

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Press Conference on CBO's January Budget and Economic Outlook
January 24, 2007**

Opening Statement

Let's be very clear. Nothing in CBO's new numbers changes the hard fact that we are on a fiscal course that is completely unsustainable.

The head of the Federal Reserve has testified in open hearing before the Senate Budget Committee that our current course is absolutely unsustainable and fundamentally threatens our long-term economic security. The head of the Government Accountability Office, David Walker, has testified in open hearing before the Senate Budget Committee that we face a fiscal train wreck. That is the reality of our fiscal condition.

As CBO says, and I quote, "The favorable outlook suggested by those 10-year projections, however, does not indicate a substantial change in the nation's long-term budgetary challenges.... Either a substantial reduction in the growth of spending, a significant increase in tax revenues relative to the size of the economy, or some combination of spending and revenue changes will be necessary to promote the nation's long-term fiscal stability."

The hard reality is this is very sobering.

The increase in the debt for this year is far greater than the estimated \$218 billion deficit – that is the deficit CBO has put forward, the \$172 billion plus the omitted costs. What are the omitted costs? Primarily war costs. As you know, none of the President's supplemental that we are told to expect momentarily is included in CBO's numbers. And of course there is nothing in these numbers to reflect the money that will be necessary to address the AMT problem. So once you adjust for those omitted costs, we get a deficit for this year of \$218 billion. But the increase in the debt will be more than \$510 billion.

In terms of the 10-year estimate, as you know, CBO is constrained. They are restricted in what they can include. They are restricted by law from what they can include in these 10-year estimates.

They don't have the cost of making the President's tax cuts permanent. That's an additional \$2.3 trillion over the 10-year period. They don't have the cost of alternative minimum tax reform. That's an additional \$1 trillion. They don't have the full cost of the President's defense buildup, another \$267 billion. They don't have full funding for the ongoing war costs, another \$857 billion. They don't have the associated debt service cost, an additional almost \$1 trillion. They don't have removing the extension of the 2007 supplementals, which is on the favorable side of the ledger by \$920 billion. You put that all together and that's an additional \$4.6 trillion of cost that is not in their estimates. I am not faulting them because they are restricted, as you all know, on how they make these estimates.

To put it all back in, here's what you see. The long-term budget outlook continues to deteriorate, and this is just the beginning because as the baby boom generation continues to retire, these numbers get even worse.

The result is that we are building a wall of debt that is really quite striking. The debt at the end of this year will be, we now estimate, \$9 trillion. And if these omitted costs are added back in, the debt will soar to over \$12 trillion by 2012.

Economic growth for 2006 and 2007 is actually weaker in this CBO update than it was in the August 2006 update. You can see for fiscal 2006, they reduced their forecast for growth from 3.5 percent to 3.3 percent. For 2007, they have reduced their forecast of economic growth from 3 percent to 2.4 percent. So, the forecast for economic growth has actually been reduced in this forecast.

You have heard some of our colleagues say that there's been a dramatic increase in revenue. Well, they are right for the last three years. But if you look back to the year 2000, you see quite a different reality emerge. It is only now that we are getting back to the revenue base, the real revenue base adjusted for inflation, that we had all the way back in 2000. The fact is that revenue has been stagnant during this entire period, eight years when we get to the end of this year. The revenue base of the country has basically been stagnant in inflation adjusted terms.

In fact, real revenues are lagging the typical recovery, even with the recent revenue gains. In fact, we are now \$127 billion short of the typical recovery. We've gone back and looked at all the recoveries since World War II, and in this recovery, we are running \$127 billion behind the typical recovery, the average for the nine major recoveries since World War II.

Let me just conclude with the words of the Comptroller General of the United States, David Walker, who is the chief adviser to the Congress of the United States with respect to these issues. He said, and I quote, "We are on an imprudent and unsustainable long-term fiscal path, and while the short-term deficits have improved in recent years, the long term is getting worse every second of every minute of every day and the time for action is now."

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Question: President Bush yesterday had a call for a balanced budget by 2012. Both of you have met with members of this administration several times in the past couple of months. Do you think there is a realistic chance of having a 1997-style deal where both sides come together, get something done, and what would it take to get to that point?

Conrad Answer:

First of all we're hopeful that that would occur. It is a little hard to see how there could be a meeting of the minds. When you adjust the CBO forecast for the proposals of the President, you can see they just drive us right over the cliff in terms of massive growth of the debt. And this is at the worst possible time before the baby boomers retire.

As you know, a group of us have been trying to put together a longer term effort as well, one that would be bipartisan in nature with the charge to come back with a plan to deal with our long-term imbalances. I remain hopeful that we will engage in that process and begin as soon as possible. We'll just have to see. First thing we have to see is the President's budget.

Question: Mr Hoyer has said that he's met with Treasury Secretary Paulson two or three times. I think each of you has mentioned that you have met with them. You probably can't disclose what you talked about. But do you get any indication that he is serious, is he coming up here and talking specifics or just general context about working together?

Conrad Answer:

Let me just say I have had an extended lunch with Secretary Paulson. I have talked to him since that time. What I hear from him are the right words – that everything is on the table, that they are prepared for a serious negotiation. But unfortunately, then we had the Vice President of the United States on one of the major networks last weekend. And, when he was asked are you prepared to change course in some way, he said no. Then the reporter said well your Secretary of Treasury has said everything would be on the table, and basically his answer was well that's what we're saying to get them to the table. That is not the way to start this discussion.

And unfortunately, unless there is an alternative message sent from this administration, and since the last message was sent by the Vice President of the United States, we're going to need a message from the President of the United States that sets a different tone, that indicates this is a serious effort to be bipartisan.

