

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
at Hearing on the Economic Outlook and Options for Stimulus
November 19, 2008**

Opening Statement:

I want to welcome everyone to the Budget Committee. Today's hearing will focus on the nation's economic outlook and the options for stimulus. I hope that this hearing proves timely, because this is very central to the discussion and debate about what needs to be done to stimulate the economy, both during this truncated session, but also when Congress resumes. And, we are being told we will be right back at it the first part of January, so no one should expect the usual rhythm of this place will be the rule.

I would like to particularly welcome our witnesseses this morning:

- Mark Zandi, who has testified before this Committee before and who we see as a very valuable resource for this Committee. He is the Chief Economist and Co-Founder of Moody's Economy.com.
- Simon Johnson, Senior Fellow at the Peterson Institute for International Economics and Professor of Entrepreneurship at MIT's Sloan School, welcome, good to have you here.
- And John Taylor, Senior Fellow at the Hoover Institution and Professor of Economics at Stanford University, my alma mater....

This is a distinguished panel. And I very, very much appreciate your being willing to come and share your thoughts with us.

Let me just start with a few charts to put our current circumstance in some perspective. The downturn has featured a dramatic collapse in the housing market – all of us know that. We can see what has happened to the home foreclosure rate. It remains at the highest level ever. The housing decline rippled through the rest of our economy and helped trigger the financial market crisis.

Credit markets were essentially frozen from late September through mid-October. This chart shows the clearest measure of what happened to our credit markets. This is the so-called "TED spread," the difference between what you can borrow for if you are the U.S. Treasury, versus what banks can borrow for from each other based on the lending inter-bank overnight rate. It shows that the typical difference between the two, which is relatively modest, has absolutely skyrocketed, in fact it went up nine-fold before now falling back after all of these dramatic interventions, but still remains very high by historical standards.

Third, we have lost 1.4 million private-sector jobs since December of last year, with 263,000 jobs lost in October alone.

Fourth, the economy is expected to contract further. We saw the economy shrink by three-tenths of one percent of GDP in the third quarter of this year. The Blue Chip Consensus is that it will shrink by 2.8 percent of GDP in the fourth quarter.

Fifth, retail sales have plummeted – falling 2.8 percent in October. What we're getting back from retailers around the country is that retail sales continue to slide. I am very pleased to report in my home state of North Dakota retail sales are actually increasing during this period. If anybody is looking for a job or economic opportunity, we welcome you to North Dakota.

The unemployment rate has now climbed to six and one-half percent.

So, clearly the economy is struggling, and we have to act. That is why we are here discussing a stimulus package today.

There are several options to be considered. Many economists are urging that a package must be large enough to have an impact – we have heard estimates from anywhere from at the low end, one percent of GDP, of a stimulus package, to 3 percent of GDP. Just to put that in some perspective, we have about a \$14 trillion economy, so we are talking about a stimulus package of anywhere from \$140 billion to \$420 billion. We've even heard some say that a stimulus package should be as much as \$500 billion. We have seen what China has done with a package of well over \$500 billion on a much lower base in terms of the size of their economy than ours.

In terms of specific options, we could extend unemployment insurance. That is considered stimulative because it goes to people who need it the most and who are most likely to spend those dollars.

We could also do the same with food stamp assistance, broaden it, extend it. Again, those are dollars that are considered highly stimulative.

Third, we could fund ready-to-go and near-term infrastructure projects. Typically, that is looked on somewhat dimly by those in the economic profession, because often those packages are too slow to get into the economy to be considered timely. I think in this circumstance we need to look again at infrastructure projects. I have just done community forums in 50 communities in North Dakota. It was very interesting the reaction – it was overwhelming, overwhelming in support for infrastructure projects as a means of stimulating the economy.

And we could provide aid to homeowners. That is another option

The argument against infrastructure being effective because it can be often delayed is I think maybe contradicted by what we see as ready-to-go projects around the country.

The American Association of State Highway and Transportation Officials has said that there are more than 3,000 'ready-to-go' highway and bridge projects across the country. The group's Executive Director said, and I quote, "If Congress wants to support small business, create thousands of jobs here at home and stimulate the economy, it should invest in the more than 3,000 'ready to go' highway projects that could be under contract within the next 30-to-90 days."

I asked my own transportation director in North Dakota what is their circumstance. They

told me they have in my small state \$300 million of projects ready to go. Engineering is completed, design is completed, land is acquired – they are ready to let contracts if they have the money.

I am very interested in hearing the views of our witnesses.

Additional Comments:

Let me go back to how did we get into this mess? I just did 50 community forums in my state and I was asked what is the root cause of all of this. And I know so much of the talk is housing, and I know Dr. Zandi, you are a housing specialist. My own reaction has been my belief is that the root of all this in terms of government responsibility is simultaneously we had a very loose monetary policy and a very loose fiscal policy – unusual, if you look at economic history to have a very loose fiscal policy, very loose monetary policy simultaneously.

And we understand the roots of it. Dr. Taylor, you referenced the monetary policy side of it. We had the Federal Reserve go to one percent on the discount rate because of 9/11 and stayed there a long time. Simultaneously, we were running massive budget deficits. My own belief is that created a seed-bed for bubbles. And we didn't get just a housing bubble. We certainly got that. But we also got an energy bubble, we got a commodity bubble – I mean we went to \$18 a bushel. I mean these things all happened, and they happened together, and I believe they had a common genesis.

Coupled with that was deregulation. Coupled with that was individuals taking on debt they had no business taking on. Coupled with that lenders making loans they had no business making, no documentation loans, liars loans as they called them. So we really cooked a stew. So on the one hand my own belief is that created the climate for bubbles to collapse, and when bubbles collapse there is a lot of economic wreckage.

So how do we get out of it? Short-term, I believe you do have to have stimulus. You have to have lift to this economy. Only the Federal government can do it because credit markets are still debilitated and you have got very serious falling demand, aggregate demand, so you have to give lift.

On the other hand, I also believe that if we don't send a signal, and enter a process to get us back to fiscal responsibility, we will lose credibility and we will have the danger of even greater long-term damage.

I think it is so important that at the time we do another stimulus package we also enter into a process to restore fiscal discipline. I think this whole exercise is not going to have much credibility – and I like Dr. Taylor very much some of the words you applied here, Dr. Zandi, I like very much your specific proposal, Dr. Johnson, I liked your bringing to our attention, remember this is global, this is unlike what we have seen before – but how about that basic construct that while we do stimulus, simultaneously we set in place a process to restore fiscal discipline.

