Transcript of Opening Statement by Senator Kent Conrad (D-ND)
at Mark-Up of Fiscal Year 2004 Budget Resolution
March 12, 2003

Thank you Mr. Chairman. Thank you, first of all, for holding this markup. Thank you for your outline of what you see as the challenges facing the country.

As you probably can imagine, we have a different view of the significant challenges facing the country and what the solutions are. But I think we have at least joined on the factual basis of how big the problems are, how big the challenges are, and we are in agreement about the importance of this Committee's action, because this is about the fundamental questions of how the resources of America are used. How much of it is spending? How much of it is taxes? What is the balance between responsible governmental action, and what are the real tests of fiscal responsibility? What are the things we do to encourage economic growth, secure the nation, protect our people? Those are fundamental responsibilities of this Committee, and it is why the work here is so important.

And I, too, want to add my voice to the Chairman. We appreciate the involvement of every member of this Committee. This is a distinguished group of Senators and we appreciate that you all have participated so significantly.

Let's now talk about the condition that we find ourselves in with CBO's latest report on the budget condition of the United States. What they have just told us is that we face a budget deficit of $338 billion in 2004 if the President's policies are adopted. Even more serious, if we exclude Social Security – in other words if we protect Social Security, if we don't use Social Security money to pay for tax cuts or other spending – then the deficit in 2004 is $512 billion on a base of just over $2.2 trillion. That is the total budget, something over $2.2 trillion, and we've got a deficit of over $500 billion.

That is a massive deficit by any calculation. And what I think concerns me the most is if we -- again if we protect Social Security throughout the decade, if we don't use Social Security money for tax cuts or for other spending -- we see the deficits remaining over $400 billion a year if the President's plan is adopted throughout the entire rest of this decade.

And, remember this is the decade right before the baby boom generation retires. Instead of increasing debt, we ought to be paying down debt or pre-paying the liability. That's what we ought to be doing. But under the President's plan, instead, we are adding to deficits and debt and setting America up for a very steep fall.

That's not just my judgement. Last week another group that's worried about the country's fiscal health stepped forward to question the President's plan. This group is the Committee for Economic Development. It is a non-partisan, non-political group of 250 leading businessmen and academics. It's composed of business leaders from such companies as Bank of America, Bell South, Allied Signal, PricewaterhouseCoopers, Deloitte & Touche, Ford Motor company and many others.

This group issued a report with four findings.

One: "*Current budget projections seriously understate the problem.*"

Now, I have talked about record deficits – deficits that will be of over $400 billion a year all the rest of this decade. And yet, they say that understates the real dimensions of the problem. Why do they say that? Because the numbers we're all using exclude any cost of war, excludes any cost of fixing the Alternative Minimum Tax that now affects two million taxpayers. By the end of this decade it will be affecting over 30 million taxpayers. It costs hundreds of billions of dollars for both of those. That's the circumstance that led them to conclude that current budget projections understate the seriousness of the problem.

Second: *"While slower economic growth has caused much of the immediate deterioration in the deficit, the deficits in later years reflect our tax and spending choices."*

You know we have just had a swing of $7.7 trillion in our fiscal outlook. You'll remember just two years ago we were told we were going to have $5.6 trillion of budget surpluses over the next decade. Now, we're told that if we adopt the President's policies we'll have $2.1 trillion of deficits over that same period. The tax cuts we already passed amounted to $1.7 trillion, including the interest cost. The tax cuts the President has proposed are another $1.9 trillion, including the interest cost. If you add those two together, that's $3.6 trillion of the $7.7 trillion deterioration in our budget condition. The hard reality is the biggest reason for this turn is the tax cuts that have already been made and the tax cuts that are proposed.

Third: *"Deficits do matter."*

This group of business executives, as well as the Chairman of the Federal Reserve, are telling us that deficits do matter. Why do they matter? To the extent that we run budget deficits that reduces the pool of societal savings. When we reduce the pool of societal savings, we reduce the availability of money to invest in the economy. And it is investment that is key to growth. I think that's one thing where many of us might agree.

The fourth point of this group of business executives was: *"The aging of our population compounds the problem."*

We're faced with a circumstance we've never seen before -- the retirement of the baby boom generation. And right now we're in the sweet spot of the fiscal cycle, because right now the trust funds of Medicare and Social Security are producing hundreds of billions of dollars of surpluses. But in very short order those surpluses will be turning to deficits, and then our circumstance becomes much more serious.

As I indicated, this group has stated we have no estimate of the cost of war. That is, the President has not sent us what he believes the cost may be. What we know from public testimony is that the cost will be substantial. We know that there is an expected 2003 supplemental that's not included in the President's budget that will range anywhere from $60 billion to $95 billion. There's nothing in the President's budget for that amount of spending.

I've just learned from the ranking member of the Armed Services Committee that they expect, in addition to war costs, an additional cost of from $60 billion to $80 billion in the immediate aftermath of the war, and on top of that of course will be any reconstruction cost that we might incur. We are talking about massive expenditures for the war that may be to come. I think many of us believe that that must inform the work of this Committee.

Now I'd like to briefly review what's happened to our budget. As I indicated before we were told we had some almost $6 trillion of surpluses over the next decade. The President in that context proposed a significant tax cut. He said at the time: "*Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens*."

