Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at Hearing on President Obama's FY 2011 Budget with Treasury Secretary Geithner February 4, 2010

Opening Statement:

I want to welcome Secretary Geithner back to the Budget Committee. We are here today to review the administration's budget and revenue proposals.

When President Obama took office last year, we were in the midst of the worst recession since the Great Depression. The President, the administration moved quickly to avert an even sharper economic decline, and his policies, I believe, are working. I also credit the previous administration for the steps that they took at the end of their administration to begin dealing with what I believe could have been a global financial collapse.

The actions taken by the federal government over the last year I believe have clearly helped us back from the brink. We have seen steady improvement in the jobs picture. By January of last year, the economy was losing more than 700,000 private sector jobs a month. By the end of the year the economy was losing 64,000 jobs a month, a dramatic improvement. Clearly, that is cold comfort to those who are still struggling to find work and we need to focus on assisting the private sector create jobs, like a laser.

I think most of us understand that job creation is primarily a function of the private sector. We can do things to provide incentives to them to help them in that effort. I want to take a moment to outline some of the job creation proposals that are in the President's budget. These are temporary recovery measures that he proposes.

Number one, $100 billion to be devoted to new jobs initiatives, including $33 billion for a new tax cut for small businesses to encourage hiring and better wages. By the way, late last year I asked the Congressional Budget Office to evaluate options and alternatives. This option, a tax credit for hiring by business, was one of the two top contenders in terms of Congressional Budget Office assessment at what would be most effective. So I am pleased the President included it in his package.

Sixty-seven billion dollars for investments in infrastructure and clean energy, as well as other tax relief. He proposes extending making work pay, costing $61 billion. He proposes extending bonus depreciation, small business expensing, and tax credits for clean energy manufacturing, costing $6 billion. By the way, again, CBO, in rating what would be most effective, said for 2010, the jobs credit would be most effective, biggest bang for the buck. They also gave a very solid positive rating to small business expensing, Section 179.

The President also proposes extending unemployment insurance, COBRA assistance, assistance to states, and aid for needy children and families, costing $87 billion, most of that of course is unemployment insurance extension. Again, the Congressional Budget Office in their assessment said that would be one of the two most effective measures to be taken in terms of assisting with jobs in the short-term.

And he proposes providing $250 payments to retired and disabled Americans costing $12 billion, that's in light of the formula not providing any increase to those who are Social Security beneficiaries. In total, those measures cost $266 billion over10 years, with 92 percent to be spent in 2010 and 2011.

The President's budget also included a number of other measures to assist small businesses. And they include: assisting and increasing small business lending by community banks; providing for additional small business loan guarantees; eliminating capital gains taxes on long-term investments for many small businesses; and, providing funding to promote small business exports.

Let me just say in terms of my own reading of things from my constituency, credit to small business is critical. If there is one place that there is a hole in what has been done, it is in getting credit flowing to small businesses. I hear it repeatedly.

I've had two of the most successful entrepreneurs in my state who are both personal friends call me, and they are very well to do, they can finance their own deals. But, they say that if there is one thing that's clear is the flow of credit to small business is a very serious problem. And one of them is a banker. One of them who is involved not only in banking, but in a series of other enterprises, has said to me, at his own bank, because of regulators saying to them you have to rebuild your balance sheet, even though their balance sheet was never very impaired because they never got in the risky loan business, they are still finding it difficult to extend credit, even to worthy borrowers. So I think this in an issue we do need to focus on.

I also want to highlight that the President's budget includes a net tax cut of $1.9 trillion over 10 years. Here are some of they key revenue provisions.

In terms of tax cuts, the budget includes $3.1 trillion to extend the 2001 and 2003 tax cuts for those making under $250,000, continue the estate tax exemptions at the 2009 level, and provide alternative minimum tax relief to prevent a tax increase for those folks who would otherwise face increases this year. Two-hundred ninety-three billion dollars for other tax relief for families and businesses, and $83 billion for the revenue portion of the temporary recovery measures that I noted, including the new job creation tax credit and extending Making Work Pay and bonus depreciation.

In terms of revenue raisers, it includes $743 billion as a placeholder for healthcare reform revenue provisions, $291 billion dollars for the President's proposal to limit itemized deductions, $122 billion from international tax reforms, $90 billion for a financial crisis responsibility fee, and $309 billion in other loophole-closers and reforms.

Again, the net is a tax cut of $1.9 trillion.

This chart depicts the projected deficit under the President's budget over ten years. It shows the deficit coming down from a high of $1.56 trillion, reaching a low of $706 billion in 2014, and slowly climbing back up to $1 trillion in 2020. It is that second period that I raised a day before yesterday in a hearing with Dr. Orszag, and indicated personally while I strongly support the President's proposals in the short-term, I am very concerned about them for the longer-term.

The next chart that I want to show depicts gross federal debt. It shows that the debt doubled under the previous administration to $11.9 trillion. Under the President's budget, gross debt would continue climbing to $25.8 trillion by 2020, absent our taking additional action. The long-term debt outlook is even more dire. According to CBO's long-term budget outlook, over the next 50 years with rising healthcare costs, the retirement of the baby boom generation, and the permanent extension of all the 2001 and 2003 tax cuts, federal debt could climb to more than 400 percent of the gross domestic product.

I believe we need a two pronged strategy. We need one in the short-term to prevent going back into recession. We also need a longer-term pivot to deal with our long-term debt. That is why Senator Gregg and I proposed a statutory commission. I was delighted that we received 53 votes, but it required 60 votes. Fifty-three is not 60. And so now, we are left with the alternative of perhaps offering our colleagues another chance at a statutory commission, which I would fully support.

