

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad, D-ND at
Hearing on Nominations of Peter Orszag and Rob Nabors
to Serve as Director and Deputy Director of the Office of Management and Budget
January 13, 2009**

Opening Statement

The hearing will come to order. I want to welcome everyone to the Senate Budget Committee this morning. Today we consider President-elect Obama's nomination of Dr. Peter Orszag to be the Director of the Office of Management and Budget, and his nomination of Rob Nabors to be Deputy Director.

In my judgement, these are two outstanding nominations. I would like both of these nominees confirmed quickly. Given the state of the economy and the federal budget, it is imperative that the President-elect has his team in place without delay.

We will first consider the nomination of Dr. Orszag. I will need to leave at about 11 o'clock today to return to my home state to attend my annual Marketplace for Entrepreneurs event. Senator Murray will chair the Committee if the hearing extends beyond that time.

Let me begin by welcoming our distinguished guests from the House – House Budget Committee Chairman John Spratt, who I think is on his way, and the Ranking Member, Mr. Ryan, who will introduce Dr. Orszag. We very much appreciate your being here. Representative Ryan's presence, in particular, says a great deal about the respect that Dr. Orszag has attained on both sides of the aisle.

Dr. Orszag is joined today by his daughter, Leila; and his son, Joshua. We are very happy to have the two of you here, and we are honored by your presence.

This Committee knows Dr. Orszag well. Two years ago, I picked Dr. Orszag to be the CBO Director, along with my colleagues in the House and the Senate leadership on the Budget Committees. We chose him based on his record and reputation as a talented economist and budget expert. I was not disappointed, and I think it is fair to say all of us were delighted by the leadership that he brought to the Congressional Budget Office. He has provided Congress and this Committee and the American public with invaluable information and insight on the economy and the budget. And his laser-like focus on addressing the growing cost of health care demonstrated his firm grasp of the tremendous long-term budget challenge facing our nation.

I am pleased that he will bring his immense talent and drive to OMB and the Obama administration. We will need the best and brightest our country has to offer working together to pull us out of this fiscal and economic decline. Dr. Orszag is exactly the right person for this job at this time. I look forward to continuing to work closely with him as he assumes his new responsibilities.

Before I turn to Senator Gregg, I want to lay out some of the very serious budget challenges facing our country.

CBO's new estimates show that the deficit in 2009 will be \$1.2 trillion. That is more

than two-and-a-half times last year's record deficit. And CBO's numbers show that under current policies we will face record deficits for years to come. And that is before we adopt any economic recovery plan.

We are building a wall of debt. Gross federal debt is now estimated to be \$11.6 trillion in 2009. If we add in current policies, such as an extension of tax cuts, the alternative minimum tax reform, and ongoing war costs, we could easily see the debt rise to \$21.3 trillion by 2019. That is nearly 100 percent of gross domestic product.

Our debt is increasingly financed by foreigners. In 2008, 68 percent of the increase in publicly-held debt was held by foreigners. This presents a significant risk to our economy. If these foreigners stop buying U.S. debt, interest rates could shoot up and our economy could be thrown into a downward spiral.

The warning signs are already there. This article was on the front page of the *New York Times* last week: It was headlined, "China Losing Taste for Debt From the U.S."

The explosion in debt we are seeing is coming at the worst possible time, just as the baby boom generation is beginning to retire. It is important to remember that within the decade, by 2018, more than half of the baby boomers will reach the early retirement age of 62.

We are facing a demographic tidal wave. But this is not just a demographic issue. Rising health care costs pose a bigger threat. These rising health care costs are exploding the cost of our health care system. By 2050, more than 18 percent of our gross domestic product will be spent on Medicare, Medicaid, and Social Security. That represents nearly all of current federal spending.

And this is not just an issue of federal health spending. Private sector health spending is also exploding. Taken together, public and private health care spending will reach 37 percent of GDP by 2050, if we stay on our current course. Clearly, that is completely unsustainable.

