Floor Statement by Senator Kent Conrad, D-ND,
Responding to Senator Gregg's Remarks on Pay-Go
January 9, 2007

I come to the Senate to respond to my colleague, the Senator from New Hampshire, with respect to the issue of pay-go. People deserve to hear the other side of the story.

I say to my colleague from New Hampshire, who has left the Senate floor, that is one of the most creative presentations on pay-go I have ever heard. And very little of it matches the description I would give of pay-go.

The first thing I point out, the Senator from New Hampshire used to be a strong supporter of pay-go. In fact, this is what he said in 2002, four and a half years ago:
"The second budget discipline, which is pay-go, essentially says if you are going to add a new entitlement program or if you are going to cut taxes during a period, especially of deficits, you must offset that event so that it becomes a budget-neutral event that also lapses.
"...If we do not do this, if we do not put back in place caps and pay-go mechanisms, we will have no budget discipline in this Congress, and, as a result, will dramatically aggravate the deficit which, of course, impacts important issues, but especially impacts Social Security."

He was right. Now we have seen a dramatic transformation in his position. He was exactly right.

Look at the evidence. He said it would aggravate the deficits if we did not have pay-go. We can now look at the record. We have now been six years without effective pay-go discipline in this Senate. What has happened? The debt of the country has exploded. The debt is now $8.5 trillion and it is headed for $11.6 trillion under the budget plan our colleagues on the side opposite offered in this Senate.

They did exactly what he predicted almost five years ago without pay-go discipline. Deficits and debt have exploded, and increasingly this debt is being financed from abroad. In fact, it took 42 Presidents -- all these Presidents pictured here -- 224 years to run up $1 trillion of U.S. debt held abroad. This President has more than doubled that amount in just five years.

The absence of pay-go or effective pay-go is not the sole reason for this, but it is one reason. The Senator from New Hampshire himself predicted that back in 2002.

He said that pay-go requires a tax increase. Wrong. Pay-go doesn't require a tax increase. What pay-go does is say this: If you want new tax cuts, you have to pay for them or get a supermajority vote.

The Senator from New Hampshire then says, there is no spending discipline. Wrong again, because pay-go says you can't have new mandatory spending. Remember, mandatory spending is well over half of the budget: Medicare, Social Security -- those are examples of mandatory spending. And pay-go says you can't have new mandatory spending unless you pay for it, or you get a supermajority vote.

The Senator from New Hampshire said to us that pay-go is a stalking-horse for tax increases. That is not true. Pay-go is a stalking-horse for budget discipline. He himself said as much five years ago.

The Republicans -- at least some now -- say that tax cuts are treated unequally because they do not continue indefinitely in the baseline. Why is that? It is because our friends on the other side sunset the tax cuts in order to jam more of them into a period of time.

Now they say, after they are the ones who constructed these sunsets, gee, there are sunsets on these tax cuts. Guess what? They are the architects of the sunsets. They are the ones who wrote the sunset provisions into the law. If they had not used reconciliation -- which is a large word that simply means special provisions here to avoid extended debate -- to avoid Senators' right to amend to put pressure on the Senate to act in a very short period of time, if they had not used those special provisions then, the tax cuts would be part of the baseline on an ongoing basis. They are hoisted on their own petard. That is the reality of what is occurring.

Now, the Senator from New Hampshire said there has been an explosion of revenue under their watch. No, there hasn't been. Last year we got back to the revenue base we had in 2000. It has taken all this time to get back to the revenue base we had then.

What the Senator is talking about is shown on this chart. Here are the real revenues of the United States, and we can see there has been virtually no growth since 2000. In 2000 we had just over $2 trillion of revenue. They put in their tax cuts in 2001 and revenue declined. It declined more the next year. It declined more the next year. And it stayed down the fourth year. Only in 2005 did we start to get close, and only in 2006 did we get back to the revenue base we had in 2000.

Now, just because they cut the revenue base did not stop them from increasing spending. They increased spending 40 percent during this same period. The result was, as I have shown in the previous charts, an explosion of deficits, an explosion of debt.

Here is what happened to the deficits. Here they are. They inherited budget surpluses. In 2002, we were back in red ink; in 2003, record deficits; in 2004, a new record; in 2005, one of the three worst deficits in the history of the country; in 2006, again, huge deficits. And here we are in 2007. This is a projection at about the same level as last year, actually somewhat worse.

But that doesn't even tell the story because, unfortunately, the buildup of the debt is far greater than the size of the deficit.

This was the stated deficit for last year, $248 billion. But the debt grew by $546 billion. We will never hear the word "debt" leave the lips of our friends on the other side of the aisle. We will never hear the word "debt" leave the lips of our President. Because they know these facts and I know these facts. The "debt" is growing much faster than the size of the deficit. It is the debt that is the threat.

