Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing
on CBO's January Budget and Economic Outlook
January 25, 2007

Opening Statement

I want to welcome everyone to our hearing today on the Congressional Budget Office's January Budget and Economic Outlook. I want to particularly welcome our new director of the Congressional Budget Office, Dr. Peter Orszag.

We are delighted that Dr. Orszag has taken this position. Dr. Orszag is a distinguished economist and one of the most prolific writers in the economic field. He has dealt with almost all of the major issues that are facing us as significant challenges in the years ahead. I am also especially pleased to note that he was a very successful businessman, and brings those skills to the job as well.

We also want to recognize Dr. Marron, who was the Acting Director. We are especially pleased that we understand that you will be staying, and we are delighted by that. We thank you for your service as well.

We have this hearing to review CBO's Outlook. I have had a chance now to review CBO's report, which was released yesterday. I think it is very important for us to say there is nothing in this report which alters the fact that our nation's long-term fiscal condition is completely unsustainable

It is important to remember that CBO is required to assume a continuation of current law and is not allowed to add in the cost of likely policy changes. So, this is no criticism of CBO. They are constrained by the requirements under which they operate.

Looking just at 2007, CBO's deficit estimate understates the shortfall because it doesn't account for the $100 billion war supplemental President Bush is expected to send to us, nor does it account for the cost of fixing the alternative minimum tax. Again, this is not any fault of CBO's – this is the way they are required to do things. They are required to base their assessments on current law, without respect to policy changes that might occur.

Let me put up the first slide, and we'll try to go through this quickly. While CBO estimates, with omitted costs, that the deficit will fall to $218 billion, that number tells only half of the story. Let me indicate the $218 billion is not their estimate. Their estimate is $172 billion. But when we add back what we see as omitted items -- the President's war supplemental that has not come up here yet, the need to fix alternative minimum tax – we come to a deficit of $218 billion. But that significantly understates the red ink, because the debt will increase by $510 billion during this year.

The ten-year baseline projection by CBO understates actual deficits, because CBO, as I said, has to assume continuation of current law. We can get a more realistic picture when we put back adjustments for the following items:

- we add in the cost of the President's proposal to make the tax cuts permanent - that is a cost over ten years of $2.3 trillion;
- we add in the cost of alternative minimum tax reform – that is a cost over ten years of over

$1 trillion;

- we add in the cost of the President's proposed defense buildup – that is a cost of around $260 billion;
- the ongoing war cost is almost $860 billion;
- we add in the associated cost of debt service on all of the above items – that is more than $900 billion;
- we remove the multi-year cost of extending the 2007 emergency funding.

And we then get a total adjustment of $4.6 trillion over the next ten years. And that $4.6 trillion is not to the good side. It is to the red ink side.

Once we have made these adjustments to CBO's baseline estimate, this is the picture we get of our long-term budget outlook. It shows that significant deficits continue throughout the next ten years – at a time we should be paying down debt to prepare for the coming retirement of the baby boom generation.

The reality is that we are facing a wall of debt. At the end of 2001, the year the President took office, gross debt was $5.8 trillion. Under CBO's adjusted baseline, we can see that gross debt will reach $9 trillion by the end of 2007. And if we continue with these policies, gross debt is projected now to soar to over $12 trillion by the end of 2012. I want to emphasize that is not CBO's estimate – that is our estimate taking the CBO number and adjusting it for these omitted costs.

The revenue improvement in CBO's report results from adjustments in CBO's calculations that have nothing to do with stronger economic growth. In fact, CBO's latest figures for economic growth in 2006 and 2007 are actually weaker than the agency predicted last August. Let me indicate for 2006 the forecast for economic growth was reduced from 3.5 percent to 3.3 percent. And looking ahead to this year, the previous forecast which estimated economic growth would be about 3 percent, now says economic growth would be 2.4 percent.

The revenue improvement that we see in this forecast must be considered in the context of the serious collapse in revenue that occurred after 2000. Real revenues – that is, adjusted for inflation – only recently exceeded their 2000 level. I know my colleague will want to talk about the last three years where we have had significant revenue growth, but that's after we saw significant revenue declines. We saw in 2000 we had revenue of just over $2 trillion. We only got back to that amount in real terms in 2006. So we have had revenue stagnation for six or seven years.

Now the estimate for this year is good growth. Unfortunately, when we compare this revenue growth to previous recoveries, we still see that this is lagging well behind the revenue growth we have seen in previous recoveries. In fact, if we look at the average of the nine previous business cycles, look at all the recoveries since World War II and compare revenue growth to each of those other recoveries, this recovery is running $127 billion short of the typical recovery.

In his recent testimony before the Senate Budget Committee, the head of Government Accountability Office, Comptroller General David Walker summed up our fiscal outlook as follows: "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."

Comptroller General Walker has it exactly right. And I am pleased to say on that issue, Senator Gregg and I are in agreement. Our long-term situation is unsustainable. We need to respond to it. We need to do it as quickly as we can.

Additional Comments

I think you have put it all in perspective, that in the short-term we have seen some improvement. The long-term really hasn't changed and it's a daunting picture. I know Senator Gregg has presented this to his caucus and before this Committee. I have presented it to my caucus. You know it is a hard thing to get people – I guess it is very deep in human nature, it's hard to get people to respond to something that is over the horizon, or down the road, or off in the future.

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I am very hopeful that we find a way, Democrats and Republicans, to come together to face up to this long-term challenge and to do it sooner rather than later. I think that is clearly in the national interest. Senator Gregg and I have been endeavoring to devise a process to address that.