Transcript of Opening Statement by Senate Budget Committee Chairman Kent Conrad
Hearing on the Budget and the Economy
January 29, 2002

This is, as you know, a very odd week because of the State of the Union today, and because of party caucuses starting tomorrow. So, this is an unusual week and I apologize to witnesses for that. But, we think this is a very important hearing to talk about the economic conditions that we face.

Today is really the third in a series of hearings on that question. We started with Dr. Crippen, the Director of the Congressional Budget Office who gave us an overview of our current economic condition and the fiscal condition of the country. We then followed with Chairman Greenspan of the Federal Reserve who gave us a more detailed look at our economic conditions and prospects going forward.

The news so far has been dramatic. As Dr. Crippen testified, just a year ago we were told we would have surpluses of $5.6 trillion over the next ten years. That has been reduced, as the chart shows, to $1.6 trillion, a disappearance of some $4 trillion of budget surpluses.

That has enormous implications. Instead of effectively eliminating the public debt by 2008 as we were told last year, we now know we will still have $2.8 trillion of publicly held debt by 2008. And, of course, instead of building up a $2.7 trillion surplus outside of Social Security and Medicare, the new projection is that we will be running a deficit of $1.1 trillion. And those, of course, are baseline estimates. That's before any additional defense buildup as we now know the President will call for in just the next few days. That is before his proposal for dramatic increases in homeland security or a stimulus package, or a prescription drug coverage for seniors or other things that are not in the so-called baseline forecast.

What caused these changes? The CBO is clear that over the ten years, the biggest reason for the diminished surplus is the tax cut, which accounts for 42 percent of the decline. The other factors are economic changes, the economic slowdown which accounts for 23 percent of the change; other legislation, largely spending as a result of the attack, some 18 percent of the change; and then technical changes that account for some17 percent -- technical changes are things like difference in estimations of Medicare and Medicaid expenses. CBO has increased their estimates of the expenses in those areas.

The question before this Committee is what do we do now. What do we do going forward? What should be our policy be? Clearly the performance of the economy will affect the budget, and vice-versa.

Chairman Greenspan indicated that he believed the worst of the recession is over and the economy is beginning to stabilize. But even with that we see the unemployment rate is still rising, with now 8.3 million people unemployed. We will get new data for January this Friday. At the same time, there are hopeful signs. We see consumer confidence starting to rise. For example in the chart we see the major indexes of consumer confidence showing a move up, and people are expecting a new reading from the Conference Board later this morning. When that news comes, we will report it to the Committee.

And, of course, the Federal Reserve cut short-term rates aggressively. That brings up an important question of why have long-term rates stayed up while the Federal Reserve has so dramatically cut short term rates? This chart I think tells a very important story that we see the results of the Federal Reserve sharply cutting interest rates, but long-term rates showing very little change. And this is true across a broad range of measures of long-term interest rates.

There's another important point I think that needs to be addressed and that is a point Chairman Greenspan made in a speech in San Francisco earlier this month. He repeated the point at our hearing least week, that one of the reasons long-term rates have not come down is the falling surpluses and diminished prospects for paying down debt. Chairman Greenspan said in his speech in San Francisco and I quote, "Some of this stimulus has likely been offset by increases in long-term market interest rates, including those on home mortgages. The recent rise in these rates largely reflects the perception of improved prospects for the U.S. economy. But over the past year, some of the firmness of long-term interest rates probably is the consequence of the fall of projected budget surpluses and the implied less-rapid paydowns of Treasury debt."

This I think is something all of us have to be aware of as we fashion a policy going forward. The importance of fiscal discipline for promoting strong and sustainable growth is one of the issues I hope we will explore today. As Chairman Greenspan has said, "All else being equal, a declining level of federal debt is desirable because it holds down long-term real interest rates thereby lowering the cost of capital and elevating private investment." I believe Chairman Greenspan has that right. I think that is the correct analysis for economic policy.

But there is another key reason for fiscal discipline and for attempting to rebuild surpluses. And that is the demographic time bomb that we all know we face. The baby boom generation will start retiring in just six years. That's the leading edge. Those who choose to retire, baby boomers who choose to retire at age 62, that will begin in just six years. And that's going to change everything. As Director Crippen said last week, acting sooner rather than later to address these long-term fiscal imbalances will make an important difference.

Today we have three witnesses from outside government to give us their perspective on the economic and budget outlook and help us address these issues. Robert Reischauer is President of the Urban Institute and before that was Director of the Congressional Budget Office. Peter Orszag is a Senior Fellow at the Brookings Institution, and was Special Assistant to the President for Economic Policy and a Senior Economist and Senior Adviser at the President's Council of Economic Advisers in the Clinton Administration. Brian Wesbury is Chief Economist at Griffin, Kubik, Stephens & Thompson, Inc., a Chicago-based investment bank, and served as Chief Economist at the Joint Economic Committee in 1995-96.

We welcome you all and that you very much for coming. My very able ranking member is here, Senator Domenici, and I will turn to him for any opening statement that he would choose to make and then we'll go to the witnesses.