As we have indicated, increasingly we are borrowing it from abroad. Last year we borrowed 65 percent of all the money that was borrowed by countries in the world. The next biggest borrower was Spain, at one-tenth as much as we borrowed.

The hard reality is, we are on a collision course because none of this adds up. The result is, we borrowed over $600 billion from Japan. We borrowed over $300 billion from China. We borrowed over $200 billion from the United Kingdom. We have even now borrowed $50 billion from our neighbors to the north in Canada. In fact, we now owe Mexico over $40 billion.

Look, their fiscal prescription has failed -- failed completely -- and the question is, Do we change course? I believe we must. Part of changing course is to go back to the pay-go discipline we had in previous years. That pay-go discipline -- and I want to repeat -- says this very clearly: If you want new tax cuts, you have to pay for them. If you want new mandatory spending, you have to pay for it. If you do not pay for it, in either case you have to get a supermajority vote.

Let me just make clear on middle-class tax cuts, I believe we ought to pay for them to extend them, but even if you did not, there is no question you would command a supermajority vote on the floor of the Senate. There is no question that you would get 60 votes for the 10-percent bracket, 60 votes for childcare credits, 60 votes to end the marriage penalty. We know you would command 60 votes on any one of those. I personally think we ought to pay for it. But pay-go does not require that you pay for it if you can command a supermajority. What our friends on the other side are worried about are the outsized tax cuts for the wealthiest among us because they believe, and perhaps rightly, that you could not get 60 votes to extend those, which means you would have to pay for them, which, in the context of the growth of deficit and debt, probably makes perfect sense.

What is most interesting is the change in my colleague's position because, as I indicated, five years ago these were his statements. I will end as I began. Five years ago my colleague said: “The second budget discipline, which is pay-go, essentially says if you are going to add a new entitlement program or you are going to cut taxes during a period, especially of deficits, you must offset that event...”

That is what pay-go does. That is exactly what he said five years ago. He was right then. He is wrong now because he has changed his position. He said then:
“...If we do not do this, if we do not put back in place caps and pay-go mechanisms, we will have no budget discipline in this Congress....”

He went on to say:
“...and, as a result, we will dramatically aggravate the deficit which, of course, impacts a lot of important issues, but especially impacts Social Security.”

The tragedy is, they gutted pay-go. They gutted it. And the result is precisely what he predicted at the time. The deficits and the debt have exploded.

What the House has tried to do and what we will try to do here is restore some basic budget discipline. Pay-go is one part of that. It is not the only part. It is not the salvation to our budget woes, but it is a tool that will help. It helped in the 1990s. It will help now. It does not require tax increases. That is just a false statement. It does not require tax increases. It says if you want new tax cuts, you have to pay for them or get a supermajority vote.

He says there are no spending restraints. Wrong again. In pay-go, it says very clearly that you cannot have new mandatory spending unless you offset it. And if you cannot offset it, you have to get a supermajority vote. That is the kind of budget discipline we need. That is the kind of budget discipline we have had in the past, and it led us from major deficits -- in fact, record deficits at the time -- to record surpluses.

To say pay-go is a stalking-horse for tax increases is just false. Pay-go is a budget process tool that is designed to help bring some discipline back to this body, to keep us from running up this massive debt. If you think about it, increasingly we are financing these deficits and debt abroad. Fifty-two percent of our debt now is being financed abroad. As a result, we have doubled foreign holders of our debt in just 5 years. That is an utterly unsustainable course.

What could it mean? Well, if these countries which are now advancing us hundreds of billions of dollars decided to diversify out of dollar-denominated securities, what would we have to do? We would have to raise interest rates in order to attract the capital to float this boat. That is what we would have to do. That would have very serious consequences for our economy. That is why we cannot continue on this course.

Pay-go is one part of the solution to these problems. It is only one part. I would not even suggest it is the major part. What is really lacking around here is will. What is really lacking around here is telling the American people the truth about our fiscal condition, and only if we tell them the truth will they respond with the urgency that circumstances require.

I very much hope we are going to be truth tellers in this Congress and we are going to go to the American people and be frank with them about this buildup of debt and the risks it creates for our country and the fundamental challenge it presents to our long-term economic security.

The one place I agree entirely with the Senator from New Hampshire is that the long-term entitlement programs must be reformed because we face a demographic tsunami: the retirement of the baby boom generation. Make no mistake, it is going to change everything. This is fundamentally different from anything we have seen before. And this is not a projection because the baby boomers have been born. They are out there. They are alive today. They are going to retire. They are going to be eligible for Social Security and Medicare.

The hard reality is, we cannot foot the bill for all the promises that have been made by past Congresses. The Senator from New Hampshire is dead-on on that issue, and he and I and others are going to work our very best together to try to address these long-term challenges.

I thank the Chair and yield the floor.