Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
at Hearing on The President's FY 2011 Budget Proposal
with Office of Management and Budget Director Peter R. Orszag
February 2, 2010

Opening Statement

I want to thank Director Orszag for being here this morning. I want to thank all members of the Committee who are here and who are on their way. We know there are many other hearings underway on the budget and other venues today and we appreciate and respect that. It is important for us on the Budget Committee to hear directly from the Budget Director.

Let me just go through a couple of slides to begin and then go to Senator Gregg for his opening remarks. And then give the Director a chance to make his presentation; then we'll go to questions and I think we'll stick to five minute rounds this morning and go to a second round if members desire to do that.

I think it's important to put in context what we confront. This President inherited the most dire situation any President has faced since Franklin Roosevelt. Record deficits, a doubling of the debt that occurred before he came to office, the worst recession since the Great Depression, crises in the financial markets and the housing markets and the energy markets, ongoing wars in Iraq and Afghanistan, and an unsustainable long-term budget outlook with dramatically rising health care costs, and we know the story.

The previous Administration, to their credit, and this Administration, took a series of steps when the economic downturn became apparent. And the result has been an improvement in the jobs picture. If we recall in January of last year the economy was losing over 700,000 jobs a month. Now that has been reduced, in December of last year, to 64,000 jobs. And while that is of cold comfort to those who have lost their jobs, who are worried about losing their jobs, it is a dramatic improvement from where we started.

Same is true on economic performance. In the first quarter of last year, economic growth was a negative 6.4 percent. In the most recent quarter, that improved to 5.7 percent.

If we look at some of the specifics in the President's budget, we see, on the revenue side, major proposals to further reduce revenue. Extending the 2001 and 2003 tax cuts for those with incomes below $250,000, the estate tax at the 2009 level, the alternative minimum tax relief -- that combination is over $3 trillion of tax relief. In addition, there is other tax relief for families and businesses of almost $300 billion, as well as temporary recovery measures of about $80 billion.

On the other side of the ledger there are health care reform revenues, that is an average of what the Senate and the House has done, $743 billion; limiting the itemized deductions to 28% rate raises $291 billion; the international tax reforms previously proposed and again included in this budget, $122 billion; the financial crisis responsibility fee on the largest banks of $90 billion; other loophole closers and reforms of $309 billion. You net it all out, it is an additional package of tax reduction of $1.9 trillion.

If we look at the deficit path for the first five years, and I look at the first five years because Congress, when we do budgets, virtually all of the time, do five year budgets. The deficit is coming down as a percentage of GDP from 10.6 percent in 2010, to 3.9 percent in 2015. That's the good news.

On the other side of the ledger is the long-term outlook. According to CBO's long-term outlook, the Federal debt continues to rise in an unacceptable and unsustainable way to a projected debt in 2059 of 400% of GDP. Let me indicate that's a worst-case scenario because it includes extending all of the spending and it includes extending all of the tax cuts that are already in place. Nonetheless, we are on an unsustainable course by any measure.

And let me just say that when I look at this budget, I strongly agree with the President's budget in the short-term. It is absolutely imperative that we not allow the economy to slip back into recession. I have strong disagreement with the long-term.

And I must say that I don't know any other way to say this than to be brutally honest with everyone. Short-term, I believe it is absolutely essential that we provide additional liquidity to prevent a double dip. Our friends in Japan have warned us repeatedly, do not try to cut your deficit prematurely at a time of economic weakness; you will only push the economy back into recession. I believe that. And so, I believe the President is taking us in the right direction over the next several years.

But I must say I am very concerned about the long-term. Because I believe we're on an unsustainable course. I've said it many times. I believe it deeply. And it has to be addressed and the President's ten year outlook, I don't think, is the path that we can take as a nation.

Senator Gregg and I proposed a commission and, I know, in fairness to the Administration, that they are relying on that approach to deal with the long-term circumstance we face. I hope very much that that works. The President said on establishing a bipartisan fiscal commission that, "A decade of irresponsible choices has created as fiscal hole that will not be solved by a typical Washington budget process that puts partisanship and parochial interests above our shared national interest. That's why, working with Congress, we will establish a bipartisan fiscal commission, charged with identifying additional policies to put our country on a fiscally sustainable path."