Senator Gregg and I have made a proposal to our colleagues to face up to these long-term challenges. We are open to other proposals, but we believe something like what we have outlined is needed. Here are the highlights of the task force proposal:

- One – it would be tasked with addressing our long-term fiscal imbalance;
- Two – it would consist of sitting lawmakers and representatives of the Administration;
- Third – Everything would be on the table;
- Fourth – The panel's legislative proposal would get fast-track consideration and Congress would have a vote;
- Finally – it would be designed to ensure a bipartisan outcome.

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 it exactly right. That is exactly what Senator Gregg and I are calling for. Our nation's economic future will remain at risk until and unless we confront this long-term fiscal challenge.

Question Period

Conrad Question: As we consider the need for an economic recovery plan, can you give us your assessment of the near-term risk to the economy of the United States? How precarious do you believe our current circumstances are?

Orszag Answer:

I will go back to saying that I believe that we are facing the worst economic crisis since the Great Depression. That gap that I mentioned between how much the economy can produce and how much it is currently producing of \$1 trillion is excessively large. That represents a lost opportunity and it is reflected in elevated unemployment, job losses, distress for working families because that is \$1 trillion lost income that could be there if we could just bolster aggregate demand.

The danger in this kind of situation is that given the risk that exist in financial markets and this dynamic of lack of confidence and downward spiraling is that things can feed on themselves where you have the real economy weakening, financial markets weakening and then feedback effect that feed from one part of the economy to another in a negative spiral so the situation can become particularly bad. That is why I think we need to act. We need to act boldly and we need to act quickly in order to bolster aggregate demand, address some of the financial market turmoil that still persist. It is not going to be over quickly. I think Figure 1 in my chart kind of encapsulates it. It shows that if we don't act we have a very significant increase in unemployment rates. Even if we do act, the unemployment rate doesn't go up as much. There is a big benefit from acting, but we're still in for some period of economic difficulty even with a significant economic recovery plan.

Conrad Question: Senator Gregg and I have decided we would put together criteria to apply to any economic recovery plan. What would be your candidates for inclusion in an economic recovery plan? What criteria do you think ought to apply?

Orszag Answer:

I think there are several criteria. The first and perhaps most important is bang for the buck. That is what bolsters aggregate demand the most and operates most quickly.

The second is if there are any medium or longer term implications for spending or revenue from something that you are doing today, it would be better to minimize that but it is to the extent that there are any such implications that they are leading to things that help in the long-term to promote economic performance.

I think finally I would say there is this tension, and let me be forthright here. There's a tension between that macroeconomic gap that I spoke about – the \$1 trillion GDP gap – and the set of policies that you can come up with when you actually go through the possibilities that spend out immediately within the next three to six months and then add to aggregate demand immediately. If you put all those together you wind up with a package that is much smaller than the GDP gap that we face, and then you face this choice, do you accept a high level of macroeconomic risk by not expanding the package or do you expand the package into other areas that might have somewhat lower bang for the buck but that help you to address more of the

macroeconomic problem.

Conrad Question: On your point number two, for those things that have longer term implications, because to the extent possible we want this program to be temporary, to the extent that it goes beyond the temporary, you make the argument that it needs to be helpful to securing longer term economic growth, improve the competitiveness of the country, what would be examples of that?

Orszag Answer:

There are a variety of examples to that. For example, various infrastructure projects that may spend out largely, but not entirely, over the next year or two will leave you with a physical infrastructure that can increase capacity and economic growth in the future. Various energy investments that may, for example, begin the process of leading to a smart grid can do so. Health information technology investments are another example of that. So you can go down a list of things that may not fully spend out over six months or a year, but that will have some macroeconomic benefit in the short-term, and also do things that are beneficial for the economy over the long run.

Conrad Question: Let me turn to the longer term challenges. As you know, Senator Gregg and I have laid out a process. So far the incoming administration has been resistant to laying out a process to develop a plan to deal with our long-term imbalances. What can you tell us would be the intentions of the administration, your intentions, to cope with these long-term imbalances that you have previously described as unsustainable?

