Transcript of Opening Statement by Senate Budget Committee Chairman Kent Conrad
Hearing on President's Fiscal Year 2003 Budget Proposals
February 6, 2002

The Director of the Congressional Budget Office delivered to us earlier the sobering news that much of the projected surpluses over the next 10 years has disappeared. Last year we were told there would be some $5.6 trillion of surpluses over the next 10 years. Congressional Budget Office came back after their most recent review and said there's not going to be $6.5 trillion, there's not going to be $4.6 trillion, there's going to be $1.6 trillion. And, that is before the President's defense build-up, before additional funds for homeland security, before his stimulus package, before a new farm bill, before a whole series of other spending initiatives the President has proposed. And so that $1.6 trillion is clearly optimistic.

The other shoe dropped with the report to us yesterday by the President's Director of the Office of Management and Budget, Mr. Daniels, that with the President's budget, the $5.6 trillion we were anticipating is now down by their calculations, using their budgets, to less than $1 trillion, in fact about $600 billion. That, too, is probably overly optimistic. We're informed that when the Congressional Budget Office does their review of the President's proposal that it is more likely they'll come in at about $200 billion because the President's budget has given an overly optimistic view of Medicare expenses and in other areas as well.

The hard reality is that the non trust fund surpluses that we were told about last year, some $2.7 trillion, is all gone. Instead, we see $2.2 trillion of deficits on the non trust fund side of the ledger. What that means is very simple. It means that over $2 trillion of trust fund money, Social Security and Medicare trust fund monies are being used to pay for the tax cuts, to pay for other expenses of the federal government. That has enormous implications for the future.

The other hard reality is that last year we were told we'd be virtually debt-free by 2008. Congressional Budget Office told us last year by 2008 there would be virtually no debt. Now they're telling us instead of no debt, we'll have nearly as much debt as we have now - some $2.8 trillion of debt in the year 2008. Of course, that understates the debt because that's the publicly held debt, that does not acknowledge the trust fund debt and that does not acknowledge what Chairman Greenspan talked to us about the other day as the long-term liabilities over and above the money that is due the trust funds and that is in the trillions of dollars.

That's one reason why I said in many ways that we confront what Enron confronted. Enron's big problem and big vulnerability was the hiding of debt. And in many ways the federal government is doing the same thing with the same consequences perhaps for the country as for the company. That is financial difficulties that will flow from a failure to fully acknowledge the debt the country is facing.

The consequence of more debt is more interest cost. CBO told us last year we could anticipate some $600 billion of interest cost over the next decade. Now they're telling us it will be $1 trillion more, some $1.6 trillion of interest cost. That means that a trillion dollars of additional interest cost will not be available for productive purposes, will not be available to increase the defense of the United States, will not be available to improve the homeland security, will not be available to educate our children or build roads or bridges or other worthwhile purposes. Instead, we will be making more interest payments at the same time we are taking money out of the trust funds of Social Security and Medicare to pay for other things.

The President said in his most recent State of the Union that the budget will run a deficit that will be "small and short-term." *USA Today* pointed out that that simply is not the case. It's not going to be small and short-term. Instead, it's going to be large deficits and over a very extended period.

We now face a decade of red ink. We, after a lot of effort by many different people, were able to emerge from a long period of deficits and at the end of the 1990s go into surplus. We were headed for substantial surpluses, but now we've been plunged back into deficit.

And the President says the reason is recession and war, and of course in the near term he is correct. For this year and next year, the biggest reason is recession and war. But over the decade, the biggest reason is something he's reluctant to talk about. The biggest reason over the next decade for our return to deficit and debt is because of the tax cut the President proposed and pushed through Congress last year.

In fact, CBO testified that over the next decade, 42 percent of the disappearance of the surpluses is due to the tax cut; 23 percent is due to the economic downturn; 18 percent, additional spending that came largely as a result of the attacks on this country on September 11; 17 percent, technical changes, largely underestimations of the cost of Medicare and Medicaid.

Let me go to the last chart which shows the results of all this. The result is that the total trust fund surpluses used for tax cuts and other spending programs will total nearly $2.2 trillion over the next decade - $1.65 trillion will be taken from the Social Security trust funds and $523 billion from the Medicare Trust Fund to pay for tax cuts and the other expenses of the federal government. Some of us believe that is a profound mistake given the fact that the baby boom generation starts to retire in just six years.

Today we have the opportunity to hear testimony from outside budget experts. Jack Lew who is currently executive vice president for operations at New York University, who was President Clinton's last budget director and someone who enjoyed very high credibility on both sides of the aisle in both chambers. He presided over the budget during a period when the fruits of fiscal discipline practiced during the 1990s were realized when the budget turned from deficit to surplus and when we began to pay down the public debt instead of adding to it. Robert Bixby is executive director of the Concord Coalition which has a very strong record for advocating and defending fiscal discipline. We welcome you both and very much look forward to your testimony.