Transcript of Opening Remarks of Senator Kent Conrad (D-ND)
at Senate Budget Committee Mark-Up of FY 2005 Budget Resolution
March 3, 2004

Let me just first address something that the Chairman was mentioning in terms of the good news on the economic front, because there is also something occurring here that is, I think, of deep concern to most members of the Senate and the House, and that is that while there are some indications there is a recovery, it is a recovery that is not affecting the job market in the way that we have seen in previous recoveries.

This chart shows the job loss recovery. The dotted red line is the average in the last nine recessions, and the black line is what we are seeing this time, and you can see there is a tremendous divergence between job production now and what we have seen previously. There are many theories about why that is the case, but it is a fact, and it is something we need to be thinking about and we need to find ways of addressing. We have a bill on the floor now, the FSC bill, some are calling it the jobs bill, which may be a partial answer, but I think we're going to need to focus on other things as well.

I very much hope that the Chairman's mark, which he has briefly outlined, is dramatically different from what the President is proposing, because what the President is proposing I think is a serious mistake for the country. I think it borders on reckless. Under the President's plan, they're spending $991,000 a minute more than the country takes in.

When the President was elected, he told us in 2001 that "tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens." That's what he told us. But that proved to be wrong.

In fact, what has happened to the deficits is they have skyrocketed. When the President said there weren't going to be any deficits, it was just wrong. Not only are there deficits, but they are the biggest deficits we have ever seen. Last year was a record, and this year is $100 billion more than the previous year.

In 2002, the President changed his message and said, "our budget will run a deficit that will be small and short-term..." He was acknowledging that, in fact, we were going to face deficits, but insisting they were going to be small and short-term.

Let's go to the next slide, because again he was wrong. We don't see deficits that are small and short-term. We see deficits that are large and long-lasting. In fact, when appropriately calculated, we see deficits that are an ocean of red ink as far as the eye can see. Deficits on an operating basis that never get below $500 billion during the entire ten-year period, that has typically been the budget window.

And then in 2003, the President told us that, "our budget gap is small by historical standards." Again he was wrong. These deficits are not small by any standards. They are at record levels, and they are at record levels in dollar terms, and they are at near record levels as a percentage of GDP, again when properly calculated by leaving out Social Security from the calculation.

Now this year, the President told us and I quote, "we have laid out a plan which shows that the deficit will be cut in half over the next five years, and that's good progress toward deficit reduction." Well, the question is, will the President be wrong again? I believe he will be wrong, and I think it is revealed in his own documents that he is going to be wrong.

He cuts the deficit in half largely by just leaving out things. He says the deficit in 2009 will be $237 billion. But he's not counting the $30 billion of additional war cost that the Congressional Budget Office says we will face in that year. He's not counting the $55 billion necessary to fix the alternative minimum tax that year, which began as a millionaire's tax, but has rapidly become a middle class tax increase. Three million people affected now, 30 to 40 million affected by the end of this ten-year period. And the President only deals with the cost of fixing it in the first year. He also is taking $22 billion from Medicare trust fund that year, all of which he has to pay back and has no plan to do. And $235 billion from the Social Security trust fund, again every penny of which he has to pay back and he has no plan to do. And there is $21 billion of CBO reestimate which is giving a different take on things than provided in the President's budget. In other words, somewhat less positive in the out years than the President. You add it all up and it's not $237 billion being added to the debt in that fifth year. It's over $600 billion being added to the debt. Why such a difference?

Well, if you look at the constituent elements in that, you see the President says there is no additional war cost set past September 30th of this year. Does anybody believe that? Does anybody believe there's not additional war cost for Iraq, for Afghanistan, for the war on terror? CBO tells us that there will be $280 billion of additional cost in the period from 2005 to 2014 that the President is not telling the American people about – $280 billion, that's a lot of money.

And the pattern is the same when we go to the cost of the President's tax cuts, because the President is proposing making all of the tax cuts permanent, but without paying for it. And what we see is the dotted line shows the effect of the President's proposals for the first five years, but look what happens past the budget window. The cost of the tax cuts explode, absolutely explode. And of course none of that is captured in the President's budget, because he's only talking about the first five years.

Let's go to the next chart that shows exactly the same pattern with the alternative minimum tax. The President only has a plan to deal with it in the first year, but look at the pattern of the cost of dealing with the alternative minimum tax. Again, it explodes just outside the budget window. So if you look at the whole ten years, you get quite a different picture of the fiscal condition of the country.

