

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
at Press Conference on CBO January Budget and Economic Outlook
January 7, 2009**

Thanks, all of you, for being here.

The numbers released by the Congressional Budget Office today are jaw-dropping. I don't know any other description one can provide. A forecasted deficit for this fiscal year of \$1.2 trillion -- that is simply stunning.

We know that we have faced a circumstance in which there has been dramatic job loss. We had 14,000 jobs lost in the month of December, in 2007. We're now looking at over two million jobs lost in the period January through November of 2008.

When we look at what an additional number of unemployed might look like, if we went to 10 percent level of unemployment, which some economists are now forecasting, that would mean an additional five million people out of work in this country. So if we take the current level of unemployment, 6.7 percent, and it increases to what some are now forecasting, at 10 percent, that would be an additional five million people out of work in this country.

We see now the rather extraordinary deterioration in the budget picture. You know, I gave President Bush the gold, the silver, and the bronze for running the three largest deficits in this nation's history before this one. But this goes in its own category. This truly is Olympian, a deficit of \$1.2 trillion that he is passing on to the next president of the United States and an economy that is very, very weak.

One of the things I want to emphasize is this \$1.2 trillion deficit is not the increase in the debt. The debt will increase by nearly \$1.6 trillion before any stimulus package, before any economic recovery package. The debt will increase by \$1.6 trillion. That is baked in.

So we can fairly anticipate with an economic recovery package that the debt of this country will increase by \$2 trillion in this year alone. We come to this year with about a \$10.6 trillion gross debt. So you can see the debt of the country is expanding very rapidly, very dramatically, and at a very bad time, because this is just as the baby boomers begin to retire.

This is the 10-year budget outlook. And, again, this is without the economic recovery package. This includes extending the tax cuts. This includes war cost, alternative minimum tax reform. These are the deficits that we're looking at not just in the short term, but as far as the eye can see.

The next 10 years, deficits and additions to the debt, additions to the debt averaging over \$1.1 trillion a year for the next 10 years. That is before any economic recovery package or any new policy. This is simply a stunning increase in our deficits and debt.

You've seen me show this chart before, building a wall of debt. The previous

administration doubled the debt in eight years. We're looking at another doubling with no new policy. This is before any economic recovery package. This would take our debt as a share of our national income to about 95 percent of our gross domestic product.

We have not seen a debt like that since World War II, all of this because of the dramatic deterioration in the economy, the need to provide an economic recovery package to give lift to the economy, but also the result of, I think, the worst fiscal mismanagement in the history of the United States. That is the Bush legacy.

We now have an extraordinarily deep hole to dig out of. My personal belief is, at the same time as an economic recovery package is announced, the incoming administration would be well advised to outline a process, to develop a plan to deal with these long-term imbalances. They threaten the long-term economic security of the United States, and they require a response.

We're happy to take questions that people might have.

Question: What kinds of mechanisms are needed to get some sort of control over the long-term (summary)?

Answer:

Well, as you know, Senator Gregg and I have made a proposal for a task force of 16 members to be given the responsibility to come up with a plan to get us back on track and to make fundamental changes. We've got to address the long-term imbalances. That means the difference between our current demands and requirements, the promises that have been made, in comparison to the resources that are available. I personally believe it is going to require addressing entitlement reform, as well as revenue reform.

I think we're dealing with an antiquated, outdated revenue system, one that is hemorrhaging revenue because of off-shore tax havens, because of special tax and egregious tax scams that are going on around the world, the tax gap. There is a wealth of opportunity here, but it's going to take a focused determination and I think a bipartisan effort to develop a plan that can cope with it.

Question: President-elect Obama mentioned the idea of trying to do something over the long-term this morning, but he said it was more likely to be in the context of their budget outlines submission later this Spring. Does not pairing it with stimulus make it less likely to be enacted?

Answer:

Well, I don't know. The reason that I have endorsed the idea of doing them simultaneously is, obviously, any economic recovery package is going to add hundreds of billions of dollars to the debt. And I think the vast majority of us understand that that is necessary and we can support it, if it is well designed.

Let me also emphasize, just because you spend \$700 billion or \$800 billion doesn't mean it's effective in lifting the economy, unless the package is well designed. It has got to

actually help recovery; it's actually got to give lift to the economy.

So while I think the vast majority of us accept the notion there has to be a substantial addition to the deficit and the debt in the short term, we were on an unsustainable course before this occurrence. And that's not just the word of Kent Conrad; that's the testimony before the Budget Committee of Mr. Orszag, who is now the OMB nominee; that is the testimony of the former head of the Government Accountability Office, Mr. Walker; that's the testimony of Mr. Bernanke, the head of the Federal Reserve; that's the testimony of Mr. Paulson, the Secretary of the Treasury, that we were on an unsustainable course before this.

How would you describe this circumstance? I mean, I just think it is extraordinarily important that collectively we face up to these imbalances.

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Question: Looking at the budget resolution for this year...do you think there will have to be a cap...at the same spending levels as last year?

Answer:

I personally don't. Look, when you are in the midst of a slowdown as dramatic as this one, I have had economists tell me that we are running a grave risk of an even deeper slowdown if we fail to have an effective economic recovery package. So in the short term, we cannot be concerned about adding to the deficit and the debt. But we have to pivot, once recovery is underway, and move in a different direction to secure the economic base of the country going forward.

Question: What have you heard from the transition team when you raise this idea (of a task force)?

