Transcript of Floor Statement by Senator Kent Conrad (D-ND)
on Save Social Security First Amendment to FY 2006 Senate Budget Resolution
March 15, 2005

The amendment that I send to the desk is the "Save Social Security First" amendment. It acknowledges that we have a challenge in Social Security. Clearly we do. It says what we ought to do is make Social Security a priority.

It says simply this: Before we have any new tax cut, or any new mandatory spending, it should be the policy of the Congress to restore solvency to Social Security. What this amendment says is no new tax cuts, no new mandatory spending, unless they are paid for, or they can achieve a supermajority vote in this Chamber.

It is a very simple amendment. It is about priorities. What is most important? Is it more important to have new spending in other programs? This amendment says no. The priority ought to be to restore solvency in Social Security. Is it a priority to have more tax cuts? This amendment says no. The priority ought to be to restore solvency in Social Security.

This amendment says simply no new mandatory spending or new no tax cuts until Social Security is solvent, unless the tax cuts for the new spending are paid for or unless they can get a supermajority vote in the Senate. You could have new spending or new tax cuts if, No. 1, you pay for them or, No. 2, you are able to get a majority vote. If you can't do those things, you can't have new tax cuts and you can't have new mandatory spending unless we achieve solvency in Social Security.

For all those who have given speeches all across the country and all across their States about Social Security first, this is a chance to put their votes where their speeches are. This is a chance to say, yes. The priority ought to be restoring solvency to Social Security. That ought to come ahead of tax cuts, and that ought to come ahead of new spending unless those things are paid for. If you pay for new tax cuts or pay for new spending, that is fine. If you can get a supermajority vote, that is fine. Otherwise, we have to restore the solvency of Social Security first.

There is no question we have a problem in Social Security. There is no question at all. Why? Because the Congressional Budget Office tells us that in 2020 the Social Security trust fund will go cash negative; in 2052, Social Security will only be able to meet 78 percent of its obligations.

Clearly, there is a problem. The big driver to the challenge of Social Security is the demographics of the country. Here is what happened. We have about 40 million who are eligible for Social Security now. By 2050, there will be twice as many. That is the demographic challenge that we face. It is not just Social Security. We face it in Medicare, we face it in Medicaid, and, in fact, the shortfall in Medicare is eight times the shortfall in Social Security.

When we look at the President's budget plan, what we find is instead of making it better he makes it all much worse.

Why do I say that? Because this chart demonstrates clearly where this is all headed. The green bars are the Social Security trust fund. The blue bars are the Medicare trust fund. The red bars are the President's tax cuts, both those that have been implemented and those he has proposed.

This shows very clearly that right now we are in the sweet spot. Right now we are getting more revenue from the trust funds than we are paying out. But as those trust funds go cash negative, the cost of the President's tax cuts explodes. The result is the country goes right over the fiscal cliff. We are running record deficits now. We haven't seen anything yet.

Under the President's plan, the deficits and the debt explode, and they explode right when the trust funds go cash negative. The President has indicated that he believes there is a 75-year shortfall in Social Security of $3.7 trillion. That is based, by the way, on a very pessimistic forecast of economic growth. That is based on a forecast that says economic growth for the next 75 years will be 1.8 percent or 1.9 percent.

Economic growth in the previous 75 years has averaged 3.4 percent. This whole forecast of Social Security is a very pessimistic forecast. I must say I have great doubt about the accuracy of the underlying forecast. But based on that forecast, the President says there is this looming shortfall in Social Security.

Interestingly enough, the cost of his tax cuts over that same period are three times as much -- $11.6 trillion compared to the $3.7 trillion shortfall he says exists in Social Security.

When the President sent up his 2002 budget, he told us at the time: "None of the Social Security surplus will be used to fund other spending initiatives or tax relief." That is what he said.

That is not what his budget says. His budget does precisely what he said he would not do. His budget takes every penny of Social Security money that is available to pay and uses it to pay for other things -- $2.5 trillion over the next 10 years.

Just follow this for a moment. The President, on the one hand, says Social Security is short $3.7 trillion over the next 75 years, but he sends us a budget that takes $2.5 trillion of Social Security money and uses it to pay for other things. How is that consistent? How does that make any sense, on the one hand, for the President to say we are short $3.7 trillion in Social Security over the next 75 years, and then he sends us a budget that takes $2.5 trillion of Social Security money and uses it to pay for other things? That is a contradiction of staggering proportion.

