Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at Hearing on Federal Response to the Housing and Financial Crisis January 28, 2009

I want to welcome our witness, the new Director of the Congressional Budget Office, Dr. Douglas Elmendorf. This is Dr. Elmendorf's first appearance before our Committee.

Congratulations on your selection. I don't think we could have done better. I was pleased to join House Budget Chairman John Spratt in recommending Dr. Elmendorf to be the CBO Director, and I am delighted that he has now taken his position at the helm of the agency. Given the extraordinary fiscal and economic challenges facing our nation, it is more important than ever that we have someone of Dr. Elmendorf's stature leading CBO.

I think it is fair to say that on a bipartisan basis those of us who were involved in the interviews, the House Republican Ranking Member, the Senate Republican Ranking Member staff, the chairmen of the two committees were delighted that we had somebody of Dr. Elmendorf's quality.... I really do think that represents the feeling of all of us after the intense interview process.

Our hearing today focuses on the federal response to the housing and financial crisis. Dr. Elmendorf has done extensive research and writing on both housing and financial market policy, so it is particularly appropriate that he is our witness.

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I think we all understand we are in the midst of the worst economic downturn our country has faced since the Great Depression. We have lost nearly two million private-sector jobs in just the last four months. And we don't see that trend changing anytime soon.

In response, Congress and the Administration are working on an economic recovery package. Here are the highlights of the plan that are now under consideration:

- It is designed to jumpstart the economy, create jobs, and lay the foundation for long-term economic growth.
- It includes investments in infrastructure, energy, health, and education. I would just say, parenthetically, those are investments I am most interested in and most supportive of.
- It includes tax cuts for middle-class workers, families, and businesses. Last night in the Finance Committee, we considered certain additional incentives for businesses that I hope will be incorporated into the Mark when it comes to the floor. We received assurances from the Chairman of the Finance Committee that there will be improvements in that area before the Mark comes to the floor, and also that the housing credit will be substantially strengthened. I offered an amendment last night to make the $7,500 housing credit apply to not just first-time purchases, but other purchases as well, although not certainly second homes or vacation homes, because I think it is going to need more impetus to help us get the housing sector back on track and clear the inventory that is out

there.

- It also includes increases in food stamps and unemployment insurance benefits, which have, we all understand, a strong stimulative effect, because those monies flow very quickly.

Unfortunately, I believe that the economic recovery package as it is now structured does not adequately address the underlying housing and financial market crises that sparked the downturn in the first place. Senator Kerry and I had an oped that was recently published in the *Wall Street Journal* on this matter. I believe the economic models that predict lower unemployment as a result of the package assume generally healthy housing and financial sectors, where credit flows. That clearly is not the situation we now face.

The housing crisis is continuing. One out of every five mortgages is "underwater" – meaning that the home is worth less than the remaining balance on the mortgage. Some say it is as much as one out of every four. And one out of every ten mortgages is delinquent or is in foreclosure.

And the credit crisis continues. The news over the weekend with respect to European financial institutions, as well as our own, should serve as a warning signal to us all. I noted in the *Washington Post* this morning a review of the major banks all around the world and their precipitous drop in value. That has significant warning signals attached to it, and we need to pay attention.

The chart I'm showing now shows that about half of U.S. banks indicated that they became less willing to make consumer installment loans in the final months of last year. Banks have not been that unwilling to lend in over two decades.

The weaknesses in the housing and financial sectors are creating a vicious cycle. Credit remains largely frozen. Lack of credit causes layoffs. Job losses trigger foreclosures. Foreclosures hurt bank balance sheets further, and credit tightens even more. And the bad news on all these fronts hurts confidence, causing consumers to retrench further.

So economists have told us that we must address this underlying housing and financial market crisis for the stimulus package to be as effective as it might be.

In his testimony before this Committee earlier this month, Richard Berner, the Managing Director and Chief U.S. Economist for Morgan Stanley, said this: "As you debate a new fiscal stimulus package, therefore, keep in mind that tax cuts and stepped up infrastructure outlays, whatever their merits, don't get to the causes of this downturn. They mainly tackle its symptoms. In my view, two critical ingredients are still missing from the policy menu: first, cleaning up the lenders' balance sheets and second, mitigating mortgage foreclosures. Lenders will start lending again when they feel secure about their balance sheets.... Likewise, mitigating foreclosures is necessary to stem the slide in home prices, slow credit losses and reduce the pressure on household wealth."

The final point I would like to make is that as we consider how best to respond to our current economic downturn, we need to simultaneously prepare to pivot to address our long-term fiscal challenges. As I have said before, our nation's long-term economic security will remain in jeopardy until we address the long-term fiscal imbalances that threaten to overwhelm the federal budget in the years ahead.

Fortunately, President Obama is committed to tackling this long-term problem. In a *Washington Post* interview earlier this month, he announced that he intends to hold a "Fiscal Responsibility Summit" in February to focus on this issue. He said then, "What we have done is kicked this can down the road. We are now at the end of the road and are not in a position to kick it any further.... We have to signal seriousness in this by making sure some of the hard decisions are made under my watch, not someone else's."