Look, these problems are so big, and so serious, the only conceivable way that they are addressed when you have the President of one party, Congress in control of the other party, is if both sides, and I emphasize both sides, are prepared to give up their fixed positions. If we fail to do that, we can't solve the problem. So we await from this administration a serious indication that they are prepared to sit at the table with everything on the table and that they are prepared to compromise as we must be.

Question: When the President submits his budget, he gets to sort of assume it all passes to meet the goal of balance. You guys, on the other hand, have to pass it with Democratic votes through both chambers where you have relatively narrow control, and you can't seem to draw a budget that comes to balance without reversing some of Bush's tax cuts. Can a plan like that pass?

Conrad Answer:

Let me just say, you know that both Chairman Spratt and I have indicated some months ago our goal was to present balanced budgets by 2012. We will endeavor to do that. Obviously that effort has been made much more difficult by the indication that the White House will send up another supplemental for the war that is in the range of \$100 billion. As you know, that is over and above the \$70 billion that is already in the budget. So, that is a very serious matter.

That has not only the effect of that \$100 billion, but the bow wave effect of that money going forward. You're talking hundreds of billions of dollars of additional expenditure for the wars in Iraq and Afghanistan. That has a very significant impact.

Let me say on the revenue side of the equation. It is very clear to me there needs to be more revenue. I don't know how anyone could reach any other conclusion. We can't pay our bills now. That's before the baby boom generation has retired. That's before these additional war costs. That's before any fix to the alternative minimum tax. And we've outlined for you the extraordinary cost of each of those matters. When we say we need more revenue, the first place we ought to look – before any tax increase of any kind – is to the tax gap, which is now estimated at \$350 billion a year. That's the difference between what is owed and what is paid. We had a several hour hearing on that earlier this week. And you know it is just unfair. The vast majority of people and companies pay what they owe, but a small and growing number don't. And there is an enormous amount of revenue there and that has to be captured in some significant way.

Question: Could you broadly – Portman today was chatting about their plan, they thought they would be able to extend the tax cuts, they'd have to have some entitlement reforms, probably higher than they proposed last year, non-defense discretionary would again be frozen or near frozen... where are you going to have to cut, where will you have to pare back, will you have an entitlement reform package, will you have to pare back on tax cuts, just broadly?

Conrad Answer:

Let me say we have not yet written a budget, and we just got CBO's numbers today. We now have to await the President's budget. Then we'll write a budget. But let me just say in general terms, clearly any plan is going to have to be disciplined on the spending side of the equation. We're also going to have, I believe, more revenue. As I have indicated the first place to look is not a tax increase, but to collect some of this tax gap which has now grown so dramatically, \$350 billion a year – money that is owed, but not being paid.

I think longer term, clearly the entitlements have to be part of our focus. And let me just suggest one area that I have talked about repeatedly to my colleagues, and perhaps to you. We know in Medicare roughly five percent of the beneficiaries are using 50 percent of the money. They are the chronically ill. We have done analysis that shows if you did a better job of managing those cases because they are the chronically ill – people with multiple serious conditions – that you could not only save money, dramatically reduce hospitalization, but get better health care outcomes. And people say how can that possibly be. How can you get better health care and save money? The reason is these peoples' cases are not being well coordinated. As a result, you have many doctors involved, often the right hand doesn't know what the left hand is doing, they are taking many too many prescription drugs, they are being subjected to multiple, repetitive tests and the result is much more hospitalization than should otherwise occur, much higher cost and worse health care outcomes. There is a lot of low hanging fruit here that could be pursued and save money, and get better health care outcomes.

Question: Senator Conrad, you've talked about the AMT that it should be part of the deficit projections, offsetting it --is it your expectation that Democrats will be able to at least patch AMT with offsets this year, or basically you will override paygo rules and just have a patch like it's been the past several years that isn't paid for?

Conrad Answer:

We don't want to override paygo. As I made clear in the hearing the other day, paygo is very important to helping reestablish budget discipline here. We have not reached conclusion on these matters. We know the AMT needs to be addressed. We know that if you are giving a really accurate report to the American people of our fiscal condition, you have to include all of these things. You have to include the President's plan to make the tax cuts permanent -- that adds over \$2 trillion of cost over 10 years. You have to address alternative minimum tax -- that's \$1 trillion. You have to address the war cost -- that approaches \$1 trillion. I think if we are going to be honest with the American people you have to lay out all these things, and then we have to begin the very tough job of putting together a plan that takes us away from the chasm of deficit and debt.

Question: Given the growth in war cost over the next few years, is there anyway that you are proposing to reign those costs in or to reduce the cost of the Defense budget?

Conrad Answer:

First thing we have to do is lay out what the Congressional Budget Office tells us is a scenario that has the potential to come true. That's what is laid out here. This is a scenario that they have developed in which they give what they think is a realistic projection of not only the additional war cost, but the additional defense buildup the President is proposing. You can see that when you add the two that's well over \$1 trillion for the next 10 years. We will have to get through the hearings process, through discussions with our colleagues, through conversations with those who have special responsibility for defense, that is the authorizing committee and the appropriations committee, what is the realistic outlook for a budget.

Question: Do you have a sense of how you are going to balance your goal of balancing the budget, the goal of some Members and advocacy groups to increase domestic spending on health and education?

Conrad Answer:

I have said to my caucus in terms of domestic priorities, clearly the number one obligation is the protection of this nation. That is our number one obligation. Next is, to me, education because education is the future. If we're not the best educated, best workforce in the world, we will not for long be the strongest economic power in the world. Then, on health care, SCHIP, which requires reauthorization and extension, has to be a priority because that is providing health care coverage to children in our country.

Thank you.