SENATE BUDGET COMMITTEE
KENT CONRAD, CHAIRMAN

FOR IMMEDIATE RELEASE
January 24, 2002

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Transcript of Opening Statement by Chairman Kent Conrad Hearing on the Economy with Federal Reserve Chairman Alan Greenspan

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We want to welcome Chairman Greenspan this morning. It is good to have you here to testify before the Committee. As many of us commented yesterday, "What a difference a year makes."

Last year, the Congressional Budget Office projected that we would be able to expect \$5.6 trillion of surpluses over the next decade. Yesterday, the Director of the Congressional Budget Office sat in that chair, Chairman Greenspan, and told us that the \$5.6 trillion of projected surpluses were reduced to \$1.6 trillion. That's before any additional defense buildup the President is apparently about to propose or any additional funding for homeland defense, or a stimulus package, or a farm bill, or any other new spending initiatives.

Last year, Mr. Chairman, you testified that we were in danger of paying off the debt too quickly. And while you sounded cautionary notes -- sent many signals in your testimony that we have got to be careful not to return to deficits and debt -- unfortunately, very few in this town paid much attention to your cautionary notes. Many people heard what they wanted to hear. And they claimed we could have it all: that we could have a massive tax cut; that we could have a major defense buildup; that we could protect every penny of the Social Security and Medicare trust funds; and, that we could have a maximum pay down of our national debt. Unfortunately, we now know that was not true.

As we heard yesterday – in Dr. Crippen's statement – there would be no surplus over the next decade without the trust funds of Social Security and Medicare. In fact, instead of a \$2.7 trillion non-trust fund surplus, we would have a \$1.1 trillion deficit. And, last year we were told that we would be debt free by 2008, or effectively debt free. Yesterday, Director Crippen made clear that we will have \$2.8 trillion in national debt, instead of being debt free.

The reasons for the change. Director Crippen's testimony was clear that over the ten years, the biggest reason for the decline in the surpluses is the tax cut, accounting for 42 percent of the reduction. The other factors on this chart: economic changes account for 23 percent; other legislation, largely spending as a result of the attack on this country, 18 percent; and technical changes, 17 percent.

So the question before this committee, "Is what do we do?" In order to answer that question, we first have to analyze the current status of the economy. That's one reason you were invited here today, and we welcome your testimony.

We see that unemployment is still rising. We're now at 8.3 million people unemployed in the country. At the same time, there are some hopeful signs. We see consumer confidence starting to rise. It is now ticking up. And so the fundamental question before us is, "What should the budget policy of the United State be in order to foster stronger economic growth and put this country in a position to meet its long-term obligations?"

I believe that fiscal discipline matters to the markets. That's something that you have made clear. In your remarks earlier this month in San Francisco you said that, and I just want to quote, "Some of this stimulus has been likely 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 pay down of the federal debt."

And indeed when we look to specific indicators in interest rates what we see is that while you and your colleagues on the Federal Reserve have aggressively reduced the short term rates, long-term rates have stayed stubbornly where they were. We can see 30-year conventional mortgages virtually no reduction over this period in which you and your colleagues have so aggressively used monetary policy to attempt to give lift to this economy.

Mr. Chairman, in the past, you have argued strongly about the desirability of paying down debt to help keep long-term interest rates down. And I turn to your words of last year, just about this time, "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. The rapid capital deepening that has occurred in the U.S. economy in recent years is a testament to those benefits."

I believe you were right then, and you are right now to make that point. But there is another key reason for fiscal discipline and for attempting to rebuild surpluses. And that is the demographic time bomb we face as we approach the time the baby boomers will start to retire. This circumstance is fundamentally different than the budget crises we faced in the 1980's because then we had time to recover. Now there is no time to recover. The first baby boomers start to retire in just six years. As Director Crippen said yesterday acting sooner rather than later to address these long-term fiscal imbalances will make a real difference.

Finally, Mr. Chairman, in your testimony last year you warned us that budget projections are highly uncertain and you urged us to have a plan to protect surpluses and debt reduction. You suggested something like a trigger. We did not follow that advice regrettably. While some of us were strong advocates including members on both sides of the dias here. Certainly, Senator Stabenow on our side and Senator Snowe on the Republican side warned us that we should take your advice and put in place such a mechanism. I think now the evidence is clear that that should have been pursued and perhaps you can give us counsel on how we best do that now.

Again, Chairman Greenspan, I welcome your presence here today and look forward to your testimony.

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