Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at Hearing on Setting and Meeting an Appropriate Target for Fiscal Sustainability
February 11, 2010

The hearing will come to order. I want to welcome everyone here today. I especially want to thank the witnesses for making a special effort given the snow conditions here in the Washington, DC metropolitan area. It's difficult to move around. I was up very early this morning shoveling, and I know many others were as well.

And we're getting a little bit of a late start, because the trains aren't running here either. I was in the weekly Caucus and a surprising number of Senators were there for the conditions.

But the weather made having this hearing challenging. We'd really intended to do this yesterday. We had to put it off, because transportation was not functioning, witnesses couldn't get here, Members couldn't get here. I can say this, that other colleagues will be joining us. There are still Caucuses going on. And there are Members in those Caucuses and they are discussing important jobs legislation. But they will be joining us as we proceed.

Those of us from North Dakota feel right at home with these conditions, but in fairness, this city I think has done a remarkably good job, given how much snow has fallen here. I certainly found once you are able to get your car dug out, you can move around. So hats off to D.C. Government for really I think doing a remarkably good job in extremely difficult conditions. This would be even tough back home.

Our hearing today is titled: "Setting and Meeting an Appropriate Target for Fiscal Sustainability." We are joined by a very distinguished panel of witnesses. Dr. Alice Rivlin, Ms. Maya MacGuineas, and Dr. Rudy Penner. I really can't think of a better group of witnesses for a hearing like this one.

Dr. Rivlin is Director of Greater Washington Research at the Brookings Institution. She is also now co-chair, along with former Senator Domenici, of the newly-established Bipartisan Policy Center's Debt Reduction Task Force. They are doing very important work, couldn't come at a better time. She is a former Vice Chair of the Federal Reserve, a former OMB Director, and she was the first Director of the Congressional Budget Office. What a remarkable series of contributions. So Dr. Rivlin brings an incredible amount of knowledge and experience to the table.

Ms. MacGuineas is President of the Committee for a Responsible Federal Budget and Director of the Fiscal Policy Program at the New America Foundation. Ms. MacGuineas appeared before this Committee last November and provided very valuable testimony at that time. We are delighted to have her back.

Dr. Penner is a Fellow at the Urban Institute and co-chair of the Committee on the Fiscal Future of the United States. He is also a former Director of the Congressional Budget Office. And someone that has very high credibility in this Committee. So we are very pleased to have Dr. Penner with us as well. Again, a special thanks for your being here.

I think this is a critically important hearing, because we are about to work on the budget resolution for either the next five or ten years. We have not made a determination if this will be a five year budget or a ten year budget. But in addition to that, we also will most certainly have a commission that is going to go to work to try to come up with a plan to be voted on by the Congress before the end of this year to get us back on track. And so, this hearing, I think, is very much in line with the larger challenge that we confront this year.

We focus today on the question of what is an appropriate target for long-term fiscal sustainability for our nation. In an ideal world, our budget would be fairly close to balance most of the time. But given the tremendous long-term fiscal challenges that we confront, we need to determine a level of deficits and debt that is sustainable over the long term. Our goal must then be to adopt policies that will, over time, keep our deficits and debt at or below those target levels as much as possible. If we fail to confront our burgeoning deficit and debt, we put our nation's economy at risk, with consequences that could be far worse than anything we've seen in recent times.

Each of our witnesses have been involved in efforts to identify such fiscal sustainability targets. So we have an ideal panel for considering this subject.

I would like to begin, just briefly, by outlining the problem we face and some of the fiscal sustainability targets that have been proposed.

At its core, our fiscal problem stems from an imbalance between spending and revenue. We can see that spending in 2010 is projected to over 25 percent of the gross domestic product of the United States – higher than at any point in over 60 years, as measured by the gross domestic product. Meanwhile, revenues are projected to be 15.6 percent of GDP – the lowest they have been in 60 years. Whatever solution we adopt over the long-term is going to have to involve both spending and revenue. They both contribute to the problem and they both have to be part of the solution.

This next chart shows deficits as a percent of GDP under President Obama's budget over the next ten years. We can see that according to the Office of Management and Budget, the deficit is projected to drop from 10.6 percent of GDP in 2010 to 3.6 percent in 2018, and then it begins to creep up again after that. The deficit would never drop to the 3 percent of GDP that the administration set as a goal last year. And I expect when CBO examines the President's budget, the President's deficit levels will be even higher. So one question we can consider today is whether the 3 percent of GDP goal is an appropriate target in the first place.

The next chart I would like to put up shows that we have found that many outside budget groups, including the Peterson-Pew Commission on Budget Reform, which Ms. MacGuineas is working on, and the Committee on the Fiscal Future of the United States, which Dr. Penner co-chairs, have identified a 60 percent debt-to-GDP level as an appropriate target for fiscal sustainability. To be clear, that is debt held by the public at 60 percent of GDP, not gross federal debt. And we're approaching this year, measured against the gross federal debt, a debt of 90 percent of GDP. We've not been that high since after World War II.

