Transcript of Remarks by Chairman Kent Conrad (D-ND)
at Senate Budget Committee Hearing on
President Bush's FY 2008 Budget and Revenue Proposals
with Treasury Secretary Henry Paulson
February 8, 2007

I apologize for being somewhat tardy in beginning this hearing. We try to start these hearings on time every morning. I think we have succeeded every morning, but we wanted to have an informal discussion with the Secretary and see if we couldn't have a constructive discussion about a way forward.

I want to welcome the Secretary to the Committee, and say that we have enjoyed our discussions with him since he's come into this office. We see him as a very constructive player and want to acknowledge that publicly.

Let me just begin by talking about the revenue. Secretary of Treasury, of course, has the preeminent responsibility in the administration on the revenue side of the equation.

You saw this the other day in the Finance Committee. It is true that we have had good revenue growth the last several years, but if one looks back on a comparison basis to 2000 – and these are real revenues adjusted for inflation – you see it took until 2006 to get back to the revenue we had in 2000. On the other hand, spending has gone up by 40 percent.

And the result of this combination – revenue down, spending up – has been to explode the deficit and the debt. We can see we have had an increase of the debt from $5.8 trillion at the end of the first year of this administration to $9 trillion projected at the end of this year, which is exactly what you would expect. If you can't pay your bills in the first place, and you cut revenue and raise spending, the imbalances grow.

One of the results of this is that we have become increasingly dependent on what I call "the kindness of strangers." We are increasingly borrowing this money from abroad. As this chart shows, it took 42 Presidents 224 years to run up a trillion dollars of U.S. debt held abroad. That has now more than doubled in just the last six years.

This chart shows if you make the President's tax cuts permanent, at the very time the trust funds go cash negative, the cost of the tax cuts explode, and it take us right over a cliff; that is, if we extend these tax cuts without paying for them. You know, I like tax cuts as much as anyone, and I have been a great beneficiary of these tax cuts personally. But, we face a situation with this demographic change that is going to require us to do a lot of things we'd prefer not doing. And that means we have got to have savings out of the entitlements, I believe, as part of a package. It means we are also going to have to find more revenue. Let me be swift to say that I think the first place we ought to look for revenue is not a tax increase. The first place we ought to look is this burgeoning tax gap, $350 billion a year.

This chart shows what happens if the tax cuts are extended without paying for them, without offsets, and the debt in the out-years explodes. And every single witness before this Committee has acknowledged we have a very serious long-term problem and an unsustainable budget condition.

This goes to the question of whether tax cuts pay for themselves. We have heard a lot of discussion from people that suggest tax cuts pay for themselves, perhaps more than pay for themselves. This is the Chairman of the Federal Reserve, Ben Bernanke, saying: "I don't think that, as a general rule, that tax cuts pay for themselves."

And he is not alone in that judgement. This is former Federal Reserve Chairman Alan Greenspan who said: "It is very rare and very few economists believe that you can cut taxes and you will get the same amount of revenues."

The former Chairman of President Bush's Council of Economic Advisers, Dr. Gregory Mankiw, wrote in his introductory college economics textbook: "[There is] no credible evidence that tax revenues ... rise in the face of lower tax rates. [An economist claiming tax cuts pay for themselves is like a] snake oil salesman who is trying to sell a miracle cure."

The fact is that even with the recent revenue improvement, real revenues are still lagging behind where they would be in a typical recovery. We have looked at the nine previous recoveries, major recoveries since World War II, and we see in this recovery revenues still lagging behind the average of the nine previous recoveries, and by a substantial margin.

We see the same thing when it comes to jobs.

As I noted earlier, what is really missing from this budget, and from our discussions, is a commitment to tackle these long-term fiscal imbalances. Let me just say we have had the head of the Government Accountability Office tell us we're in an unsustainable situation; we've had the Chairman of the Federal Reserve; we've had the head of the CBO; we've had a parade of witnesses here from every philosophical stripe tell us we've got a serious long-term problem.

And that's really what I would like to focus on today, to see if we can't find a method or a means to get us to a discussion about how we begin to resolve these long-term imbalances. I believe, I know you do Mr. Secretary, that it would be entirely in the country's interest if we were able to find a way to take steps, the beginning steps of reducing these long-term fiscal imbalances.