Let's go to the next slide, which talks about Social Security. The President, who had pledged not to use Social Security money for any other purpose, is borrowing $2.4 trillion of Social Security money over the next ten years. Every penny of Social Security surplus, which is really not surplus because it is all going to be needed when the baby boomers retire. And under the President's plan, $2.4 trillion is borrowed, all of which has to be paid back and there is no plan to do it

Let's look at what's happening to the debt, because we've focused on deficits. This is what's happening to the gross debt of the country during this period, and it too is exploding even though the President promised us in 2001 he would have maximum pay down of the debt. Now, instead, what we see is the gross debt is exploding.

And what is alarming is where we are getting this money. Well, we've already seen we're taking $2.4 trillion from Social Security, but that's not the end of it. In addition, we're borrowing money from countries all across the globe. Over $500 billion from Japan, $150 billion from China, $69 billion from the Caribbean Banking Centers, $58 billion from Hong Kong. We're even borrowing money from South Korea. We're borrowing $43 billion already from South Korea. So that is a disturbing trend and it's got real world implications.

This article appeared in the *Washington Post* on January 26th. This quote I draw to the attention of my colleagues. The headline of the chart is "Economists worry about long-term effects of weak dollar and heavy U.S. borrowing." Here's an excerpt from the article: "Currency traders fretting over that dependency," the dependency they're talking about is all the money we're borrowing, " have been selling dollars fast and buying euros furiously. The fear is that foreigners will tire of financing America's appetites. Foreign investors will dump U.S. assets, especially stocks and bonds, sending financial markets plummeting. Interest rates will shoot up to entice them back. Heavily indebted Americans will not be able to keep up with rising interest payments. Inflation, bankruptcies and economic malaise will follow."

That is the risk that is being run with this fiscal policy, a fiscal policy of deficits and debt. And it is a policy of decline as well. We've already seen the dollar decline. Let's go to the next slide that shows already what's happened to the value of the dollar just in the last two years, a decline of 30 percent against the euro in that time.

Let me just turn now to an analysis from the President's own budget that looks at the long-term implications beyond just the ten-year budget window as to where this is all headed, because what it shows is that although we have record deficits now, we haven't seen anything yet if the President's spending proposals and the President's tax proposals are adopted, because what it shows is right beyond the budget window, when the baby boomers retire and the full effect of the tax cuts are phased in, the deficits absolutely explode from these already record levels.

And it's not just the President's own budget telling us this. The Congressional Budget Office is saying the same thing. A CBO report on the long-term budget outlook shows the tax cuts proposed by the President, coupled with his spending plan, absolutely explode the deficit in the out years in ways we have not seen in our history.

And all of this is happening at the worst possible time, right before the baby boomers retire. We should be taking this moment in time to pay down the debt, pre-pay the liability to prepare for what's to come. But instead we are squandering this moment and leaving us very vulnerable to what's to come. This chart shows the green part of the bar is the Social Security trust fund, the blue the Medicare Trust Fund, the red the tax cuts both those already passed and those proposed by the President. And what this shows is when the trust funds go cash negative, at that very time, the cost of the tax cuts explode, driving us right over the cliff into deficits and debt unlike anything we have ever seen.

What are the implications? This is what the Concord Coalition, the Center on Budget and Policy Priorities, and the Committee for Economic Development have warned us what it all means: "To get a sense of the magnitude of the deficits the nation is likely to face without a change in policies, consider that even with the full economic recovery that CBO forecasts, and a decade of economic growth, balancing the budget by the end of the coming decade would entail such radical steps as: raising individual and corporate income taxes by 27 percent; or eliminating Medicare entirely; or cutting Social Security benefits by 60 percent; or shutting down three-fourths of the Defense Department; or cutting all expenditures other than Social Security, Medicare, Defense, Homeland Security and interest payments on the debt, including cutting all expenditures for education, transportation, housing, the environment, law enforcement, national parks, research on diseases and the rest -- by 40 percent. Beyond the next decade, the trade-offs become even more difficult.

Let me just conclude by showing what the spending relationship has been over an extended period of time and the revenue. Total federal spending at the end of 2000 was down to 18.4 percent of GDP, the lowest it had been in 50 years. Now we have seen a significant bump up as defense expenditures have increased, homeland security expenditures have increased, and the response to September 11th, in terms of rebuilding New York and the airline bailout are factored in. In fact, 91 percent of the increase in spending occurred in just those three areas. But still, we see spending substantially below where it was in the 80's and 90's as a percentage of GDP.

Now let's just conclude by looking at the revenue side of the picture, because that's what is most dramatic. The revenue side of the picture has collapsed. And revenue this year will be at its lowest level as a percentage of GDP since 1950, 15.8 percent of GDP.

Let me just conclude by saying the President's answer is to dig this hole even deeper, more tax cuts, about a trillion and a half of additional tax cuts, more spending, more deficits, more debt, all at the worst possible time. That to me is an utterly reckless course that must be reversed. And this will be our first opportunity to do it. I very much look forward to the Chairman's mark.