Transcript of Opening Statement by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing on the State of the Economy
January 29, 2003

Thank you, Mr. Chairman. Thank you, first of all for holding this hearing, because I think it is a critically important subject, but thanks too for the new energy and attitude you have brought to the committee. It's welcome and we look forward very much to working with you. I want to report to my colleagues that the incoming Chairman and his staff have been immanently fair in the operations of the committee and we all appreciate that very much. They are professional and it's been a delight to deal with them.

I want to also welcome the new members. We have many new members and we're delighted that they have joined the committee. We look forward to working with you in the days ahead as we discuss really critical choices for the country. What do we do with the budget of the United States? What do we do to promote growth? What do we do to promote the national defense and improve education? What do we do to secure the long-term fiscal strength of our nation?

It won't surprise you, Mr. Chairman, if I just turn briefly to a few charts to make the point of what I think I have learned from my past service here in terms of what is effective. I want to go back to the '80's when we had a policy of a significant tax cut at the same time we were having a significant military buildup, and what we saw was that the deficits increased dramatically. And then in the '90's, we changed course and we moved back toward balanced budgets. And I want to just talk about what I learned from those changes.

During the period of the '80's when deficits were growing dramatically. I believe federal government borrowing was squeezing out private investment, that as the government competed for funds that reduced funds available for investment. And investment is critical to economic growth. And when we saw the change and instead of adding to deficits and adding to debt, we started growing out of deficits, we got very good results in the real world. Real investment in equipment and software grew much faster in the 1990's than in the 1980's.

The unemployment rate fell to the lowest level in 30 years at this time that the federal government was moving to fiscal balance. Total wage and salary income rose rapidly in the '90's, again much faster than in the '80's.

Now we face a circumstance in which two years ago the projections were by the Office of Management and Budget and the Congressional Budget Office that we would have $5.6 trillion of surpluses over the next decade. Now we see that circumstance has changed dramatically. If we adopt the President's policies, the additional tax cuts that he is advocating, the spending that he is advocating, we will be $1.5 trillion in the red.

When I look at his specific plan for economic growth, the stimulus plan or the growth plan, it strikes me that it will be ineffective in the following ways: First of all, only a small part of it is effective in this fiscal year. Some $36 billion this fiscal year, with a 10 year cost of over $900 billion when the associated interest cost is included. It also strikes me that it will be ineffective because it is so heavily weighted to the highest income people in our country. Those earning over a million dollars a year will get an $88,000 tax reduction. But those in the middle of the income stream in this country – those in the middle 20 percent who earn between 21 to 38 thousand dollars a year – will get on average only $265. Yet, those are the people who are most likely to spend the money and thereby stimulate the economy.

It also strikes me that over the long-term it will be ineffective because of the deficits and debt that it will add. This to me is the key point. Looking ahead with the new CBO numbers, if Social Security is not used, is not invaded for other purposes, we see deficits throughout the whole rest of the decade of very, very large proportion, approaching $4 trillion.

It's for that reason that on our side we have proposed a different stimulus, one that has much more stimulus now, but much less cost over the 10 years. We've just received an evaluation from Mark Zandi, the economist that has now been widely quoted in the Wall Street Journal and on various news programs. His conclusion is that for 2003, the Democratic plan would give us about eight-tenths of one percent growth in GDP, the Republican plan about half as much. The same is true for 2004. The Democratic plan about one percent of GDP growth, in addition to what would otherwise occur. The Republican plan about four-tenths.

But the bigger message is the long-term. In the long-term he finds, as have other econometric modelers, that the President's plan will actually hurt growth by a very small amount, but nonetheless negative. The reason is that the growth of deficits and debt will provide a drag to the economy that overwhelms the increased efficiency one gets from the tax changes that are made.

That tells me, Mr. Chairman, that we do have a real challenge. How do we forge a plan that gives lift to the economy now, but doesn't endanger long-term growth by adding to deficits?