**Transcript of Opening Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing on Long-Term Economic and Budget Challenges
with Federal Reserve Board Chairman Ben S. Bernanke
January 18, 2007**

Over the years we have had a tradition in this Committee of hearing from the Chairman of the Federal Reserve on the economic conditions of the country, the challenges that we face, and the opportunities that are there, so this is a continuation of that tradition. Some weeks ago, I had a chance to visit with Chairman Bernanke over lunch, and I thought it was a constructive and productive discussion. We certainly valued it for the insights to the fundamental underpinnings of our economy and what we could do to make things better and more secure for the future.

Senator Gregg and I are especially committed to facing up to our long-term fiscal imbalances – the challenges that we confront with Medicare and Social Security and the embedded deficits that we now face. We are very eager for the Congress of the United States and the White House to work together to devise a long-term plan to face up to these challenges because we think they pose a risk to our long-term economic security.

I have noticed increasing discussion in the press about the need to address these long-term imbalances. I wanted to just go through a few slides, if I could, and talk about some of the issues that we think are important to keep in mind.

First of all, the deficit last year was reported at $248 billion, and at the same time the debt of the country increased by $546 billion. And all too often, these increases in the debt get left out of the reporting. The biggest reason for the difference is Social Security where $185 billion of Social Security trust fund money, that is in temporary surplus, was used to pay other bills.

The result of this pattern, of increasing deficits and debt, on the debt side of the ledger is that we're building this wall of debt. At the end of 2001, we had $5.8 trillion of gross debt. At the end of last year that had soared to $8.5 trillion, and if we stay on the current course the estimates are by 2011 we'll be at $11.6 trillion of debt.

All of this is compounded by a dramatic reduction in the savings rate in this country. Of course, when you have dissavings by the federal government, when the federal government is running deficit, that reduces the savings rate, and this is the individual savings rate according to the Bureau of Economic Analysis. We see the first negative savings rate since the Great Depression in 2006.

As a result of the twin deficits – budget deficit and trade deficit – we are now borrowing extraordinary amounts of money. In 2005, we borrowed 65 percent of all the money that was borrowed by countries in the world. The next biggest borrower was Spain at about one-tenth as much. Many of us believe this is an unsustainable level of borrowing and has to be addressed.

And of course all of this is occurring before the baby boomers retire, and the baby boom generation that is going to dramatically increase the number of people eligible for Social Security

and Medicare, from some 40 million today to over 82 million by 2050, fundamentally changes the decisions we must make.

There's been a lot of talk about Social Security and the long-term gap between funding and outgo in that program. The 75-year shortfall in Social Security is about $4.6 trillion – that's the estimate. But the 75-year shortfall in Medicare is much bigger, seven times as much, $32 trillion. This is, many of us believe, the 800 pound guerrilla – these health care accounts, Medicare being the most prominent, but Medicaid and veterans' health care also part of the consideration.

Not only do we have a problem on the spending side of the ledger, but we also have a problem on the revenue side of the ledger. This chart shows what happens if you extend all of the tax cuts from 2001 and 2003, and you combine them with the trust funds going negative, because out in the future as we get towards 2017, 2018, these trust funds that are throwing off large cash surpluses now go cash negative, and at that very time you can see by the chart the cost of making all of the tax cuts permanent explode in cost as well, driving us right over a cliff into much deeper deficits and debt. So we're going to have to face both the spending side of the equation and the revenue side of this equation if we're going to be successful.

Why does it matter? Are these just numbers on a page not attached to the economic condition of our country? No. We think these things are very much linked to the long-term economic security of America. We saw in the *Wall Street Journal* the World Economic Forum warned that the U.S. budget deficits in America are causing our economy to be less competitive. This is the World Economic Forum judgement last year that reduced the competitive ranking of our country because of our very large deficits, both trade and budget.

The Comptroller General, who was the first witness before the Senate Budget Committee, said this in his testimony: "When, not if – when – foreign investors decide as a matter of mere prudence and diversification that they're not going to expose themselves as much to U.S. debt, then interest rates will rise, and that will start a compounding effect. And so what's important is that we act so that they don't take that step..."

The *Financial Times* reported that China was forcing the dollar into the spotlight: "China made its presence felt in the currency markets this week" -- and this was in November of last year. "China made its presence felt in the currency markets this week as the prospect of the country diversifying its large foreign exchange stockpiles since the dollar reeling to a 10-week low against the euro and to its weakest level in 18 months against the sterling."

Let's go to the final chart that shows what's happened to the dollar against the euro. Since 2002 the dollar is down about 30 percent. This should be a warning signal to all of us about potential effect of our fiscal and monetary policies and how it can have an effect on the larger economic well being of the country.

Let me indicate to Chairman Bernanke that we are not going to ask you about dollar valuation, we are not going to ask you about short-term interest rate movements, because we

know that's not appropriate in your role as Chairman of the Fed. And we want to indicate to all the members that the Chairman is constrained in what he can say on dollar valuation, on interest rates. And we understand that and respect it.