Answer:

.....They have listened respectfully. You know, I'm always hopeful. I'm always hopeful. They have listened respectfully. They have not made any commitment. And, you know, I understand the incredible burden that is on this President-elect. Can you imagine coming into office and everywhere you look there is a disaster? That's what he confronts. But we're trying to give him our best advice of how to face up to this in a way that is most effective.

Question: Do either of you think we're at or near the tipping point where the deficit is going to be so large that interest rates are going to be forced up, and those higher rates are going to take away from the effects of the stimulus package?

Answer:... Short term, we have seen interest rates go down and we have seen the value of the dollar go up. But the long-term circumstance, the risk that is being run here, the risk that is being run is that we will have an interest rate response. Last year, of the new financing of debt in this country, 68 percent came from foreign entities; 68 percent of our new debt was financed by foreign entities. That has got to be a warning signal to us.

Question: Do you all feel that as the proposals have been laid out over the last few days for an economic stimulus that the right proportion has been struck between spending and tax relief?

Answer:

I have not yet seen in writing from the incoming administration an overall plan. I have seen press reports. I have seen fractions of plans. My own belief is there is a lot of work left to be done.

My own belief is we have yet to deal with one of the underlying causes of the economic slowdown, which is the housing crisis. I don't think that has yet been effectively addressed. That's number one.

Number two, I think the opportunity in energy is -- the plans I've seen -- not been adequately addressed. I think one of the great opportunities before the country is to reduce our dependence on foreign energy and to build an economy for the future. We have to do so many different things, grid, the electric plug-in, hydrogen. The list goes on and on. Those are investments that will pay a dividend.

Third, infrastructure. Infrastructure is another area where we can put money that will stimulate the economy, that will create jobs that are right here in America -- not in China, not in Japan, right here in America -- and that will pay a dividend, increasing the economic efficiency of our society. And so far, at least the descriptions of plans that I have seen I think are not sufficiently strong in those areas.

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I personally believe that a tax credit for people who buy a house, an interest buy-down provision, that both of those need to be looked at. You know, if you look at the spread between conforming loans, jumbo loans, super jumbo loans, there is a dramatic spread out there. And I think that's going to have to be addressed for the economy to fully recover.

Question: Do these numbers make you think that the President-elect or Democrats in Congress ought to reconsider extending some of the Bush tax cuts?

Answer:

I think we should be very skeptical about any policy changes that add to the deficit and debt that are permanent in nature. It is one thing to have short-term lift to the economy and an economic recovery package that adds to deficit and debt. It is quite another to have changes that are permanent or are likely to become permanent. That, I think, we have to guard against, given the extremely serious situation we face.

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You know, it is one thing to have an economic recovery package that is geared to giving lift to the economy at a time of weakness. It is quite another to put in place spending programs

that are permanent. And, you know, that has to be very carefully considered. And I think it is another reason and another argument for having a long-term plan put in place sooner rather than later. I think it is absolutely critically important that we get about the business of writing a long-term plan.

Question: What do you think of, on the housing question, of a flat 4.5 percent refinancing for people... in trouble?

Answer:

You know, there are all kinds of issues here, but the basic notion of, number one, providing a credit to people who buy homes and, number two, to providing an interest buy-down or lower interest rate financing, those are very powerful tools to stabilize the housing market. The housing market is 16 percent of the economy. That's one in every six dollars in this economy, one in every seven dollars in this economy. And to think that we're going to have a package of economic recovery that does not address housing adequately I think would miss the boat.

Question: Should that be part of a stimulus package.....?

Answer:

You know, I don't know if we want to get in the details of precisely how it occurs, but the general notion that housing should be in the package, that my own belief is that there should be a credit and an interest buy-down, or the kind of refinancing opportunity that you describe, that that is very important to economic recovery and stopping the continuing slump. We have also got to do something about the foreclosures, because these foreclosures not only adversely affect the home being foreclosed on and the family holding that mortgage, but it affects the whole neighborhood. The studies that have been done are very clear on that.

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Question: If you are talking about long-term programs....health care reform as well as global warming package, are you going to try to insist that those major programs are going to be paid for...?

Answer:

.... we have to distinguish here between short-term programs that are designed for economic recovery and those that have a longer-life effect. I have tried to be very clear in all of my meetings, public and private, to send the signal that it is a mistake to do things that add to the deficit and debt beyond the period for economic recovery.

Look, this hole is so deep that it's going to take a much more comprehensive plan, and it's going to take a much more comprehensive response than just tactical responses. I am a strong advocate of paygo. Anybody that says that doesn't save money doesn't sit in my seat. I see it every week, billions and billions of dollars every week when the Senate is in session, that paygo reduces or averts. You know, there's absolutely no question about it.

But that isn't going to solve this problem. This problem is way beyond tactical approaches, as important as they are. This is going to require fundamental policy change. We can't pay our bills now to the tune of \$1.2 trillion for this year, and the debt, before any economic recovery package, is going to go up \$1.6 trillion. And we've got the baby boom generation starting to retire. Leading edge started last year. I don't know what could be more clear than the need to act.

Question: How quickly do you expect to get Mr. Elmendorf formally installed at CBO?

Answer:

You know, I am always hesitant to give dates or timetables, but we want to do it as soon as it can be done. He has been extremely well received by our colleagues on both -- on both sides of the aisle and -- and I think it's safe to say in both bodies.

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He really is exceptional, if I could say, about Mr. Elmendorf. In the interview process, I think it is fair to say, he impressed every member and person that was involved in the interview process. He is really a very high-quality person and an outstanding economist. We're very lucky that people like that are available for public service.

Thank you all.