

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
Hearing on the President's Proposed Fiscal Year 2003 Budget
with Office of Management and Budget Director Mitch Daniels
February 5, 2002**

Opening Statement

We welcome Director Daniels to the Budget Committee to discuss the President's submission for the year. I'm going to start out with a statement and then I'll turn to my ranking member for his statement, and then we will go to the Director for his testimony, and then we will reserve seven minutes for statements and questioning by each of the members.

First of all let us acknowledge that this is a dramatic change of circumstance from what we faced last year. Part of that is due to the war, part of that is due to economic downturn, part of that is also due to the tax cuts that were enacted last year. The President in his State of the Union message said, "... (O)ur budget will run a deficit that will be small and short-term..." If true, that would be understandable given the war and recession.

But let me put up what *USA Today* wrote in an editorial yesterday about that statement by the President. They said the return to deficit spending claimed by the President that it would be "small and short-term"—their response was, "Don't believe that for a moment. Even before the official numbers are released, one thing is clear: The deficits will be big and will last for nearly a decade. Only by resorting to accounting gimmicks that would make Enron blush can Bush claim otherwise."

They go on to report that, "To make the deficits look smaller, Bush has included the \$178 billion surplus that Social Security will run next year, and the nearly \$1 trillion it will amass during the following nine years."

They say, "That is good short-term politics, making it seem as though all of this extra spending, on top of the oversized tax cut enacted last year, costs the nation's fiscal future little."

But they say, "...in the long term, it amounts to a disastrous shift away from protecting the nation's financial security."

They conclude by saying, "Remember that right up until September 11, Bush and just about everyone else in Washington were pledging to keep Social Security off-limits to tax cutters and spendthrifts. And for good reason. Left unspent, the surpluses go toward paying down the federal government's gargantuan debt. That would help cut interest rates, boost economic growth and free up money to reform Social Security and Medicare..."

What they're talking about is what we see. We don't see deficits as the President asserted being short-term and small. What we see is an ocean of red ink. What we see is deficits right through the decade. What we see is the use of Social Security and Medicare trust fund money by over \$2 trillion to fund tax cuts and other spending.

Let me just put up what the President said last year, with respect to protecting the surplus. The President said, “To make sure the retirement savings of America’s seniors are not diverted to any other program, my budget protects all \$2.6 trillion of the Social Security surplus for Social Security and for Social Security alone.” Now we see that that statement was in error.

If we look at the next chart that shows the percentage of Social Security trust fund surpluses being used for other government spending. We see that the bad old days we were using Social Security trust fund money for other purposes. That was dramatically reduced in the 1998 budget. We stopped using Social Security trust fund money for other purposes in both 1999 and 2000. In 2001, we started going back the other way. Under the President’s plan, 2002, 2003, 2004, 100 percent of the Social Security surplus is being used for other purposes.

Last year, Director Daniels, you said in a news broadcast on Late Edition that having protected and set aside money for the needs of the country, “having protected every penny of Social Security for Social Security, having spent every penny of Medicare receipts on Medicare, having set aside \$1 trillion for new needs or contingency, there is still \$1.6 trillion that the taxpayers are entitled to.”

Again, what we see, in light of this new budget, is that you’ve not protected Social Security or Medicare. Instead, what this budget reveals is that you’re taking \$2.2 trillion of Social Security and Medicare surpluses and using them to pay for tax cuts and for other expenditures, something the President pledged not to do.

There was also the assertion last year that you would be paying down the maximum amount of national debt. The President said in his address to the joint session last year, “We owe it to our children and grandchildren to act now, and I hope you will join me to pay down \$2 trillion in debt during the next 10 years.” Again, we see that that statement was inaccurate. Instead of paying down \$2 trillion of debt during this period, the President’s budget this year shows you’ll be paying down just over \$500 billion of the debt.

The result is that total federal interest costs go up by over \$1 trillion – this according to the Congressional Budget Office. Instead of paying \$600 billion of interest over the next decade, we will be paying over \$1.6 trillion in interest.

Congressional Budget Office with Director Crippen came here to testify indicated that the surpluses that last year were projected at \$5.6 trillion have been reduced to \$1.6 trillion. And when we looked at the reasons, according to CBO testimony, what we found, despite the indications from the administration that this was all related to the war and the economic downturn, that in fact the biggest factor was the tax cut the President proposed and pushed through Congress last year.

Over the 10 years, over 42 percent of the decline in the surplus was as a result of the tax cut; 23 percent the recession; 18 percent spending largely caused by the attack on this country on September 11; 17 percent technical changes, underestimates of what Medicare and Medicaid would cost. All of this tells me that the prudent person putting out a budget this year would decide not to dig the hole any deeper. What we see in the President’s budget is to keep digging

the hole deeper and deeper, taking more Social Security trust fund money to use for other purposes, taking all of the Medicare trust fund money to use for other purposes. In fact instead of \$5.6 trillion over the period of 2002 through 2011, the President's budget leaves something over \$600 billion.

The truth is I believe there are no surpluses because all of that money is fully committed. In fact, it is over committed. In fact, as Chairman Greenspan told us, these so-called contingent liabilities of the federal government aren't contingent at all. We owe that money. We're going to have to pay it. And to fail to acknowledge it puts this country in much the same position as Enron, not acknowledging the true debt that we face.

