



BUDGET COMMITTEE



Judd Gregg, Ranking Member
<http://budget.senate.gov/republican>

Contact: Betsy Holahan (202)224-6011
Emma Post (202)224-2574

For Immediate Release

January 24, 2008

**Senator Judd Gregg's Opening Statement at
Hearing on the Congressional Budget Office's
Budget and Economic Outlook for Fiscal Years 2008-2018
January 24, 2008**

(unofficial transcript)

Dr. Orszag, it is nice to have you here today. Let me pick up where Senator Conrad, the Chairman, has left off on the issue of addressing what I consider to be – after the issue of fighting Islamic fundamentalism, which is a threat to us from a physical standpoint – the biggest issue we face as a nation, which is the potential fiscal meltdown of our country over the fact that we have on the books obligations exceeding our net worth. Sixty-six trillion dollars of obligations for three entitlement programs, Medicare, Medicaid and Social Security, and our net worth as a nation is about \$52 trillion. We simply have to address this.

The proposal that Senator Conrad and I have drafted, and there was considerable input from a lot of people as it evolved, is a valid way to approach this. We have shown over time, unfortunately, that as a political culture we cannot address this issue by simply putting ideas on the table because everybody shoots at the ideas, especially people who like to make money by doing that shooting. And so the best approach, in our humble opinion, is to set up a procedure which drives policy and that's what this proposal does. Obviously, any procedure, to be successful in these areas – because they are so sensitive to the American people, all Americans being affected by them – has to be seen by the American people as absolutely fair and absolutely bipartisan and that's why this proposal is structured this way.

Interestingly enough, yesterday Senate Republicans convened for a day-long session of sorting through our thoughts as we start this session and one of the main considerations was the discussion of this proposal, the Conrad-Gregg proposal, and there was, I think, general agreement, although there was no formal vote taken, but there was general agreement within the Republican Conference, that this was a legitimate and appropriate idea to proceed on and that we should be proceeding in a bipartisan way to try to address this. And two of my colleagues here who were at that meeting can hopefully substantiate that as being the sense of the meeting. So that's good news. And I congratulate the Chairman for being willing to push this to the front of the agenda.

We are here today to discuss the recent findings of CBO relative to our economic outlook and what's happening. I'm interested in discussing that. Also, I'm most interested, obviously, in the topic of the day, which is the stimulus package and how that will be put together and what its real impact is.

On the issue of the actual numbers that we've seen on projecting deficits into the out-years, I just want to put out the caveat that the CBO numbers were done under a baseline which is controlled by arcane rules, which do not accurately reflect reality in many ways. For example, there is in that baseline approximately \$800 billion of revenue, I believe, from the AMT, which is assumed. There is also an assumption that we will be more than doubling the tax on dividends for high-income individuals and moderate-income individuals and we will be doubling the tax on capital gains, and that as a result, revenues will essentially be increased by trillions of dollars over the same period through tax increases. That may occur, but my view is that that's probably not an event that should be scored if you were looking at it in a realistic way versus subject to the rules of the baseline. So I don't say that as trying to disparage CBO, because you've done your job the way you have to do it, the way *we* require you to do it, by the way. But what we're telling you to do isn't realistic relative to what will actually happen on the ground over the next ten years. So, that would concern me.

The bigger issue that concerns me is how we put this stimulus package together. I readily admit, in fact I've been talking about it for a long time, that we're facing an extraordinarily sensitive economic time, and potentially, a very severe economic event. The sub-prime collapse – which represents this year about \$500 billion dollars, and next year about another \$600 billion dollars, of roll-overs in mortgages, which because of the way they were structured, a large percentage of them will not be able to be re-paid by the people that were lent to because of the jump in the interest rates and the collateral underneath them does not support them – creates just a massive economic credit crunch. And that is feeding on itself right now, and I've been through three of these in my professional lifetime and regrettably at one point, I was governor during the last real major estate meltdown and so I think I understand how they work. And unfortunately what happens is, when you get into one of these contractions, you not only see the bad loans get called, but the good loans don't get made because the lenders have to build up their capital positions and therefore it feeds on itself and the whole system begins to contract and that causes the economy to slow down. And we are, regrettably, on the cusp of that occurring in a fairly significant way, I'm afraid.

However, we also have some good news out there. For example, today's unemployment numbers are extremely strong and we appear to have other sectors of the economy which haven't yet been overwhelmingly impacted by the housing slowdown. But they will be impacted, I suspect, by the credit contraction.

So what do we as a government do to address this, is the question. And the proposal that has been put forward by both the Administration and the Democratic leadership of the Congress is an attempt to try to address this and I congratulate them for taking that

initiative. But I want to make sure that we put the money where we get the action, where we get something for it. And my concern is, every dollar that we're going to put into this economy in stimulus is going to have to be borrowed. That chart that the Chairman just put up is going to be aggravated by it, there's going to be a compounding event. If we put \$150 billion in this economy today, we're not going to pay for it; our children are going to pay for it, and our children's children are going to be paid for it at a much higher price because we're going to have to borrow it and it compounds. So, let's get something for it, let's just not send helicopters over the country throwing cash out the door, let's get something for it. So, I'm going to want to ask you, Dr. Orszag, how do we get the most out of those dollars? Now, I know you have an opinion on that, and some people agree with it, some people don't, but I want to get it because you are one of our most professional people around here.

And I thank you for coming today, and we look forward to hearing from you.