Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
at Hearing on President Obama's FY 2010 Budget with OMB Director Peter Orszag
March 10, 2009

Opening Statement

I want to thank everybody for having this bit of a hiatus between when we first scheduled the hearing and today, and I look forward to the opportunity to hear from the President's budget director.

I think we should remember what President Obama is inheriting: record deficits and a doubling of the national debt over the previous eight years; the worst recession since the Great Depression; financial market and housing crises, unparalleled since the 1930's; 3.3 million jobs lost in the last six months; and ongoing wars in Iraq and Afghanistan.

I tried to put myself in the shoes of the President and think what he must feel day after day when confronting these various crises. It must truly be daunting.

With that, the Obama budget has a number of, I think, key improvements: more transparency accounting for war costs, previously unaccounted for; some important priorities, especially in energy, education, and health care; and cutting the deficit in half, albeit from these very high levels as a result of the economic downturn.

This next chart shows the path of the deficit over the first five years of the President's budget. And you can see it more than cuts the deficit in half from its peak of this year.

The President is also committed to paying for health reform. He said this at the White House Health Summit on March 5th: "We've also set aside in our budget a health care reserve fund to finance comprehensive reform. I know that more will be required, but this is a significant down payment that's fully paid for, does not add one penny to our deficit."

Let me go to the next slide with respect to the question of whether this budget has tax increases or tax cuts, because it depends very much what you have as the starting point. The Congressional Budget Office, which we follow, will use as its starting point the budget baseline based on current law. Looking at it from that perspective, they will say that this budget has more than a $2 trillion tax cut.

They will get to that result by looking at the extension of the 2001 and 2003 tax cuts for those earning under $250,000 a year, and they will score that as a $2.2 trillion tax cut. Other provisions in the President's budget, including Making Work Pay and other tax incentives for individuals and businesses – they account for another $940 billion of tax reductions. The alternative minimum tax relief contained in the President's proposal will score at roughly $576 billion of tax relief.

On the other side of the ledger will be the cap-and-trade proposal, costing some $646 billion. There is loophole closures and international reforms raising $353 billion. And then the limitation on itemized deductions raising $318 billion. And you net it all out, CBO would say there is a tax reduction here of over $2 trillion.

One of the issues that we're going to want to discuss today is the question of forecasts and the economics behind the forecasts. Looking at OMB's forecast of the unemployment rate, for example,

comparing it to the Blue Chip for 2009 and 2010. In 2009, OMB is forecasting an unemployment rate of 8.1 percent. The Blue Chip forecasters: 8.6 percent. And for 2010, OMB is forecasting 7.9 percent rate of unemployment. The Blue Chip forecasters: 9.1 percent. There is obviously a question of how much of the stimulus is included in the Blue Chip forecast. We know it is included in the OMB forecast. Because of the way the Blue Chip forecast is made, I don't think we can know for certain because it is an aggregation of forecasts of individual forecasters, some whom have no doubt included the stimulus, others perhaps not.

With respect to real gross domestic product growth, or GDP growth, OMB is forecasting a contracting economy of 1.2 percent in 2009; the Blue Chip is somewhat more pessimistic at 2.6 percent. And then in 2010, OMB is forecasting 3.2 percent; and the Blue Chip: 1.9 percent.

Next, looking at the gross debt as a percentage of GDP, we can see that gross debt is jumping very dramatically in this period, end of 2007, 2008, 2009, 2010, very dramatic increase, which you would expect as a result of the steep economic decline. And then a flattening out through 2019 at about 101 percent of GDP. This is the area which is of significant concern to some of us. I would give the President pretty high marks on his budget the first five years, especially given these incredibly difficult times. My greatest concern is the second five years, and what can we do to bend this debt curve, because I am concerned that it is an unsustainable level of debt.

Finally, the President has said that same thing at the Fiscal Responsibility Summit on February 23rd. He said, and I quote: "Now, I want to be very clear. While we are making important progress towards fiscal responsibility this year, in this budget, this is just the beginning. In the coming years, we'll be forced to make more tough choices, and do much more to address our long-term challenges." I agree entirely with that sentiment, and hopefully we will hear more from the budget director on what the President intends to do to address those longer-term aspirations.

