

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad, D-ND,  
at Hearing on Policies to Address the Crises in Financial and Housing Markets  
with Treasury Secretary Timothy Geithner  
February 11, 2009**

*Opening Remarks*

The hearing will come to order. I want to welcome everyone to the Senate Budget Committee today.

Our witness today is the Secretary of the Treasury, Timothy Geithner. We want to welcome Secretary Geithner to the Budget Committee in his first appearance here of what we anticipate will be many appearances, because we have, obviously, a need for a close working relationship with the Secretary of the Treasury. It's traditional that the Secretary come before the Budget Committee to talk about the outlook.

And obviously, we are not the Banking Committee. We are the Budget Committee. And so, I will try to confine my inquiry to the things that really matter to this Committee, the Budget Committee.

But we all recognize members are free here to ask whatever questions they deem appropriate. That's their judgment to make. But again, I am going to try to pursue what the implications are for our overall budget circumstance, because that's our first obligation.

With that, I think we all know that we are in an extremely serious economic situation. Two and-a-half million private sector jobs lost in the last five months. Consumer spending down for six straight months. We have the largest six-month drop in consumer spending on record.

And it's interesting reading press commentary of today and yesterday this paradox between wanting people to save more – you know, many of us have talked about the need to save more for many years. On the other hand, in this circumstance when consumers save more, that means they're spending less. That means aggregate demand is further reduced. And, of course, in economic terms, one of the problems that we face is a drop, a rather sharp drop, in aggregate demand.

So in the short-term, we know that has to be addressed to prevent further economic damage, while at the same time we recognize over the longer term we do need to encourage more savings so that we can have pools of capital available for investment so that we can have long-term economic growth. That is the paradox of the moment. And as is so often the case, what works in economic terms is counterintuitive.

We also anticipate that this economy is going to contract further. Fourth quarter of 2008 the economy contracted by almost four percent. The first quarter estimate for 2009 is a projected contraction of nearly five percent.

And in the midst of all this, the housing crisis continues unabated. One out of five mortgages is under water with homes worth less than their remaining balance. In other words, people are upside down. They owe more money on the mortgage than the house is worth.

We have had testimony before this Committee that one out of every four houses in the country is upside down. I am not certain which is the right measurement, whether it's one in four or one in five. Either one is a cause for real concern. And, of course, one in every 10 mortgages in the country is delinquent or in foreclosure.

The CBO Director came before us, Director Elmendorf, and talked about the need to address both the housing crisis and the financial crisis. Here is what he said. "...[P]olicies focused directly at the housing and financial problems are a crucial complement to stimulus... Without such action, the economic recovery will almost certainly be more halting and there would remain a larger risk of further economic decline."

That is a message I have tried to deliver repeatedly and consistently over the last several weeks, that while we're doing an economic recovery package, which is absolutely necessary, we can debate its contents and its mix and whether it is as good as it could be. That's a separate subject. But that I don't believe, and I don't think most economists believe we're going to have the kind of economic recovery we all want unless we deal with the housing crisis and the crisis in the financial sector as well.

We had testimony before this Committee, really riveting testimony by three prominent economists, including Dr. Simon Johnson, the former chief economist at the International Monetary Fund, who said this on January 29th: "I have been arguing... that fiscal stimulus would not be sufficient... [W]hat worries me most of all is...: What are we doing about banking exactly and with what money? And what are we doing about housing and again, with what money? ...Let us think about the financial system now, let us think about it comprehensively and on a complete scale rather than coming back in four or five months and saying, oops, you know, we did not right-size the package last time, and we regret it."

Mr. Secretary, that is really going to be the thrust of the questions that I have. What is it that we need to do to specifically address housing? What is it that we specifically need to do to address the financial sector? And what money are we going to use to do that? That is distinctly in the province of this Committee. That is our fundamental responsibility to our colleagues. I hope, to the degree that we can, we focus on those issues. But again, I want to make clear colleagues have the right in this Committee to ask questions of our witnesses on any subject they deem appropriate.

