

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)  
at Hearing on CBO's Budget and Economic Outlook: Fiscal Years 2011-2020  
January 28, 2010**

First, we want to welcome the CBO Director here to the Budget Committee to report on the latest CBO estimate.

And before we begin that, I want to publicly thank Director Elmendorf for a really extraordinary effort he and the people at CBO have made over the last year with an unprecedented work load, and I mean truly unprecedented. I know first hand that he and his people have worked nights, weekends repeatedly, repeatedly, under extraordinary time pressures and with real complexity.

And I must say, even though there have been times that I have disagreed with Director Elmendorf's views, sometimes strenuously, I absolutely respect his independence and his integrity and I think he has won the respect of people on both sides of the aisle. We have seen that he's tried to call them straight, and that's the best that we can ask for, and it really is, I think, high professionalism from Director Elmendorf and from the people at CBO. And again, I've had my disagreements on some of their findings on things that matter a lot to me, but what is important is that we do have an independent scorekeeper that has integrity, and certainly Director Elmendorf has proved that, and I appreciate it.

Let me just turn briefly to my remarks about the subject at hand. The jobs situation across the country is very much in front of everyone's mind. And if we look at the changes in payrolls going back to July of 2008 we can see we reached a peak of job loss in January of 2009. Virtually every month we have seen some improvement, and in November we actually had no net private sector jobs lost. In December, 64,000. So a dramatic improvement from the 700,000 that were being lost in the month of January.

The same pattern can be seen in terms of the growth in the economy. First quarter, a negative 6.4 percent, improving each quarter, so fourth quarter, according to Blue Chips, we can anticipate growth in the fourth quarter of last year of 4 percent -- some are saying it may be even stronger than that.

So things have moved from the edge of the precipice. I believe very strongly we were on the brink of a global financial collapse before actions that were taken by the Congress, the President, and I would include the previous President because the actions of his administration at the end I think were part of the response from the government -- from the administration, the Congress and of course the Federal Reserve -- taking actions to provide liquidity to prevent a collapse. Those actions did forestall I believe what would have been the worst recession since the Depression.

But it leaves us with a long-term budget outlook that is truly daunting, and we cannot flinch from that, we cannot deny it, we have to face up to it. The 10-year budget outlook worst case scenario, as this chart depicts, we see improvement for the next five years, but then it starts to turn and move the other way, if we don't act, and act we must.

The gross debt now is approaching World War II levels. And let me just indicate that I know economists like to focus on debt held by the public. I like to focus on the gross debt because for budget purposes, all the debt has to be repaid and debt can only be repaid out of current revenues. And so the fact is if we're looking at what is going to have to be dealt with from a budget standpoint, we have to consider gross debt. Those borrowings from the trust funds are real. They must be repaid. They are backed by the full faith and credit of the United States. And when I look at the gross federal debt I see it exceeding 100 percent by 2020, and in fact before that.

The World War II high was 121.7 percent. And to put this all in perspective, other industrialized countries do have higher debt to GDP -- Japan, I believe, at this point is in the 189 percent of GDP range. But there are real consequences for that. I believe Japan is about to have their debt downgraded because people see the risk of debt of that magnitude.

More alarming and more concerning to me is the long-term trajectory, and if we look at the long-term budget outlook from CBO, we see debt, with all current policies extended, reaching 400 percent of GDP by 2059. There is no one that thinks that that is a sustainable course. So anybody that tells us that you don't have to do anything, that you don't have to worry about these things, you can just continue as we are, they are not telling us the truth. And this is not just my judgement, or the judgement of Senator Gregg, the ranking member here, this has been the testimony before this Committee of this head of the CBO, of the previous head of the Congressional Budget Office, of the head of the Office of Management and Budget, of the former head of the Government Accountability Office, of the Chairman of the Federal Reserve, of the current Secretary of the Treasury, of the previous Secretary of the Treasury, so it is critically important that we honestly describe our circumstance. Our circumstance requires action on the debt.

Colleagues, let me quote from CBO on the budget outlook: "...[T]he federal fiscal outlook beyond this year is daunting.... [A]ccumulating deficits will push federal debt held by the public to significantly higher levels.... With such a large increase in debt, plus an expected increase in interest rates as the economic recovery strengthens, interest payments on the debt are poised to skyrocket.... Without changes to federal fiscal policy -- involving some combination of lower spending and higher revenues... -- rising costs [in health care and from the aging population] will rapidly drive the size of federal debt...."

I don't know what could be more clear.

Yesterday, or perhaps the day before, I used a chart on the floor that showed the historical context of our spending and revenue. That chart shows that current revenue is the lowest it has been in 60 years. We look at last year and this year -- revenue as a share of the gross domestic product -- is at the lowest it has been in 60 years. Spending, is at the highest it has been in 60 years as a share of the gross domestic product. The difference between a revenue level of about 15 percent of GDP and an expenditure level of 26 percent of GDP -- that's an 11 percent gap. We would not qualify for membership in the European Union with deficits of that magnitude. They don't permit it. They don't permit entry for countries that have deficits of that level. Yes, I think their limit is three percent.

So, look, this is the reality that we confront. The President was right to focus on this last night. And it is our responsibility to focus on it as we put together a budget for this year and the years beyond.

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I have had people suggest to me that any (fiscal) commission that would consider our long-term debt would make adjustments to Social Security and Medicare. I think we have to look people in the eye and say, "Yes, there is really no alternative."

Medicare is cash negative today. The Trustees tell us it will be insolvent in eight years. Social Security is cash negative today. And your report of the day before yesterday says that it will be cash negative every year except two for the future. You say in your report it will go cash negative on a permanent basis in 2016.

So anybody that says you don't have to make any changes to those program -- programs I strongly support. You know, I lost my parents when I was young. I got Social Security that helped me go to college. So, I understand its importance in people's lives. I understand the importance of Medicare in people's lives. I've seen it in my own family. But the suggestion that we don't have to do anything is just not being straight with people.

So I hope as this debate goes forward we just don't fall back onto the same old divide of you can't cut this, you can't add revenue here. I personally believe given the nature of the baby boom generation that has doubled the number of people who are eligible for these programs, you have to do something on the revenue side as well.

So again, I welcome you to the Committee, and again thank you for you and your team's extraordinary work during these last many months.