Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at Hearing on the Global Economy: Outlook, Risks, and Implications for Policy
January 29, 2009

Opening Remarks:

I want to welcome everyone to the Budget Committee this morning. Today's hearing is titled: "the Global Economy: Outlook, Risks, and Implications for Policy."

We have a very distinguished group of witnesses this morning. They are:

- Dr. Simon Johnson, who was formerly the Chief Economist at the International Monetary Fund and is now a Professor of Entrepreneurship at MIT's Sloan School of Management and a Senior Fellow at the Peterson Institute for International Economics. Dr. Johnson testified before our Committee in November and we are very pleased that he is back with us again today;

- Dr. Brad Setser, a Fellow for Geoeconomics at the Council on Foreign Relations; and

- Tim Adams, who was formerly the Under Secretary for International Affairs at the Treasury Department and is now the Managing Director of the Lindsey Group.

Welcome to you all. I am delighted to have you before the Committee this morning.

Let me begin by providing a brief overview of the problem that we now confront. The first thing I was handed as I walked in this morning was this article from the *Financial Times* entitled, "Economic Pain to be 'worst for 60 years,'" a warning that 50 million people could lose their jobs globally. That is a story in the *Financial Times* today, pretty sobering.

I think all of us know we are in the worst economic downturn our country has seen since the Great Depression. We have lost nearly two million jobs in just the last four months.

The housing crisis that has been central to the downturn is continuing. One in every five mortgages is "underwater" – some even assert one in every four homes is "underwater" – meaning that the home is worth less than the remaining balance on the mortgage. And one out of every ten mortgages is either in default or delinquent.

And the financial market crisis that resulted from the housing crisis is also continuing. Credit remains very much locked up, although it has improved in some ways from what we saw in November. This chart 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.

We also saw in the press this morning a review of commercial real estate, tens of billions of dollars just in this area that is going to come due over the next five years because it was financed initially at a time of record refinancings and initial financings that were done through mortgage securitizations. And the question is how are those properties going to get extended, in terms of their financing?

As the title of this hearing suggests, this is also a global economic crisis. It is not limited to our shores. In just the last three months, the IMF's forecast for world GDP growth has fallen from 2.2 percent to a half of one percent. And I believe that is overly optimistic. That represents the lowest level of world-wide economic growth since World War II.

The downturn has been spreading from country to country and is getting worse. Here was the headline in the *Washington Post* last weekend: "Downturn Accelerates As It Circles the Globe. Economies Worse Off Than Predicted Just Weeks Ago."

The world's biggest and traditionally most stable financial institutions have been rocked by this crisis. This graphic in the *Washington Post* yesterday depicted the dramatic decline in value of leading banks throughout the world. The loss in global wealth represented by these numbers is simply stunning.

I look forward to hearing from our witnesses today on the implications of this global meltdown and how that should impact our policy decisions here.

I believe the key to our recovery will be our ability to address the housing and financial market crises, as well as giving lift in the short-term to our domestic economy. The recovery package now being considered I don't believe will be as effective as it needs to be if we don't address those underlying problems.

And the great concern I have as I look at this package coming over from the House and I couple it with what is available in the TARP fund, I am very concerned that we are insufficiently addressing the housing downturn and the continuing lock down in our credit markets. So I believe we have all got to bend our best efforts to improving this package.

I have no doubt, none at all, that a recovery package is necessary and a large recovery package is necessary. At the same time I believe it does need to meet the three tests of timely, temporary and targeted. And I believe it is absolutely imperative that we make certain that these investments that are made provide the biggest bang for the buck possible. I think there are elements of the House package that just do not meet that test.

I am also most concerned that we're going to find four months from now the administration coming back to us and asking for hundreds of billions of dollars more to deal with the financial institutions of the country. So that is a focus I want to put on this hearing today.