Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at Hearing on Addressing Short- and Long-Term Fiscal Challenges January 21, 2009

Opening Statement:

I want to welcome everyone to the Senate Budget Committee. Today's hearing is entitled: "Addressing Short- and Long-Term Fiscal Challenges."

We have a distinguished panel of witnesses with us today, all of whom are former Directors of the Congressional Budget Office. They are:

- Dr. Alice Rivlin, who, in addition to being a founding Director of the CBO, was also a Director of the Office of Management and Budget and a Vice Chair of the Federal Reserve, and is now Director of the Brookings Institution's Greater Washington Research program - welcome;
- Dr. Bob Reischauer, President of the Urban Institute, and again a former head of the CBO, during my tenure here on the Budget Committee, we had services of Dr. Reischauer – he enjoys a great deal of credibility, as do all the members of this panel; and
- Dr. Rudy Penner, Senior Fellow at the Urban Institute.

Thank you all for being here.

Our nation faces really extraordinary short- and long-term fiscal and economic challenges. In the short-term, we face the worst economic crisis since the Great Depression. Our first priority must be to get our economy moving again and to put people back to work. And it is clear that getting our economy moving again will require the passage of an economic recovery package that will further aggravate our deficit and debt.

But over the longer term, the combination of the retiring baby boom generation, rising health care costs, and inadequate revenues are projected to explode the federal debt to an absolutely unsustainable level. So, in addition to addressing the current economic downturn, I believe it is essential that we begin the difficult work of putting our budget back on a sound long-term fiscal course. Our economic security will remain in jeopardy until we confront this problem.

Let me begin by just briefly laying out what I see as the budget challenges that we face.

First, the news that we received from CBO earlier this month about the deficit was jaw-dropping. We face one of the worst budget forecasts I have ever seen. CBO's estimates show that the deficit in 2009 will be $1.2 trillion. And I want to indicate that is before any economic recovery package.

As a share of the economy, the deficit will reach 8.6 percent in 2009. That is well above the 6 percent of GDP that we saw in 1983, the previous post-World War II high. That eventually led to major deficit reduction efforts. And CBO's numbers show that under current policies, deficits will remain in the 4 percent to 5 percent of GDP range for the remainder of the next ten years.

Let me just say parenthetically my staff several weeks ago ran the 10-year numbers. They brought them to me, and I said, "This can't be right. Please run them again." They said, "Well, Kent, we've run these three times already. These are the numbers." I tell you anybody that looks at our long-term circumstance can't help but be sobered. This absolutely requires a response.

We are building a wall of debt. Gross federal debt is now estimated to be $11.6 trillion at the end of this year. If we add in current policies, such as extending the tax cuts, AMT reform, and ongoing war costs, we could see the debt rise to over $21 trillion by 2019. That approaches 100 percent of GDP.

Here are some of the major initiatives that are being considered that could further add to our debt: the economic recovery package; additional tax cuts; health care reform; and additional defense spending. All of these are very much in play.

So our long-term debt outlook is even more serious than the numbers reveal. Here is a chart from CBO's Long-Term Budget Outlook, which was released in December of 2007. It shows what will happen to federal debt over the next 50 years with the retirement of the baby boom generation, rising health care costs, and the permanent extension of President Bush's tax cuts. Federal debt, if unchecked, would climb to more than 400 percent of GDP by 2058, if we stay on those trend lines. Clearly, that is unsustainable.

The explosion in debt we are seeing is coming at the worst possible time, right as the baby boom generation is preparing to retire. We are facing, as this chart shows, a demographic tidal wave.

And it is important to remember that within the decade, by 2018, more than half of the baby boomers will reach the early retirement age of 62. So some of my colleagues have said to me, well yes the baby boomers have started to retire, but it is going to be a long time before most of them are eligible for Social Security and Medicare. Oh, wish that that were true. Oh no, very quickly here we are going to face the dramatically increased cost of the retirement of the baby boom generation.

But this is not just a demographic issue. Rising health care costs pose a tremendous threat. Rising health care costs are exploding the cost of federal health programs. And private sector health care spending is also exploding. Taken together, public and private health care spending will reach 37 percent of GDP by 2050.

Let me just conclude by saying Senator Gregg and I have come together in a collegial, bipartisan, bicameral way to propose a fiscal task force. It would have these following elements:

- It would be tasked with addressing our long-term fiscal imbalances;
- It would consist of a panel of lawmakers and Administration representatives;
- Everything would be on the table;
- The panel's legislative proposal would get fast-track consideration and Congress would have to vote;
- It would be designed to ensure a bipartisan outcome.