Interestingly enough, I asked my staff to figure out how much money the President is taking out of Social Security over the next 10 years and then tell me how much his tax cuts are over that same period. Interestingly enough, here is what they came back with: The President is going to take $2.5 trillion of Social Security money over the next 10 years to pay for other things. The cost of his tax cuts over the same period are almost the identical amount, $2.6 trillion.

The flaws of the President's Social Security plan are very evident, if you study the details. With the Nation already in record deficit, with the debt skyrocketing, the President says: OK, Social Security is short of money. So in my budget I am going to take even more Social Security money and use it to pay for other things, despite having promised in 2002 not to do that.

Then the President says, in addition, I want to take even more money out of Social Security to establish private accounts. How much? Over the next 10 years the President's plan takes an additional $754 billion out of Social Security, in addition to the $2.5 trillion he is taking from his budget to pay for other things. He takes another $754 billion to establish private accounts. But that is just the tip of the iceberg, because the 20-year cost of the President's plan is $4.4 trillion. Not million, not billion, trillion: $4.4 trillion.

Where does the President propose getting that money? He proposes to borrow it. On top of our already record deficits and debt, the President proposes borrowing another $4 trillion.

Now, the problem with all of that, of course, is, where is he getting the money? Where is he borrowing it? Increasingly, he is borrowing it from foreign countries. The foreign holdings of our debt have gone up almost 100 percent in just the first 3 years of this administration. And it is rising very rapidly as we go forward. The President says, Go out and borrow even more.

Here is what is happening to the publicly held debt of the United States under the President's policies. When he came into office we were $3.3 trillion in debt. By 2015, under the President's policies he will have nearly tripled the debt to $9.4 trillion.

Social Security is perhaps the most important legislative enactment of our time. Social Security has lifted people out of poverty. Two thirds of retirees rely on Social Security for more than half of their income. Let me repeat that: Two thirds of retirees rely on Social Security for more than half of their income; 31 percent get at least 90 percent of their income from Social Security.

I will never forget going to a community forum in a small rural town in North Dakota. An elderly woman was in the front row. She had a little note pad. On that note pad she had written out her budget for the month. That woman had about $800 of income a month. That was her only income. She had scrawled in a shaky hand on that note pad where the money went. She had her rent; she had her prescription drugs; she had her food costs. After she was done with rent, utilities, prescription drugs and food, she had no money left.

She said to me, Senator, what will I do if my prescription drug costs go up even more? She was paying, as I recall, out of her roughly $800 a month in income about $200 a month in prescription drugs. She was paying, as I recall, $250 a month in rent. She said, What do I do if my prescription drugs become even more costly?

She was in that category of the 31 percent that get at least 90 percent of their income

from Social Security; 33 percent get 50 to 89 percent of their income from Social Security; 36 percent
get less than 50 percent of their income. So almost two-thirds rely on Social Security for more than half their income and almost a third get 90 percent of their income, or more, from Social Security.

This is not something we can be gambling with. For those people, Social Security is their lifeline. We know that nearly 50 percent of beneficiaries would be in poverty without Social Security. With Social Security, 9 percent of seniors live in poverty. This is according to the Social Security Administration. Without Social Security, they estimate 48 percent of seniors would live in poverty.

I want to go back to the question of the whole basis for this discussion and debate on Social Security, because it is all based on assumptions. It is all based on forecasts. And the forecast is for economic growth of 1.8 to 1.9 percent for the next 75 years. Economic growth over the previous 75 years was much higher than that, 3.4 percent. The components of the economic growth are two: one is productivity and the second component is new entrants to the workforce. The reason they are forecasting such lower economic growth for the future is because
they look at the demographics of the country and they say we are going to have a real slowdown in new entrants to the workforce.

The other component of economic growth is productivity, and they are assuming productivity will grow at a rate of only 1.6 percent for the next 75 years. That is a very pessimistic forecast. It is much lower than the productivity gains we have been getting over the last 15 years.

The green bars on this chart show the level of productivity growth we have been achieving over the last 15 years. From 1990 to 1994 we were at 2 percent. From 1995 to 1999 we were about 2.5 percent. And from 2000 to 2004 we were over 3.5 percent productivity growth. But the whole basis for these forecasts is that somehow these people that write these forecasts say the productivity growth in the country is going to plunge to 1.6 percent. I don't believe that. I think that is overly pessimistic.