With that, I again want to welcome Dr. Orszag to the Committee as head of the President's Office of Management and Budget. We worked very well with him in his previous position as Director of the Congressional Budget Office. We are sorry to lose him from that position of responsibility, but we're delighted that the President is fortunate to have his good counsel.

Closing Statement

With respect to climate change legislation, this is going to be extraordinarily difficult to accomplish. Tip O'Neill once said all politics is local. I represent a state – most people don't think of North Dakota this way, but we are an energy state. We are a large oil and gas producer, we are a large coal producer. We generate electricity for nine states from the state of North Dakota. Climate change, frankly in North Dakota, would be quite welcome. I say that – press, don't run out and say that Conrad said climate change would be welcome – that's a joke.

But the reality is, I find it unlikely that climate change legislation will pass that doesn't have some allocations reserved for especially hard hit industries. I think that is just a reality.

And there is increasing talk, I certainly hear it, of the use of reconciliation for the purpose of climate change legislation. I think that has a series of challenges attached to it as well, especially given the Byrd rule. And I hope people are thinking very carefully about how these things intersect.

Number one, the effect of the Byrd rule in writing substantive legislation here. We've been told by parliamentary experts that if one tried to write comprehensive legislation using reconciliation, the legislation, once the Byrd rule had been applied, it would look like Swiss cheese. Number two, if we were to move it in reconciliation then only a simple majority vote would allow the prevailing side to advance legislation. I think there are an awful lot of Senators who are on the margins on this issue who would be very concerned to see their leverage reduced by that mechanism. And, third, the notion that there be no allocations for especially hard hit industries tells me the prospect of succeeding in legislation would be an even more distant hope. So I hope people are open to understanding that you know everybody has their own view, but to accomplish big things takes compromise around here.

That takes me to the question of this budget. What is the White House view with respect to the budget and the committees that have responsibility here? Is there a willingness to have a back and forth here to try to get a budget that can pass, or is it the feeling that we ought to take the budget that has come here and pass it pretty much as is?

I say this because I have colleagues coming to me now every time I go to the floor, another colleague comes and sits down beside me and says if this is in don't count on my vote. I have had enough colleagues now tell me that about enough provisions in this budget to absolutely be sure we can't pass a budget. I gave a speech at noon to our caucus and told them please don't be drawing lines in the sand. I've tried not to draw lines in the sand. I hope the administration is not going to draw lines in the sand. What can you say with respect to that?

Orszag Answer:

Let me say a couple of things. First, we had a policy process, and we think that the set of proposals in here reflects our best judgement about the right way of moving forward. I understand that other folks have different ideas, and I think, I hope you know I have a reputation for working with you and I look forward to doing that. I would also note though the difficulty of wanting to do even more deficit reduction, concerns about some of the revenue proposals, concerns about some of the spending reductions, and how it will all fit together. So absolutely, I want to work interactively, and we want to work interactively with you. I would just come back and say we went through a policy process. This reflects our best judgement, and we look forward to working with you to get to a budget resolution.

Additional Conrad Comment:

Well, I found interesting reading in the New York Times about reactions to some of our reactions here to the budget. Let me just make it very clear from my perspective. We've got an obligation to take what the administration has sent us. We have great respect for it. I have tried to say that publicly. But, you know, we have a responsibility here too. And if we don't get the votes, it is kind of an empty exercise. And getting the votes, anybody who thinks it is going to be easy to get the votes on a budget in the conditions that we face is smoking something.

I just want to add on two things. On the question of the limits on deductibility, I have heard from many members concerns about that -- the effect on charities, effect on housing when there is already a housing downturn -- so that is clearly in the budget proposal that would come up, it is one hotspot area no doubt you have heard it as well.

Second was on agriculture. And you know I represent an agricultural state. I just spent the last year-and-a-half getting a Farm Bill passed, and we paid for the Farm Bill. We paid for the Farm Bill,

but precious little else paid for around here. I was a little taken aback to read that people are suggesting somehow the Farm Bill is not fiscally responsible, because of all the things that have occurred around here in the last two years, it was one of the very few that was actually paid for – and it was done at my insistence – the Farm Bill was paid for. So we made a lot of tough choices. We raised money. We made spending reductions. So those who suggest that it is not fiscally responsible, I don't think they are very aware of the history of how we got a Farm Bill passed here with 81 votes, overcoming two presidential vetoes, and reopening that at this moment is probably not a real propitious way to advance this budget.