Let me just stop there and say that if others have a better idea, we're all ears. One thing that is going to be unacceptable is to refuse to face up to this circumstance.

I was delighted to see President Obama indicate that he intends to hold a fiscal responsibility summit in February. Representatives of the President were in contact with me as recently as yesterday indicating they want to work together with Senator Gregg, myself, and others who are interested to structure this bipartisan summit on our fiscal future and they see this as the beginning of a process to identify a plan to take on these long-term imbalances. The President has said so publicly and is committed clearly to a course of addressing these issues and taking them on. He told me in a phone call about 10 days that he knew it was not going to be fun, it is not going to be easy, but that it simply must be done. This can can no longer be kicked down the road.

Additional Comments:

I would like to wade right in. This is what I call a target rich environment. Everywhere you look we have a challenge, and everywhere you look we have an opportunity.

First of all, I want to thank all of you for your kind words about what Senator Gregg and I have proposed. I think it is absolutely imperative that we go down this path of addressing both the short-term and the long-term. I no longer believe putting off a plan for the long-term is viable. We have simply had too much ground lost as a result of this remarkable downturn. At the same time, I am extremely concerned about our approach with respect to the short-term. Let me indicate why I am concerned.

Between the second tranche of TARP, or the second half of TARP, and what has come over from the House, I don't personally see that we are maximizing the potential to deal with the short-term downturn. Why not? First of all because I don't think we're dealing effectively with the housing crisis. Second, because I don't think we're yet dealing effectively with the financial sector. And we simply can't have a typical recovery without the financial sector being healthy.

I said the other day in a interview – and I noticed Mr. Stephanopoulos used this to challenge Mr. Axelrod in his show – that I was somewhat skeptical about the notion that we get the reduction in unemployment that many are forecasting as a result of this economic recovery program. And I said that because most of the modeling is based on a financial sector that is relatively healthy. Our financial sector is not healthy and so the typical modeling that shows the reductions in unemployment I think are just misplaced, and that we have got to go back and focus effectively on stopping the collapse in housing prices and second to get the financial sector back and the credit markets in lending.

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I have looked now at CBO's estimate of the economic recovery bill coming over from the House. Fully 62 percent of it does not spend out until after two years.... Whatever one calls it, it is not what Senator Gregg and I have tried to send as a message to our colleagues as appropriate: that it be temporary; that it be targeted; that it be timely. I mean 62 percent of the outlays is after two years.

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I want to make sure that I don't leave a misimpression out there. When I talked about the CBO analysis of the House package. It is not the whole House package. It is the appropriated accounts. But it is over $350 billion of the $825 billion. But I don't want to leave a misimpression that I was talking about the whole House package. I was talking about the appropriated accounts. And I must say I find it very troubling. We're talking about 62 percent of that actually spending out not until 2011 and beyond.

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Our analysis and the reason I said what I said publicly is because I believe the models we are using know cannot capture the difference in the threat that we face. I just don't think these models which are based on the financial sector being relatively unfazed fit the current circumstance. And so these models that say instead of getting 11 percent unemployment, we'll get two percentage points less with their economic recovery package – and by the way I believe strongly in an economic recovery package, I've got issues with this one, but I believe we need it, but I don't believe we're going to get the same bang for the buck that you normally would given the damage that has been done to the financial sector. Our analysis shows that in fact we only get about half of the bang for the buck that the traditional models show. Now we'll see who is right and who is not right.

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I think people in my state are acutely aware of debt because we are an agricultural state. And debt can be a great help. Debt can be an incredible burden. And when you have too much debt there are real consequences. And agriculture is very cyclical. And so we have seen up close and personal – and I used to be the Tax Commissioner of my state so I have seen it very personally – people coming in who have taken on too much debt and how it absolutely crushed them. So this is not an academic exercise to me.

I am very concerned about debt. I am concerned about national debt, corporate debt, individual debt. And while I recognize being able to get credit and buy a home when you have 20 percent down -- you know that is a wonderful thing to have a home for a family -- I also know that if you take on too much debt how it can crush people. I have seen it, and it is not pretty. And I am extremely concerned about the trajectory of events here, and that is why we're having these hearings. We're going to continue to do it. We're going to keep a spotlight on these things. And we're going to insist that our colleagues think about these issues.