Orszag Answer:

Let me say two things. First, the new administration will put out a budget and economic overview in mid to late February in which we will have more to say about the medium and longer term deficits. But I think you are referring specifically to process issues, and my view for whatever it is worth is that it is difficult to argue that our current processes for addressing long-term budget issues, especially including health care, are working that well, just by looking at the evidence. And so obviously therefore looking at possible changes in process are worthwhile. I know that you and Senator Gregg have an idea with regard to long-term fiscal commission. Senator Baucus and Mr. Daschle have put forward an idea on a federal health board that would focus specifically on health care decisions. There are a variety of process changes that are under discussion that we are examining carefully. And that given the failures of the current system to address these problems it certainly seems worthy of examination.

Additional Conrad Comments

Let me just conclude by saying I understand the notion of a health board. I think that has prospects. But what we confront here in terms of our long-term fiscal situation, while health care is the 800 pound guerrilla, we face other major challenging as well: Social Security; the revenue system of the country. My own view is that we have a revenue system that is badly outdated, fundamentally needs reform if we are going to make America as competitive as it can be for the future.

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I want to thank Dr. Orszag for his testimony here today.

Let me just say that here is the circumstance the Committee faces. The Parliamentarian has advised us that it would be inappropriate to hold a Committee vote in relation to any potential nomination until the papers have been received in the Senate. Papers will not be received until the 20th. The 20th obviously is the Inaugural Day, and we would then have to try to convene the Committee for a vote if we are to get a confirmation on that day. I think that is fraught with difficulty. I think it is highly unlikely we could accomplish that.

The second alternative is to have the Committee discharged on a unanimous consent agreement, so that you could be confirmed on the 20th, and it is my intention to pursue that route, I say to my colleagues on the Committee. We have talked to the offices of the members of the Committee and we have strong agreement but I want to obviously reserve until the hearing is complete for Mr. Nabors because we would like to handle his confirmation in the same way, and it is only right that we complete the hearing before a final decision is made. But I want to indicate that is my intention.

The other alternative would be to have a vote. That would require 48 hours notice of a markup, and instead of having that delay given the severity of the circumstance we are in, it seems to me the appropriate approach is to have the Committee discharged based on unanimous consent and that is the approach I will pursue. I have already talked to the ranking member about that approach and we hope to have a conclusion later today.

Again, Dr. Orszag, thank you very much for your service at the Congressional Budget Office. This Committee looks forward to working with you at the Office of Management and Budget. You take on an enormous responsibility here, and I know you are acutely aware of it. All of us have extraordinary responsibility given the seriousness of the economic conditions facing the country. So this is going to demand our very, very best, and I know that that is your intention and your commitment, and we look forward to your service. Thank you Dr. Orszag.

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We will now consider the nomination of Rob Nabors to be the Deputy Director of the Office of Management and Budget.

I want to begin by welcoming a distinguished colleague from the House, the Appropriations Committee Chairman, David Obey. Chairman Obey, we look forward very much to your statement introducing Mr. Nabors. And we are very appreciative that you are here.

I also want to welcome Mr. Nabors family, who I understand is here, I think they are on their way.

Rob Nabors is somebody who is ideally suited for this job. As President-elect Obama stated in announcing his selection, "no one is more able or more qualified to assist Peter (Orszag) in this work ... than Robert Nabors."

Rob has served on the House Appropriations Committee since 2001 and has been the Democratic Staff Director there since 2004, including the last two years as Majority Staff

Director. Before that, Rob served at OMB as Senior Advisor to the Director, and then as Assistant Director for Administration and Executive Secretary. So Rob Nabors brings a wealth of experience to this position. His experience and knowledge in the appropriations and budget process will serve him well, especially with the perspective of both the Executive and Legislative branches.

I have every confidence that Rob will be a great asset to the Obama Administration and to the American people in this new role. And I want to thank him for his willingness to continue to serve. I know there are other things one can do in life that would be better compensated, and perhaps less stressful, but this is important for the country.

As with Dr. Orszag, we hope to have his confirmation completed as soon as possible after President-elect Obama is sworn in. With that, I want to welcome his wife, Theresa; his daughter, Georgia; and his son, Jude. We welcome you all to the Senate Budget Committee. I know you are proud of your Dad and we are proud of him as well.