Transcript of Floor Statement by Senator Kent Conrad (D-ND) on the Economy During Debate of the Senate Budget Committee-Reported FY 2005 Budget Resolution
March 9, 2004

Senator Bennett provided a view of the economy and the status of the jobs recovery. Let me give an alternative view as to what he discussed.

In looking at the jobs record of this President, what I see is that he is the first President who has lost private sector jobs in the last 70 years. I know it disturbs our colleagues to refer to the last President who lost private sector jobs, who was Herbert Hoover.

In making that statement, we are not saying the economy is in the same status as during the Great Depression. Obviously, that is not the case. Joblessness in the Hoover administration was approaching 25 percent of the workforce. That is not the case today. But it is an accurate statement to say this is the first President in 70 years who has lost private sector jobs. It is also true that something is happening in this recovery unlike anything we have seen in recoveries since World War II.

If we look at the average of the nine recessions since World War II, that is the dotted red line on this chart. This chart shows months after business-cycle peak on the bottom. What this shows is on average after 17 months, after the business-cycle peak, you start to see very strong job recovery. Here we are in this recession, 36 months past the business-cycle peak, and we are still not seeing meaningful job recovery. Something very different is happening. In fact, we are 5.4 million jobs short of a typical recovery. Something is wrong. Something is not working.

This shows the private sector job decline, and it shows 3 million jobs have been lost since January of 2001 when this President came into office. That is a fact.

This chart shows that we are also facing the longest average duration of unemployment in over 20 years; that is, when someone loses their job, it is taking them longer to find a new job than at any time in the last 20 years. Again, I think it is telling us this recovery is fundamentally different, and there is something wrong in the economy.

We also see we have the smallest share of the population at work since 1994. It is true we have millions of people at work. It is also true it is the smallest share of the population in a decade. Again, this is a recovery that is very unlike previous recoveries.

When we look at real wages, we go back to 1996, the last 4 years of the Clinton administration. We saw real wages increasing substantially. Since President Bush has taken office, we have seen real wages basically flat.

The President in his economic report in February of this year told us we could expect 2.6 million more jobs in 2004 than in 2003. For that prediction to come true, 520,000 jobs would have to be created per month. In the most recent month of February, only 21,000 were created. That is 500,000 jobs short of meeting the projection that was made on February 9 by the President's Council of Economic Advisers. Again, something is radically wrong.

I might say every one of those 21,000 jobs was in Government. They were Government jobs, and not a single job was created in the private sector in the month of February.

If we look historically – this is from the *New York Times* of today, “Promises, Promises,” an article by Paul Krugman, a noted economist who went back and looked at what the administration has said would happen with jobs--these are administration forecasts. In 2002, the administration said we could expect 138.3 million jobs by 2005. In 2003, they said, whoops, that 138 million jobs is not going to come true. Instead, we are predicting 135.2 million jobs by January of 2005. In this year, they said, whoops again. Forget about not only 138 million jobs but forget about 135 million jobs as well. Instead, we are projecting 132.7 million jobs by January of 2005.

You can see where we are. We are at 130.2 million jobs. That is 8 million jobs below what the administration said would happen. They have been wrong. It is simple fact. They have been wrong, and they have been wrong by a big margin.

Senator Bennett talked about the deficit. He acknowledged the deficit is now the largest it has been in dollar terms in our history. That is obviously the case. The deficit this year is expected to be $477 billion.

That is $100 billion more than last year and last year was a record. He is right, in dollar terms, this is the biggest deficit we have ever had.

But then Senator Bennett said as a percentage of gross domestic production, this deficit is lower than others we have seen--at least some of the others we have seen. That is where he and I would have a disagreement.

He showed the unified deficit as a share of GDP. That is very misleading. We have to look at the deficit and exclude Social Security from the calculation. When we do that, what we see is this deficit as a share of GDP is nearly equal to what we had in 1983 and it is the biggest deficit we have had going back all the way to World War II as a percentage of GDP.

Why the difference between my interpretation, my analysis of deficit as a share of the economy, and his? Very simply, he includes Social Security; I exclude it. Why? Go back to 1983. There was virtually no Social Security surplus. It was several hundred million dollars. It was between $200 and $300 million--million with an “M.” This year, the Social Security surplus is $160 billion. If we are analyzing our fiscal condition, if we are analyzing where we are on an operating basis the way any company would, we do not throw the retirement funds of the employees into the pot. Those are excluded. That gives the real operating deficit. As I say, as a percentage of GDP that is the second biggest since World War II, only exceeded by the very substantial deficits we had in 1983.

Going forward, the President says, yes, these deficits have been very large. But, he said, do not worry; they will get better. He said, we will cut the deficits in half in the next 5 years.

