congressional Budget Office and now head of DHE Consulting, William Galston, a Senior Fellow at the Brookings Institution, and Maya MacGuineas, the President of the Committee for a Responsible Federal Budget.

Before we turn to the first panel, I would like to highlight the situation that we face. The health care reform effort currently underway has the potential to improve our long-term debt outlook. But it will not be enough. We must also address the demographic challenge we face in Social Security and the revenue challenge we face from an outdated and inefficient revenue system.

Ideally, these problems would be addressed through the regular order. The regular order would mean that House and Senate committees with jurisdiction over health, retirement, and revenue issues would individually take up legislation to address the imbalances in their particular areas of legislative responsibility, and then move that legislation through Congress. The simple reality is that will never happen.

I want to remind everyone of the dramatic deterioration we have seen in our nation's budget picture. The final deficit total in 2009 was \$1.4 trillion – not million, not billion, trillion. That should sober us all – \$1.4 trillion. Looking over the next ten years, we see a sea of red ink.

The deficits have led to an explosion of debt. Under the ten-year outlook I just described, gross federal debt would rise to more than 114 percent of gross domestic product by 2019. That is approaching the record 121 percent of GDP debt level that was reached at the end of World War II.

We need to remember that to finance these deficits and debt, we are becoming increasingly indebted to foreign nations. Last year, 68 percent of our debt was financed by foreign entities. Here is the latest tally of the top ten foreign holders of our national debt. We now owe China almost \$800 billion. We owe Japan \$731 billion, and on and on it goes.

The worsening budget outlook can also be seen in the worsening status of the Social Security and Medicare Trust Funds. Because of the weak economy, the Social Security Trust Fund is temporarily cash negative right now. It is projected to go permanently cash negative in 2016 and to be insolvent by 2037 – four years earlier than forecast just last year.

The Medicare Hospital Insurance Trust Fund is in even worse shape. It went cash negative last year and is projected to be insolvent in 2017 – two years earlier than forecast just last year.

We also have a severe revenue problem. We have an outdated and inefficient tax system that is in desperate need of reform. Here are some of the reasons that I believe we need thorough-going tax reform. Number one, our tax system is simply out of date and is hurting U.S. competitiveness. Second, we are hemorrhaging revenue through the tax gap, offshore tax havens, and abusive tax shelters. Third, the Alternative Minimum Tax continues to threaten millions of middle-class taxpayers and has to be fixed. Fourth, we have a long-term fiscal imbalance that must be addressed. And fifth, simplification and reform can help keep rates low.

Here is how the Congressional Budget Office summed up the need for action on our long-term fiscal situation. This is what they said in a hearing: “The difficulty of the choices notwithstanding, CBO’s long-term budget projections make clear that doing nothing is not an option: Legislation must ultimately be adopted that raises revenue or reduces spending or both. Moreover, delaying action simply exacerbates the challenge...”

I think there is a growing consensus the only way we are going to get this done is through the enactment of a special bipartisan process. This is what House Majority Leader Steny Hoyer said in testimony before this Committee in 2007, and I quote: “I would like to believe that Congress could address these issues through the regular legislative process. However, the experience of recent years suggests that this is extremely difficult in the current political environment... I have reluctantly concluded that a task force or commission may be the best way to bring us to the place where we can spur action on this issue and reach agreement on solutions.”

And here is what Leon Panetta, who is a former Chairman of the House Budget Committee, a former OMB Director, a former chief of staff to the United States, said at the same hearing: “It’ll never happen. The committees of jurisdiction will never take on the kind of challenges that are involved in this kind of effort... If you just leave them under their own jurisdictions, that will never happen.”

And earlier this year, the Treasury Secretary, Mr. Geithner said: “...[I]t is going to require a different approach if we’re going to solve [the long-term fiscal imbalance].... It’s going to require a fundamental change in approach, because I don’t see realistically how we’re going to get there through the existing mechanisms.”

A *Washington Post* editorial last month said the same thing. It stated: “The Medicare payment formula is one of a number of fiscal time bombs that will need defusing soon: the alternative minimum tax, the Bush tax cuts, the estate tax, other expiring tax provisions.... This is an enormous problem, practically and politically. It requires a comprehensive solution -- one that probably cannot be achieved within the existing political framework but that will require some kind of bipartisan commission to craft.”

And finally, let me conclude by reviewing the highlights of the Conrad-Gregg Bipartisan Fiscal

Task Force proposal. I might say yesterday Senator Gregg and I reached agreement on the composition of such a task force and we will be unveiling that at a later time. Today, we wanted to hear from all of our other colleagues before we reached conclusion. Many of the components of our Task Force are similar to the proposals of the Members on the first panel. The Task Force would be tasked with addressing our long-term fiscal imbalance. It would consist of a panel of lawmakers and Administration officials. Everything would be on the table. The panel's legislative proposal would get fast-track consideration and Congress would have to vote on the proposal. And it would be designed to ensure a bipartisan outcome.

The last point, I believe, is key to any proposal. The only way the changes needed are going to be adopted is if we have a bipartisan outcome. No one party can or will do this on its own. The record is as clear as it can be on that. Both parties must be invested in the outcome and committed to its success.

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I am delighted at the quality of this panel. I think the message that has been sent is clear as it can be. Now is the time to move in a different direction, and we simply cannot rely on the traditional, standard, regular order to try to take on a challenge of this magnitude. It simply will not work. And so what is required is a special process. And I think we have got defined for us in the Budget Committee a series of alternatives, all of them have merit. And our job will be to try to sort out for the Senate side what proposal can advance.

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My own conclusion is that you have got trade offs that have to be made. This is a budget exercise, and yes there are things, as Senator Whitehouse said, health care is beyond a dollar issue, but it is also a dollar issue. We have Medicare that is going to go broke in eight years – that is reality. It is cash negative now. Social Security is cash negative now. We hope it is going to go cash positive in a couple of years, but it won't be for long.

And so these are very real issues that are going to affect whether or not these programs continue to exist or not. Or whether they face dramatic and draconian reductions because of a meltdown in the global financial system.

I just had a friend call me who had just been in China meeting with top government leaders, and one of the things said to him was that they have concluded that we are so dysfunctional in our politics that we are unable to face up to the debt load that is on this country that is growing. And they are increasingly convinced that we are headed for second class status.

And the things that we have had that have maintained our greatness in power as a nation are in jeopardy. I don't know how anybody can look at these trend lines and not conclude that it is true that our position of economic strength is at risk. So something must be done.

I also have concluded, after I have served here 23 years, the regular order is not going to produce the result that is necessary. If anybody believes it is going to, all you have to look at is the health care reform exercise, which I have been deeply involved in.

And I would say the Finance Committee plan comes the closest to facing up to it, because it is paid for over ten years. According to CBO, it does reduce the deficit over the second decade by a quarter to one-half percent of GDP, which is a big number, but as a share of the overall challenge is modest. It does not solve the problem, and we've been at this for two years. And the President gave a charge to Congress to deal with the cost side of this equation in order to prevent the 800 pound guerilla of deficit and debt creation from swamping the boat. And what has happened?

Again, the Finance Committee bill makes things a little bit better. But does that solve the problem? No. It doesn't come close. So the regular order – I mean the natural tendency in the regular order is that both sides get in their crouch. Democrats in theirs, Republicans in theirs. And you cannot convince colleagues to have something that really represents significant deficit and debt reduction because it becomes largely a partisan exercise and nobody wants to pay the price.

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It is so clear to me. It is beyond question to me that you have got to have a special process.