Transcript of Opening Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at Hearing on CBO January Budget and Economic Outlook January 8, 2009

I would like to welcome everyone to our first Budget Committee hearing of the year. Today we will focus on CBO's new budget and economic outlook.

Our witness today is Robert Sunshine -- what an apt name for what we confront -- the Acting Director of the Congressional Budget Office. Director Sunshine has been leading the CBO since late November when former Director Peter Orszag was nominated to be the head of the Office of Management and Budget in the new Obama Administration.

We hope to have Doug Elmendorf formally appointed to the CBO Director spot soon. We have taken the necessary action here. We await our House colleagues' action. We hope to have that concluded, as I say, very, very quickly.

Director Sunshine has been with CBO for about 33 years, almost since the agency was established. His years of work at CBO have been outstanding. You couldn't ask for more exemplary work than the work of Bob Sunshine. He is a great asset to the Congress and to our nation.

And we deeply appreciate your moving this forecast forward so that we would have available the most recent relevant information to Congress as it begins its deliberations on the economic recovery package and as we begin the budget process for the year, a budget process that is truly daunting.

Director Sunshine is joined today by Robert Dennis, CBO's Assistant Director for Macroeconomic Analysis. Assistant Director Dennis has been with CBO for almost 30 years. And again, we want to thank you for I know the extraordinary effort that has gone into producing this forecast well ahead of the normal schedule. Thank you for your service to the country as well.

Unfortunately, the news you are bringing, through no fault of your own, is not good. The new deficit projections, as I said yesterday, are jaw-dropping. This is one of the worst budget forecasts I have seen in my life.

President Obama is walking into a fiscal disaster of stunning proportion, coupled with an economic downturn of unknown duration and depth, but one that I think we can already forecast will be longer than any other downturn since the Great Depression and not exceeded in severity since the Great Depression.

Let me just go through a couple of charts to put in perspective what we confront.

Job loss -- we've lost from January through November of last year over two million jobs. The most recent numbers for December are of deep concern -- a job loss approaching 700,000 for one month.

Second, some economists are now forecasting that we will reach a level of unemployment of 10 percent. That's up from the 6.7 percent now. If we went to a level of 10 percent unemployment, that would mean an additional five million people losing their jobs.

We've also seen a very dramatic deterioration in our budget picture. CBO's new estimates show that the deficit in 2009 will be over $1.2 trillion -- $1.2 trillion. That's assuming the extension of certain tax cuts, the alternative minimum tax reform and ongoing war costs. It does not include any money for the economic recovery plan. This is more than two-and-a-half times last year's record deficit. And again, that is before we adopt any economic recovery plan.

It is important to remember that the increase in debt in 2009, as distinct from the deficit, will be even greater. We believe the increase in the debt, before any economic recovery package, will be in the range of $1.6 trillion. So we could easily reach an additional debt, once an economic recovery package is put in place, of $2 trillion in one year alone. To put that in perspective, our current gross debt of the United States is about $10.6 trillion.

And CBO's 10-year outlook confirms that with current policies, such as the tax cuts extended, alternative minimum tax reform and ongoing war costs, we will see record deficit for years to come.

Our nation is building a wall of debt that is certainly sobering and I think should give us all pause. Gross federal debt is now estimated to reach $11.6 trillion in 2009. And if we add in current policies such as the tax cuts extended, the alternative minimum tax reform, the ongoing war costs, it could rise to over $21 trillion by 2019. Again, that is without any economic recovery cost included.

Our long-term outlook is even more serious. The combination of the retiring baby boom generation, rising health care costs and inadequate revenues will explode deficits to clearly unsustainable levels. CBO's latest long-term budget outlook which was released in December of 2007 shows that the federal debt could climb to more than 400 percent of gross domestic product by 2058.

We're at about 70 percent gross debt to GDP now. Without any new policies, just the extension of current policies, we see the debt to GDP approaching 100 percent by 10 years from now. But if we stay on this course, we see the debt then soaring to 400 percent of GDP by 2058. This is utterly unsustainable.

The bipartisan fiscal task force that I have proposed along with Senator Gregg could be the basis for a process that I believe will be needed to tackle our long-term fiscal challenges. I am open -- and I am certain Senator Gregg, who can speak for himself, is open -- to other suggestions. But I believe that what we have proposed is something that is badly needed.

Here are the highlights of the task force proposal. It would be tasked with addressing our long-term fiscal imbalances. It would consist 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 on the proposal. It would be designed to ensure a bipartisan outcome.

I don't pretend that this is the magic bullet that solves all of our problems. But as I look ahead, it is becoming increasingly apparent that we simply cannot allow our fiscal condition to continue to drift downward. That way lies American economic decline. And so I think it is critically important that we face up to these long-term imbalances and look at both the spending side and the revenue side of the equation.

In announcing his economic team in November, President-elect Obama said, "...[S]hort term, we've got to focus on boosting the economy and creating ... jobs, but part and parcel of that is a plan for a sustainable fiscal situation long term..."

He has that exactly right. And that is precisely what Senator Gregg and I are calling for. Our nation's economic future will remain at risk until we confront the long-term fiscal challenge before us.

Let me just add, if there is any doubt about the importance of facing up to these long-term imbalances, the news that was spread across the front page of *The New York Times* today on China losing taste for debt from the U.S. ought to be a warning signal to us all. China has now become our biggest creditor. And this article says very, very clearly that China is losing taste for debt from the United States. If they pull back from taking on U.S. debt, what are the ramifications for our economy? What would be the effect on interest rates? What would be the effect on economic growth?