The next chart shows the gap over the next ten years between projected debt under CBO's January baseline adjusted for alternative policies and that 60 percent of GDP level. Clearly, the debt gap is growing dramatically, with debt held by the public reaching 88 percent of GDP by 2020 under this alternative fiscal scenario.

The next chart summarizes some of the fiscal sustainability plans that have been proposed.

- Peterson-Pew proposes a goal of stabilizing the debt-to-GDP level at 60 percent of GDP by 2018 and reducing it further over the longer-term.
- The Committee on the Fiscal Future of the United States proposes a goal of stabilizing the debt-to-GDP level at 60 percent by 2022, with a deficit of 1.9 percent of GDP in that year.
- The Center for American Progress proposes a goal of overall budget balance by 2020, and estimates that reaching this goal would stabilize debt as a share of GDP at 65 percent.
- The Center on Budget and Policy Priorities proposes annual deficits of no larger than 3 percent of GDP, which they estimate would stabilize the debt-to-GDP at about 70 percent.

Now, that's a lot of numbers. That's a lot of things to try to get your mind around. I provide that background to show that there are different goals that people have in mind, that various groups have in mind as to what is an appropriate level of debt to be shooting for.

I am not here to endorse any one of those plans today, but I want to highlight the six-step plan for achieving fiscal sustainability provided by the Peterson-Pew Commission, because it provides a specific timeline for action. It recommends:

- committing immediately to stabilizing the debt at 60 percent of GDP by 2018;
- developing a specific and credible debt stabilization package in 2010;
- beginning to phase in policy changes in 2012;
- reviewing progress annually and implementing an enforcement regime to stay on track;
- stabilizing debt by 2018; and
- continuing to reduce the debt as a share of the economy over the longer-term.

None of this will be easy, whichever of these goals is adopted. And it is interesting how similar the goals are. Many of them focusing on a debt-to-GDP of 60 percent, again publicly held debt. Stabilizing the debt at that level will require very difficult decisions.

As I said in the last hearing, I've gone through an exercise that I will be sharing with my colleagues, of trying to get to 3 percent of GDP by the fifth year of this budget and then to balance before the end of a ten year period. And I can tell you it is daunting. It is really striking how tough the decisions will have to be to accomplish a goal like that. It is really striking the toughness of the decisions to be made.
...

Getting to 3 percent by the fifth year, that in itself, you know the President's budget has some tough things in it, but it doesn't get down to 3 percent, and then it starts going up in the second five years as a share of GDP. And, as I said, if one seriously goes through the exercise, which I've asked all of our colleagues to do, before we get into the budget, I've asked everybody, do their own exercise, see what decisions have to be made to achieve any of these goals that have been outlined. I tell you I think it will really sober people how really tough the decisions are going to have to be.

It is clear that the longer we wait, the harder our choices become. The chart that I want to show now shows one example of the magnitude of the difference in the level of deficit reduction required if we start gradually phasing in changes beginning in 2012 versus waiting three years longer. In this example, waiting three more years to begin phasing in changes results in additional $588 billion in deficit reduction needed.

The final chart is summarizing the point that the bottom line is that we are on an unsustainable course. Our nation's foremost budget and economic experts have all come before Congress and told us this is the case. Here is what they have said:

- Treasury Secretary Geithner said: *"...[O]ur deficits are unsustainable..."*
- The CBO Director, Mr. Elmendorf, said: *"...[T]he federal budget is on an unsustainable path..."*
- The OMB Director, Mr. Orszag, said: *"...[T]he path that we are on is unsustainable..."*
- The Federal Reserve Chairman, Mr. Bernanke, said: *"...[W]e cannot allow ourselves to be in a situation where the debt continues to rise... which leads to an unsustainable situation."*
- The former Treasury Secretary said: *"...[I]t's clearly unsustainable."*
- The former head of the GAO, General Walker, said: *"We are on an imprudent and unsustainable long-term fiscal path..."*
- And the former Chairman of the Federal Reserve, Mr. Greenspan, said: *"...[T]he federal budget is on an unsustainable path..."*

Do you notice the similarity? Unsustainable, unsustainable, unsustainable. Look, I know that there is a sense of denial among our colleagues about the seriousness of this threat. I see it every day. I've just come from a meeting in which I saw it. This is tough. But it's got to be dealt with. If we let this get away from us, we will rue the day, we will rue the day. We will regret forever the consequences for the country.

So look, we have got to face up to this. Whether it is through the commission the President has proposed or some other method. We have got to deal with the consequences of a failure to act. So we have to act, the sooner the better. The economic security of our nation depends on it.

And with that, we will hear from our witnesses. I will go to you, Dr. Rivlin. Thank you so much for being here. It would be hard to have a more perfect background than you've had for helping us understand what needs to be done in this circumstance. Please proceed.