With that, I'll turn to Senator Sessions, who is here filling in for Senator Gregg, who we all know is going through the confirmation process. And if he is successful there, Senator Sessions will be the ranking member on this Committee. I welcomed him to that post yesterday and welcome him again today.

*Additional Comments*

You have been very careful here today not to provide more detail with respect to additional cost. I am not going to press you today, but I want to give you fair heads up that it is incumbent that you very soon help us understand if additional funds are going to be needed and in what amount.

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Let me go to something else that is of great concern to this Committee and that is the unsustainable course we are on as a nation. We saw a doubling of the debt in the previous administration. We now look ahead and see the potential for another doubling of the debt, with a gross debt approaching 100 percent of gross domestic product by the end of this eight years. And we have the baby boom generation, and that is not an estimate. They've been born; they are alive today; they are going to retire; they are eligible for Social Security and Medicare.

The President has called for a Fiscal Responsibility Summit. And he's talking about doing that sometime this month.

Senator Gregg and I have come forward with a proposal of a task force, bipartisan in makeup, with everything on the table, with the assurance that the product of the deliberations of that task force would actually come to a vote.

Now, I will be clear. There are members here, there are other committees, who strongly resist that approach. They want to go through what is called the regular order. We have had detailed testimony before this Committee, including the former Chief of Staff to the President of the United States, Leon Panetta, and many others, who have said you wait for regular order and you will be waiting for a long time. The problem with regular order is we are in silos. Frankly, I think that is part of the problem with the design of the economic recovery package. You have appropriators working in their standard approach. You have Finance Committee, Ways and Means Committee. Unless you bring it all together, not only from the committees of Congress, but for the American people, you lack the sense of urgency that is needed to actually reach conclusion on what to do.

Can you tell me what your basic disposition is with respect to taking on these long-term imbalances that represent not only the entitlements, but also the revenue system of the country, and the need for tax reform?

Secretary Geithner Answer:

The President shares, and I personally share, your judgement about the imperative and that it is going to require a different approach if we are going to solve that. We are going to work with you in designing a process that offers the best prospect of bringing recommendations and judgements quickly, commensurate with the urgency of the problem and the scale of challenges, so that we can, again, improve confidence in the American people that we are going to make these judgements going forward. And it is going to require a fundamental change in approach, because I don't see realistically how we are going to get there through the existing mechanisms.

Obviously, you put out a creative proposal for how to do this, in terms of process. I know the President has talked to you personally about this. A lot of people, and the President and I, have been looking at this and other alternatives. He's going to try to bring people together and find a process that works, but absolutely share your commitment to it and it is going to require – you know these things are not just driven by demographics. As you know they are driven by what is happening to health care costs, and we're going to have to look at a comprehensive approach, not just with discipline on the medium-term budget and a set of rules and disciplines on budget process to enforce that, but we are going to have to start a process sooner that helps deal with the longer term challenges that you laid out. I completely agree with that, and I think it is going to be critical to the success of recovery too, because if people don't believe that we're going to have the will and ability to walk this back and address these longer term challenges, then our efforts will be less effective.

Conrad Closing Remarks:

We have had economists of every philosophical stripe sit at that table and tell us we're on an unsustainable course, and I believe it. I personally do not want to be part of any papering over or slipping by or not facing up to it. I've been here 22 years and I do not want to be part of not facing up to what I believe is a fundamental threat to the economic security of the country. So I very much welcome your offer of working together. I think it is imperative that we do.

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Look, the news is tough. We know we're in a tough economic circumstance. We know we're on an unsustainable course. But if you look back at the history of this country, the challenges that the people of this country have overcome, whether it was World War II, the Great Depression, all of the other conflicts that we have faced – over and over this country has risen to the challenge, and it will again. It will again, but it needs leadership. It does need an optimistic outlook and an understanding that we can do this, and we can. But to do it, we have to be honest with people about the dimensions of the problem and we have to act.

I especially welcome what you have said here today. This is not for some timid response. This requires strong action, determined action, and it is imperative that we get it right.