So what does it all mean? Director Crippen when he was here concluded his testimony by saying, "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 gross domestic product..." We're at 19 percent now. "...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 believe Director Crippen is telling it straight. And I believe the President's budget fails to address the long-term fiscal imbalances facing the country. And as a result, puts our financial security in jeopardy.

Additional Remarks

I also want to say to Director Daniels that through you I want to commend the President for his conduct in the war effort. On many occasions he has made me proud as an American to watch the way he's conducted himself in these very difficult times.

Our disagreement is a fundamental disagreement over long-term fiscal policy. I don't have much disagreement over the budget for this year. There are areas obviously where maybe we could do things differently. My great concern is the long-term and the fiscal course that he has put us on. I think it is a very serious mistake.

I do want to indicate that with respect to this war effort, the President can count on us, on our side, to respond to his assessment of the need. We're going to be with him shoulder-to-shoulder on providing the resources necessary to conduct this war. And our adversaries should understand there's not an inch of room between us on that question. The resources the President requests to conduct this war and defend this country will be made available to him and to our armed forces.

....

Thank you Mr. Daniels for that testimony, and thank you for being here today. While we stand shoulder-to-shoulder with respect to the defense of the nation, we do have profound

differences about the wisdom of the fiscal course you and the President have charted. It struck me today looking at your budget that if you were in the private sector and proposed a budget like this one, you'd be headed for a federal facility, but it wouldn't be the White House, it wouldn't be the Congress of the United States, you'd be headed for a federal correctional facility because it's a violation of federal law for a private sector entity to take the retirement funds of its employees and to use them for another purpose. It's against the law to take the health care funds of its employees and use it for another purpose. In fact, as I recall the Reverend Jim Bakker who used to head the PTL organization went to jail for taking money, raising money on one basis and using it for something else. In fact he served his time up in my part of the country in Minnesota. The thing that I just find most troubling is that in your budget you're talking about, just over the next decade, taking \$2 trillion out of Social Security, out of Medicare, and using those funds not for those programs, but to pay for tax cuts, to pay for other government expenditures.

I'd be quick to acknowledge I could live with that in a year of economic downturn and at a time of war. But, you're not forecasting economic downturn for even later this year – you're forecasting economic recovery. And for the rest of this decade, you're forecasting rather strong economic growth and yet year after year you propose taking money from Social Security, taking money from Medicare to pay for even more tax cuts, making permanent existing tax cuts costing \$400 trillion, every penny of which will come out of the Social Security trust fund, something the President promised not to do. How do you justify it?

Closing Statement

The thing I find most troubling here today, and I do find it troubling, is that we are blithely going down the path under the President's direction of taking vast amounts of money from the trust funds of Social Security and Medicare and using it to pay for other purposes. I believe, Mr. Daniels, that you and the President will be judged very harshly by history with respect to your stewardship of the fiscal condition of the country. Because while you say you're not letting spending go wild, you're letting deficits and debt go wild.

When I was driving in yesterday and I heard the description of Enron's circumstance, they were pointing the finger at the culprit as being a failure to deal with debt – hiding debt, hiding it from creditors, hiding it from investors. And, I really believe the federal government is doing much the same thing here. You are basically covering your additional tax cut proposals and ones you have already made and your additional spending by taking money from trust funds. You say it doesn't matter. You say the trust funds are fully credited with those monies and so it doesn't matter how the money is actually used. Of course it matters. If you were in the private sector running a corporation, you could not take the retirement funds of your employees and use it to fund operating expenses or bonuses for the executives.

...

That's the reason I set aside \$900 billion last year to fund a transition of Social Security to deal with this long-term problem, and to begin to deal with it. But, now, we're told it just doesn't matter that you can take that money and use it for other purposes. That is going to come

home to roost, those chickens are going to come home to roost. And, they're going to come home to roost in the way debt Director Crippen described. A future Congress and a future President are going to be faced with extraordinarily difficult choices, massive increase in taxes, dramatic cuts in benefits, or massive debt. That's where we're headed, and you're not facing up to it in this budget. The President's not facing up to it. Instead, your proposal is to dig the hole deeper – more tax cuts, more spending. And, I believe history will judge you harshly.

...

We praise the President and the administration for the handling of these attacks against our country. I remember so well September 11. I was in the Capitol when we were told by security people that it might be the focus of an attack. And, no one knew where that fourth plane was headed, whether it was headed for the White House, or perhaps another strike on the Pentagon or the Capitol complex itself. And, as I said earlier today, I have been proud as an American the way the President has conducted himself and the administration in responding to these attacks. I genuinely have been.

Where I believe you will be judged harshly, I believe the President will be judged harshly, is taking us back down the road to deficits and debt. Not in the one year basis, not this year at a time of war and recession, but for many years to come because you've not balanced the spending and the revenue of this government. You've not. You're digging the hole deeper and in this proposal you continue that practice. And, I think it is profoundly wrong. I think it is a huge mistake and we'll pay a great price in the future. And I say that to you just as directly as I can without animus or anger, but with the belief that that is the fact.

I again thank you very much for being here today.