We now know he was simply wrong. We can see the $5.6 trillion of projected surpluses is now turned to $2.1 trillion of projected deficits for that same period if the President's budget proposals are adopted. That is his tax cut proposals coupled with his spending proposals.

When the deficits appeared, the President then said: "*[O]ur budget will run a deficit that will be small and short-term..."*

Well, we now know that he was wrong again, because the next chart, which is the chart I started with, shows that these deficits are not small -- $512 billion for this year if we're not using Social Security for other purposes, over $400 billion a year each year for the rest of the decade. That's not small. Those are very large deficits by any measure, even on a GDP basis.

The President also told us his budget would pay down a record amount of national debt. He said two years ago: *"We will pay off $2 trillion over the next decade. That will be the largest debt reduction of any country, ever. Future generations shouldn't be forced to pay back money we have borrowed. We owe this kind of responsibility to our children and grandchildren*."

Well, we now see that the President was wrong again because we're not paying down a record amount of debt. We're not paying down any debt under his plan. Instead of paying down debt, the debt is rising, and rising dramatically. The President in 2001 said by 2008 we'd be down to $36 billion of debt, paying off all the debt that was available to pay down. We now know under the President's plan that instead of virtually eliminating the debt, the publicly held debt will have increased to $5.1 trillion.

But that's just the beginning, and it has substantial implications. Because we have more debt, the interest cost to the federal government is going up dramatically. In 2001 we were told the interest cost for this next 10 years would be $622 billion. Under the President's new plan, we see the interest cost for that same period will be $2.3 trillion, an increase of interest cost alone of $1.7 trillion. Those are dollars that aren't available to strengthen this nation's defenses, improve our homeland security, improve education, or expand health care. Those are costs just on the debt, to service the debt.

The publicly held debt is increasing to $5.1 trillion by 2008. But that masks the even more serious story of the gross federal debt. Not only the debt held by the public, but the debt owed to the trust funds of the country. We can see that we are at $6 trillion in 2002 in gross federal debt. And that over the next 10 years that amount will double to $12 trillion of gross debt. That even understates the problem because we know from Chairman Greenspan that we're not fully recognizing the liability to our system of Medicare and Social Security.

If we adopt the President's plan -- I think this is the thing that sobers me the most – this chart shows the blue bar is the Medicare surplus, the green is the Social Security surplus, the red are the President's tax cuts, both those implemented and those proposed. You can see there's some rough balance in this period when the trust funds are producing hundreds of billions of dollars of surpluses. But when the trust funds go cash negative, the cost to the federal government explodes from the retirement of the baby boom generation. It is at that very time that the cost of the President's tax cuts explode driving us deep into deficit, deep into debt, in a way that is totally unsustainable. This can lead in my judgement to only one possible outcome. That is, massive cuts to Social Security, to Medicare, and to the rest of government.

The President is his last State of the Union address said: *"This country has many challenges. We will not deny, we will not ignore, we will not pass on our problems to other Congresses, to other Presidents, and other generations."*

But that is exactly what his policies do. They do pass the debt along to future Congresses, to future generations and to future Presidents.

Right now, according to the President's budget document, we're in the sweet spot. This is the good times. This is a document from the President's own budget proposal. It's from page 43 of his Analytical Perspectives. It shows that if the President's policies are adopted, we never escape from deficit between now and the year 2050. In fact, the deficits explode under the double weight of the increased cost of the baby boom generation when they retire, increased cost to Social Security and Medicare, and the exploding cost of the President's tax cuts. Those two dynamics push us off the cliff into massive, massive deficit and debt.

The result of this has been, I believe, part of the reason of a weakening economy. Jobs decline – two and-a-half million jobs lost since January of 2001. Two and-a-half million jobs lost. The last month alone, 300,000 jobs lost in this country.

The President's proposal for stimulus has almost none of it effective this year. The total cost of the President's proposal, including the interest cost, is over $990 billion for the eleven years. But only $40 billion is effective in this year, giving very little lift to the economy. We have proposed an alternative of greater lift to the economy now, greater stimulus now, but much less debt and deficits in the years ahead, because we believe the dead weight of those deficits and debt inhibit economic growth, kill job creation, and hurt the economic security of our nation.

Let me just conclude by showing the analysis of the differences of the two plans. Mark Zandi, a noted economist, has found that in 2003 our plan would produce about twice as much economic growth as the President's plan, and perhaps even more important, not have the long-term damage that the President's plan would create. Some may ask how can it be that the President's plan of tax cuts would hurt economic growth? The conclusion of many economists is it would hurt economic growth because the tax cuts are not offset by spending cuts. Instead, they are paid for with increased deficit and increased debt. And the dead weight of those deficits and debt hurt long-term economic growth by reducing the pool of societal savings, reducing the amount of money that is available for productive investment, and thereby hurting economic growth, reducing job opportunities, and threatening our economic security.

Mr Chairman, we look forward to reviewing your Mark. I know you'll have a chance to review that with us and for people to answer questions and also for opening statements. I want to conclude by thanking you, and also saying I agree with what you've outlined in terms of the schedule for the work of this committee. We think that's a constructive approach.