No, we are not. The only way he gets to that conclusion is he leaves out things. He leaves out the cost of the war. He has no cost for the war past September 30 of this year. No cost for the war in Iraq, no cost for the war in Afghanistan, no cost for the war against terror. Does any person believe the right answer to those costs past September 30 of this year, which is the end of the Federal fiscal year, is zero? The Congressional Budget Office says that is not the right answer. They say the right answer is $280 billion, the cost of the war, residual cost over the next 10 years.

When we add ongoing war costs and take out Social Security, we are looking at an operating basis for the Federal Government, and we include the need to fix the alternative minimum tax, the old millionaires' tax that is swiftly becoming a middle-class tax trap, we see virtually no progress, virtually none is being made at reducing the operating deficit of the United States, not only for the next 5 years under the President's plan but over the next 10 years. This is what to me is by far the biggest concern.

Yes, we ought to be worried about the biggest deficit in our history this year. Frankly, deficits after a period of our being attacked, after a period of economic downturn, should not be too surprising. What is alarming, what should worry us, are the massive sustained deficits on an operating basis for as far as the eye can see with no improvement even when the President is forecasting strong economic recovery. All of this is happening at the worst possible time, right before the baby boomers retire.

If we look at the debt of the United States, not just focus on the deficits – that is the annual difference between what is spent and what is taken in, that is the deficit, the debt is the accumulation of those deficits--what we see with the gross debt of the United States under the President's plans with his tax cuts, with the additional war cost the CBO tells us we will face, and the need to take on this alternative minimum tax crisis because it is becoming a middle-class tax trap, we see what is happening. It is taking off like a scalded cat. This is reality talking. This is facts. This is where this is all headed. It does not add up.

What about the disappearance of that surplus, what is responsible for it? The Senator from Utah put up a chart that said 24 percent or 25 percent of the disappearance of the surplus is tax cuts. That is not what we find. When we look at the period of 2002 to 2011, which is the period when we had the first of the President's tax cuts, for that 10-year-period, 33 percent of the disappearance of the surplus--remember, they were projecting a $5.6 trillion surplus for that period and that has now turned into a $3.5 trillion deficit--there is a turnaround, in a negative sense, of $9.1 trillion. Our fiscal condition deteriorated by $9.1 trillion in the flash of an eye, in 3 years. Thirty-three percent of that disappearance is due to tax cuts.

The difference may be between the chart he showed and the chart I show that I have included the debt service, the effect of the additional interest we will have to pay because of the tax cuts and, appropriately, that cost ought to be assigned to the tax cuts. Obviously, if we have less revenue, we have more debt, and that means we have more interest payments. Thirty percent of the disappearance is technical changes. Eight percent is economic downturn. Senator Bennett put these two categories together and called it weakness in the economy and technical changes and then attributed--in his chart it was 40 percent--it to weakness in the economy.

No, no, no, no. No, no, that is not right. Eight percent of the disappearance of the surplus is weakness in the economy. Thirty percent is technical changes, mostly lower revenue, not as a result of tax cuts but as a result of the mechanical devices that are used to project deficits, that are used to project revenue being wrong.

The various models, the econometric models that are used to predict revenue, have been wrong. They have overestimated revenue, not because of tax cuts but because the models were wrong. That has accounted for 30 percent of the disappearance of the surplus.

Again, Senator Bennett put up a chart that put these two together--weakness in the economy and technical changes--and then attributed the 40 percent to weakness in the economy. That is five times the result of weakness in the economy. Weakness in the economy only accounted for 8 percent of the downturn.

Other legislation is 29 percent; that is, increased spending. His analysis and ours is pretty close on increased spending.

But where did the increases occur? Ninety-one percent of the increase in spending occurred in three areas: national defense, homeland security, and the response to the attacks of September 11--rebuilding New York, the airline bailout. Those three categories--defense, homeland security, and the response to the attacks of September 11--account for 91 percent of the increase in spending, and the increase in spending accounts for 29 percent of the disappearance of the surplus.

So the fact is, the tax cuts are the biggest single reason, for the 10-year period, for the disappearance of the surplus.

Again, what is most alarming is where this is all headed. This is not my chart. This is from the President's own budget analysis. What it shows is that the next 10 years is really the budget “sweet spot.” It is the budget “sweet spot” even though we are running record budget deficits, the biggest in our history. But the President says if you adopt his spending plan and his tax plan, these are the good times, that it is going to get much more serious when the baby boomers start to retire and the full effects of the President's tax cuts are phased in. Then you can see the President's policies are going to take us right over the cliff into massive deficits and debt, unlike anything we have seen before. That is his projection of where his policies are leading.

Well, we do not just have to rely on his projections because they have been wrong repeatedly. The Congressional Budget Office is telling us exactly the same thing. This is their long-term forecast of what happens under the President's policies--his tax cuts, fixing the alternative minimum tax, his spending policies. This is what they say is going to happen.

