Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
Hearing with Congressional Budget Office (CBO) Director Dan Crippen
on CBO's Analysis of the President's Proposals for Fiscal Year 2003
March 6, 2002

Opening Statement:

Welcome Director Crippen. It is good to have you here. We appreciate your coming to tell us about your revised baseline and CBO's estimate of the effects of the proposals in the President's budget for fiscal year 2003 and beyond.

I first want to commend you and your staff for the very hard work that you have done to produce this analysis in such a short time. We are deeply appreciative of the fact that you have worked overtime and your staff has worked overtime to produce this analysis in order to move ahead with a budget resolution on the compressed schedule we face this year. We have a somewhat different circumstance, because of when the work breaks for Congress fall and the effect on the budget process. It has put enormous pressure on all of us to step up the schedule, and you have responded, and we appreciate that very much.

Just six weeks ago, you testified how much had changed in the last year. You told us that we had gone from projected surpluses of $5.6 trillion over the next decade to $1.6 trillion. The news is a little better today, but not much. Instead of a $4 trillion disappearance of projected surpluses, it's $3.9 trillion, a very dramatic change.

And when we look at where the money has gone, we see that most of it has gone to the tax cut over the 10 years. The next biggest reason is the economic slowdown. The next biggest reason is the additional spending that has come about largely as a result of the attack on this country, and of course there's some technical changes, what had been previously underestimates of costs of Medicare and Medicaid.

Now we've got the President's budget as well. And when the President's budget came out, it showed that about $5 trillion was gone. Actually, things are somewhat actually worse under your analysis than what he had told us. We have gone from $5.6 trillion over the 10 year period to $400 million.

And I must say the use in Washington of the word 'surplus' misleads the American people, because I think they conclude from that there's extra money here, that there's more money than we need and that's not the case. The truth is all of these dollars have been fully committed. In fact, I would argue they are over committed. There truly are no surpluses.

What we see over the next decade, when you take out the trust funds of Medicare and Social Security, we see continuing red ink. If the money from Social Security and Medicare, those surpluses, are not counted -- the so-called non trust funds accounts -- we see deficits each and every year for the next decade.

And with the President's budget, we see that his priorities, those amounts over the so-called baseline, the biggest priorities are additional tax cuts; second is national defense which is a priority we all share; next biggest is homeland security, of course, which we all know has to be strengthened; and finally Medicare reform and prescription drugs. So those are the priorities the President has set going forward.

The very serious problem that we see with respect to the trust funds is we're going back to the bad old days when we were taking all of the trust fund surpluses of Social Security and using it to pay for other purposes. We largely stopped that in 1998. We completely stopped it in 1999 and 2000. We started slipping backwards in 2001, but now we're back on path for the next three years to be taking every dime and using those funds to pay for other expenses of government including the tax cuts.

The other very notable change as we look forward is last year we were told we could expect, outside of the trust funds, some $2.7 trillion of surpluses, and now we see instead $2.3 trillion of deficits over the 10 year period. Of course, all of that is coming from the Social Security and Medicare trust funds.

Let me just conclude with a statement that you made when you were before the committee previously. When you were before us, you said:

> "Put more starkly, Mr. Chairman, the extremes of what will be required to address our retirement are these: We'll have to increase borrowing by very large, likely unsustainable amounts; raise taxes to 30 percent of GDP, obviously unprecedented in our history; or eliminate most of the rest of the government as we know it. That's the dilemma that faces us in the long run, Mr. Chairman, and these next 10 years will only be the beginning."

I think you sounded a warning, that has been repeated before this committee by the Comptroller General of the United States, that is critically important for this committee to hear, for our colleagues in both houses of Congress to hear, and for the administration to hear, and certainly for the American people to hear, because we are headed on a long-term course that is simply unsustainable. As the Comptroller General indicated, the numbers do not add up.

This has got to discipline what we do on both the tax cutting side and the spending side. Let me reemphasize that. I hope the message that is delivered is very clear. We have got to discipline ourselves on the spending side and on the tax cutting side if we are to begin to cope with these long-term challenges. That to me is the simple reality and it's got to inform our actions here and in the larger Congress and in the administration as well.

Let me just conclude by saying there is a little bit of good news in your remarks in that on a unified basis, that is when the trust funds are included, you see, before the President's budget, before his policy changes, you see slight unified surpluses in 2002 and 2003, which is somewhat of a change from before. But that again is before the President's budget proposal. When you then put in the policies that the President is proposing, we're right back to substantial deficits. According to your analysis some $90 billion of deficit in 2002, some $121 billion of deficit on a unified basis in 2003. Obviously, those are concerns to all of us.

Mid-Hearing Discussion:

Conrad:

In 2003, as I read your table, the deficit not counting Social Security would be $297 billion if the President's budget proposals were adopted. Is that correct?

Crippen:

Correct.

Conrad:

The next year the deficit not counting Social Security would be $245 billion. And the next year $187 billion. And going right out through the 10 year period, there is never less than $100 billion of deficit if Social Security is not counted. Is that correct?

Crippen:

Correct.

Conrad:

And in fact over the entire 10 year period the total deficits not counting Social Security are $1.8 trillion. Is that correct?

Crippen:

Correct.

Conrad:

Let me just repeat that. If Social Security surplus funds are not included in the calculation, during the entire 10 year period the cumulative deficits are $1.8 trillion. Is that correct?

Crippen:

Yes.

Conrad:

How big was the tax cut over the 10 year period that was passed last year?

Crippen:

$1.3 trillion.

Conrad:

How much would the debt service cost of that be as well?

Crippen:

As I recall over $300 billion, so it rounded up to $1.7 [trillion] for the total impact on the budget.

Conrad:

The total impact on the budget over the 10 years of the tax cut is $1.7 trillion. And the cumulative deficits not counting Social Security are $1.8 trillion. My ranking member says he doesn't see any connection between the two. I think there's a direct connection. The amount of the tax cuts the President pushed, proposed, pushed through Congress last year, is almost directly equal to the cumulative deficits over the 10 year period if Social Security funds are not included in the calculations.

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Conrad:

I certainly argued that the magnitude of the tax cuts over the 10 years were too high and would threaten Social Security trust funds. Some mocked me for that and said, 'No, these surpluses are so large we can have a tax cut of this magnitude and not endanger the trust funds.' That argument was made repeatedly. In fact, I had members on this committee tell me, 'You are worried unnecessarily. These surpluses are too small.' I was told that repeatedly, that there was even going to be more money than was forecast. We didn't get more money. We got a lot less money.

The result is we've got a tax cut that was put in place over the 10 years – that's the argument I have – over the 10 years that is almost equal to the non trust fund deficits we have over the next 10 years. That means to me surpluses in the trust fund accounts are being used to pay for the tax cut and other spending. It's just as clear as it can be. The consequences of that are serious because the baby boomers start to retire in six years. And we know the whole thing doesn't add up.

And I want to make clear I don't believe saving the Social Security and Medicare trust funds solves the problem. I don't want to mislead anybody on that account. That's why the budget proposal I made last year not only saved those funds for the purposes intended, but also transferred money from the general fund, $900 billion, to deal with these long-term liabilities, to in effect pre-pay some of that liability.