I believe part of this Social Security debate is based on a false premise, a premise that the economic growth of the country is going to collapse from what it has been over the last 75 years to a rate of half as much.

With that said, there still is a challenge in Social Security. Even if these forecasts are all right, there is still a problem. The problem is largely one of demographics. The President's plan is to dramatically cut the benefits. In fact, he would cut the benefits by moving from wage indexing to price indexing. Out in the future that would reduce benefits from what are currently provided by 46 percent.

Now, the President says, yes, that is true; I do have a plan that cuts the benefits dramatically. But, he says, I also have a plan to be able to set aside in private accounts, personal accounts or individual accounts, money that could be invested in the stock market. That money would be in your name. That money would be able to grow perhaps more rapidly. That is the bet that he is making.

The problem with the President's plan, one of the problems, aside from being financed by massive debt, is the way these private accounts function. These private accounts function in a little different way than I have heard the President describe them. Under the President's plan, there is something called an offset. Let me explain how that works.

Under the President's plan, if you set aside $1,000 for 40 years and you have 6 1/2 percent rates of return during that period, you would have $92,000 in your account at the end of the 40 years. Let me repeat that: If you put aside $1,000 a year for 40 years and you got a 6.5 percent rate of return every year for those 40 years, you would have $92,000 in your account. That sounds pretty good. Under the President's description, that is your money and no one can take it away. That is true as far as the prescription goes.

But what the President has been leaving out is that his plan assumes that the money to establish your account was loaned to you by the Social Security trust fund and they expect to be paid back with interest. I have not heard the President ever describe his plan in quite that way, but that is how it works. Yes, you have this $92,000 in your account, but they are expecting you to pay back to the trust fund all of the money they theoretically loaned you, plus interest. So at the end of the 40 years, you would owe back $78,000 under the President's plan.

Now, you do not owe it back out of your individual account. Here is the twist to it. They assume they have loaned you this money for your private account and they expect to be paid back. But they don't expect to be paid back out of your private account. Instead, they expect to have a further reduction in your already reduced traditional Social Security benefit. So you have already taken a reduction in that account, supposedly made up for by these individual accounts, but a big chunk of what you have in your individual account you have to pay back. And you pay it back not out of your individual account but you pay it back out of your already reduced Social Security benefit.

Under this scenario, at least you would be ahead of the game. That is assuming you earned a 6.5 percent rate of return on your private account. But what happens if you do not earn a 6.5 percent rate of return on your private account? What happens then? Then the story is even less appealing. Because under that scenario you would have $64,000 in your account -- not $92,000 – but you would still owe back $78,000.

For those who are listening to this in somewhat incredulous disbelief, I am not making this up. This is how the President's plan works. I have had his people spend hours with me. I have asked them about it, I have quizzed them about it, and they have assured me this is how it works. Yes, you put money into your individual account. Yes, hopefully you have a rate of return on it, but -- and it is a big "but" -- you owe the money back because theoretically that $1,000 a year was loaned to you from the Social Security trust fund and they want it back. And they want it back with interest.

So, if you set aside $1,000 a year for 40 years and you only earn 5 percent on the money, you would have $64,000 in your account but you would owe back $78,000 -- the $1,000 a year plus a 5.8 percent rate of return on the money they loaned you. That is a 3 percent real rate of return plus inflation. The Social Security Administration calculates that at 5.8 percent, you would owe back on the $1,000 a year they gave to you. So, under this scenario, if you only earn 5 percent in your individual account, you owe back more than you have in your account. And again, you do not pay back out of your individual accounts, although they assume that is where the money was loaned to you; you pay back by taking an additional reduction out of your already reduced Social Security benefit.

When people find out that is the way this works -- I have had dozens of people who were very interested in this concept of the President. When they find out how this thing really works, they become less interested.

Let me just conclude as I began. I am offering an amendment which is at the desk that says, simply, let's put Social Security first. Let's say no new mandatory spending and no new tax cuts until Social Security is solvent, unless those who want more tax cuts or more new spending pay for them or unless they can get a supermajority vote here in the Senate. If they do not pay for them, if they cannot muster a supermajority, then let's not have new mandatory spending or new tax cuts until Social Security is solvent. It is a very simple amendment that says, what are the priorities of the country? Are the priorities new tax cuts that are not paid for or new spending that is not paid for or is the priority to restore the solvency of the Social Security fund?

I thank the Chair and yield the floor.