This is where we are now. These are records: the biggest deficits, in dollar terms, we have ever had. This is where we are headed, according to the Congressional Budget Office, if we adopt his policies--a sea of red ink. That is what we face as a nation under the President's policies.

Now we look at Federal spending and Federal revenue because it is that relationship that determines what happens to deficits.

This chart shows what has happened to Federal spending as a percentage of gross domestic product. Senator Bennett referred to using a percentage of gross domestic product as an appropriate measure of looking at debt and deficits. I agree because it takes out the effect of inflation so you can see real comparisons over time for Federal spending and Federal revenue.

What this shows us is, by 2001, we had gotten down to 18 percent of gross domestic product going for Federal spending, down sharply from where we were in the 1980s and the 1990s. In fact, you can see, in the Clinton administration, President Clinton came in right here, and every year thereafter spending, as a percentage of GDP, went down. I think this is counterintuitive to many people, but under a Democratic President, Federal spending went down each and every year of his administration measured against the national income.

President Bush came in, and we have had a spike up in spending. Again, 91 percent of that increase has gone for defense, homeland security, and a response to the attacks of September 11. Still, if you project out this level of spending, what you see is we are still well below the spending of the 1980s and 1990s.

But let's look at the revenue side for the other side of this coin. That is where we see a fairly stark picture. You can see that the revenue side is where the whole Federal fiscal condition has collapsed. Revenues, as a percent of GDP for this year, are projected to be at the lowest level since 1950. Now look at that.

When President Bush came into office, we were at a high level of revenue as a share of GDP. In fact, he used that as a reason to cut taxes. He said, revenue is at a record level as a share of GDP, and that told him we ought to cut taxes. But look at where we are now. We are now at a record low, the lowest revenue has been since 1950. And his answer: Cut taxes some more.

It does not matter what the question is, his answer is the same. And I think any rational person, looking at this objectively, would say: What do we have to do to dig out of this? We have to restrain spending. We have to get more revenue to balance this budget. Balancing this budget is critically important before the baby boomers start to retire and increase the spending even more, and, unfortunately, under the President's plan, before the revenue dips even more because he is proposing deep tax cuts that explode in cost at the same time the baby boomers' cost to the Government increases.

Finally, Senator Bennett talked about the tax cuts as being the reason the economy is in recovery. I don't agree that that is the correct analysis. There are two things Government can do to affect the economy. One is monetary policy. That is money supply, interest rates; that is under the purview of the Federal Reserve. The other element of economic policy that can be affected by the Federal Government is fiscal policy, the taxing and spending decisions by the Congress and the President.

First of all, I would say the biggest reason for the economic comeback is monetary policy. The Federal Reserve Board has adopted a very accommodative monetary policy, the lowest interest rates in 40 years. That gives enormous lift to the economy. That is, I believe, reason number one for the economic comeback.

Number two would be the business cycle. We have seen for a very extended period the economic history of the country. When you have a slowdown, you have an automatic recovery as the business cycle proceeds. We have seen typically 17 months after a business cycle peak, when you have a recession, you start to see very strong job growth and recovery. In this particular recovery, we have seen very weak job growth, even though we are 36 months past the business cycle peak. Nonetheless, business cycle is clearly the key reason for the rebound and stimulus.

Certainly, stimulus through tax cuts and Government spending has also given lift to this economy. After all, we have run nearly a trillion dollars in deficits in just the last 2 years. So we are spending more. In fact, spending from 2000 to 2003 was up 20 percent. That is stimulative, that is more money moving in the economy. That is more goods and purchases by the Government. That stimulates the economy. In addition, the tax cuts, without question, also provided stimulus. I would say the rebate checks and the lower rates helped stimulate consumer spending in the short run, but the tax cuts for the affluent were largely saved. So the part of the tax cuts that were especially stimulative were those tax cuts that led people to spend money.

The problem with the President's tax cuts is he weighted them too heavily to the upper income who are the very least likely to spend the money and stimulate the economy.

Finally, there is the sinking dollar. The dollar has gone down now nearly 30 percent against the euro since 2002, making U.S. exports cheaper abroad, making it easier for others to buy our goods.

Those are the factors I believe have contributed to economic recovery, not just the tax cuts. Certainly the tax cuts have played a role, but they are just one factor in the five factors I have mentioned.

With that, I take this opportunity to thank my colleagues for the good day we had today, the productive debate and discussion we had. I welcome this opportunity to respond to Senator Bennett and his alternative view of what is happening with deficits and debt, what is happening to the job circumstance in our country, and to give my view of what is occurring. I find people across the country are increasingly troubled by a sense that something is wrong, something is amiss, something is not happening as it has happened in the past.

All of us have a responsibility to try to diagnose why that is happening and come up with solutions that will make things better for the future.