I believe in that approach. I've spoken to the Vice President's office on Friday and asked them to reach out to Republican leaders because, while we had negotiated with the White House a way of proceeding, it is important now that Republican leadership be consulted to see their ideas for the make-up of the commission -- the rules under which it would operate -- to see if agreement can be found with them.

I very much hope that that will be the case. I believe that it is absolutely essential that we have a look this year from a group that has the responsibility to come up with a long-term plan, one that would get us to 3 percent of GDP as a deficit by 2015. But much more challenging, and what I believe is absolutely imperative, is a longer-term plan that brings us to balance and that deals with the long-term debt threat.

Closing Statement:

I want to recap. Again, as I look at what happened, my own belief is that the United States had a series of policies on both the monetary side and the fiscal side that led us to the brink of collapse. I believe there was an overly loose monetary policy by the Federal Reserve after 9/11 -- it was understandable for some period of time after 9/11 -- but it continued too long. Simultaneously, there was an overly loose fiscal policy under the control of Congress and the administration. And this goes to the previous administration -- that was on their watch -- massive deficits, a doubling of the debt, a dramatic increase in foreign borrowing.

And it's the combination of an overly loose monetary policy and an overly loose fiscal policy, all within a context of deregulation, that created the seed bed for bubbles to form. And bubbles did form. And it wasn't just a housing bubble, although we certainly saw that. There was also an energy bubble, a commodity bubble, and I distinguish an energy bubble from a commodity bubble because, for example, wheat went to almost $20 a bushel. And bubbles ultimately burst and when they do there is enormous economic wreckage.

And it was critically important for the administration, the previous administration, at its end and this administration at its beginning, coupled with the Federal Reserve, to provide liquidity, because there was not economic activity on the private sector side. Had government not stepped forward, there would have been an absolute collapse.

On the question of what history teaches us with Japan, I can only site top Japanese economists who have advised us: do not try to cut your deficit too quickly. Now this is coming from me. I am a deficit hawk. I am very concerned about long-term debt. But I also recognize if government doesn't step into the breach when the private sector -- because their balance sheets are impaired and because they don't have demand -- pull back, if the government doesn't step forward, there is no one to keep the economy from going right off the cliff.

And so yes these policies add to the debt and deficit in short-term. They were exactly the right thing to do.

The argument that I have is the longer term. Because, my concern is when I look beyond five years I see deficits of a trillion dollars a year as far as the eye can see. And I see debt continuing to grow as a share of the gross domestic product in a way that is clearly unsustainable -- part of it fueled by demographic changes, part of it fueled by economic changes, part of it fueled by structural changes in the economy.

And if we don't face up to it I believe that will fundamentally threaten the economic security of the United States. I believe that will create another seed bed, a seed bed that could lead to a run on the dollar, which would then require very precipitous action.

The former Secretary of the Treasury, Robert Rubin, who I think has from all observers gotten very high grades for the economic policy that he pursued as Secretary of the Treasury under the Clinton years, has called me several times in the last years warning about his concern about the long-term growth of debt and what it could mean for interest rates.

Senator Merkely, I am very pleased that you have raised that issue because these forecasts tend to flow from what is, and typically forecasters miss it at the turn. We saw that when things were going down. We've seen it repeatedly when things were going up. The forecasters miss it on the low side, they miss it on the high side because they're forecasting from what is. Unfortunately, none of us can predict with clarity what will be.

What we do know is that we are running outsized risks. That is the point former Secretary Rubin has made to me repeatedly -- it is what I personally believe. I believe that we are running, on the long-term, outsize risks. And we've got to right-size this budget.

And again, I give the Administration high marks for what they've done to respond to this crisis. I think history will show they helped avert a global financial collapse. Anybody that was in that room -- and this was with the previous Secretary of the Treasury, under the previous administration -- as the news came in on the weekend we were negotiating the first TARP, it was truly perilous times. I don't think the country has ever really been exposed to how close we came to not just a financial collapse here, but a global financial collapse.