The President has said if there is not a statutory commission that he is prepared to create one by executive order. That's what the Greenspan commission was that dealt successfully with Social Security in the 1980's. That was an executive order commission, and the Vice President has provided a letter to me outlining the commitments of the Majority Leader and the Speaker of the House assuring us that there would be a vote on the recommendations of the commission if it had to be established by executive order.

Additional Remarks:

I'd like to go back and just share with colleagues and those who might be listening experiences I had at the end of the previous administration. I remember vividly being called to a meeting in the Leader's office with leaders of Congress, Republicans and Democrats, with the then Secretary of the Treasury and with the Chairman of the Federal Reserve.

And in that meeting, we were informed, we were not being consulted, we were being told that the administration intended to take over AIG the next morning. And they told us they believed if they did not do that that a financial collapse would be inevitable and would come soon.

And I remember my own reactions listening to the then Secretary of the Treasury and the Chairman of the Federal Reserve. Again, they were not there to consult us. They told us they were taking over AIG. And they told us they believed they had the legal authority to do it. And they told us they believed if they did not do it that there would be a financial collapse that would not be limited to the United States. They made very clear they thought there would be a global financial collapse.

That then followed -- and Senator Gregg will remember well the discussions on rescue legislation. I remember, too, that long weekend, again, with Secretary Paulson who told us if we didn't come up with a plan by 6:00 Sunday evening, the Asian markets would open and that they would pancake and we would then see our own markets crumble the next day.

And however imperfect those solutions were -- and no question they were imperfect. They were devised under extraordinary time pressures. I believe history will record that they were largely successful. I believe the evidence is really quite clear. The economy of this country contracted in the first quarter of last year by over six percent. We were losing 700,000 jobs a month. That is the reality. In the last quarter, economic growth increased by 5.7 percent. That is a dramatic turnaround.

If one reads economic history, it would be hard to find a circumstance in which there was a more dramatic turnaround in the positive direction during this last year. And job loss went from 700,000 a month to 65,000 in the most recent month. Now, we've not had January's numbers yet. And hopefully that will have improved. I don't know.

But I believe the record is really quite compelling that the actions that were taken by the previous administration at the end, by the new administration in their beginning days, by the Federal Reserve, were absolutely essential to preventing a collapse. And it has worked. I think the evidence is undeniable.

Is it imperfect? Absolutely. Were there enormous mistakes made that led to this crisis? Absolutely. And I believe fundamentally it was an overly loose monetary policy by the Federal Reserve, an overly loose fiscal policy by Congress and the President that created the seedbeds for bubbles to form. And when bubbles form, they burst. And when they burst, there's enormous economic wreckage.

And on top of it all, we had deregulation that left no one watching derivatives markets that had trillions of dollars flowing around the world unregulated, unchecked, even unrecorded. Let us not repeat the policies that led to that collapse, an overly loose monetary policy, an overly loose fiscal policy, and deregulation that left us without any kind of oversight of extraordinarily risky measures.

Closing Statement:

I'd like to thank you once again for, at our invitation, appearing before the Committee. I think you could hear around the table concerns, especially concerns about the long-term, concerns that I shared again this morning, as did the ranking member, as did members around this table. And certainly about the credit issues, which again I think when the history of this period is written, you will fair very well for what you have done in this first year responding to a crisis that threatened a global financial collapse.

I will never forget as long as I live being with the former Secretary and we were in a conference room over in the Capitol, being asked to come up with a recovery plan. And, this was all night, I think it was on a Friday night, perhaps it was all night Saturday. I know I was here virtually all night both of those nights, and I will never forget as long as I live the stream of information that was coming in to us through the Secretary, your predecessor, with respect to what was happening to financial institutions around the world, major institutions on the brink of failure in Germany and the German government moving to rescue them.

Major institutions in Ireland, in England, in other European countries on the brink, and their governments rushing to rescue them with an understanding that we all had to act, and we had to act together to prevent a collapse which could have taken us down a road far more severe than anything that we have ever seen before, matching the Great Depression of the 1930's. I believe we were perilously close to that. I believe the turnaround is really quite remarkable; that the credit spreads have now gone back to normal -- that is amazing in one year; that we've gone from a negative six percent growth to a positive 5.7 percent growth in one year; job loses have gone from 700,000 a month to 60,000 a month -- that is a remarkable improvement.

But, it is also true that we have more to do. In the short-term we've got to strengthen recovery. In the longer-term we've got to pivot, and we've got to deal with this debt threat.

And I am very hopeful that this commission approach will work. After all, Senator Gregg and I worked two years to convince our colleagues. We were delighted that 53 of them, a majority, voted with us on that matter, but 53 is not 60, and it requires 60. So now perhaps we'll have another vote on that, but the President has indicated if a statutory commission is not put in place, he is prepared to put in place a commission by his executive order.

And, you've indicated that he will consult and you will consult with Republican leaders on how that is formulated. And, I appreciate that. I believe it is critically important, because if the Republicans are unwilling to participate, then we've got to find another way. And I must say I was disappointed that seven of our colleagues on that side of the aisle who are original co-sponsors of the Conrad-Gregg proposal, when the roll was called, voted against the proposal that they themselves co-sponsored.

You know, let's be frank about everybody's responsibility here. Let's be frank about everybody's responsibility here, and the responsibility to get out of this ditch is not the administration's alone; it is on both sides of this aisle. It is on both sides of this aisle.

Again, I thank the Secretary for his leadership, for dealing with the extraordinary pressures that are on him and on his staff and on this administration and on this Congress and on this country, and we have got to work together to dig out. Senator Gregg and I, I think, have demonstrated that we are prepared to do that. Mr. Secretary, I think you have demonstrated that you are as well. We thank you and the hearing will stand adjourned.