**Transcript of Opening Statement by Senate Budget Committee Chairman Kent Conrad
Hearing on the President's Proposed Fiscal Year 2003 Budget
with Treasury Secretary Paul O'Neill
February 7, 2002**

I want to welcome you, Mr. Secretary, for a return to the Committee. We are delighted that you are here.

We have been through a year of remarkable changes. I think we all have to acknowledge that and state it clearly. Last year, we were told that we were going to be blessed with these extraordinary surpluses as far as the eye can see. Obviously, that course was altered in the first instance by recession and war – that for this year and next played the biggest role in reducing those surpluses.

But over the next 10 years, we see the biggest factor in the reduction of surpluses being the tax cut. The CBO told us about 42 percent of the change is as a result of the tax cut over the 10 years; 23 percent, the economic downtown; some 18 percent, spending that came about as a result of this attack on this country; and 17 percent, technical changes, largely increases in Medicare and Medicaid expenses that weren't anticipated.

Last year, you came before the Committee and you were a staunch defender of the tax cut, and that's understandable as a representative of the administration. I think many people might have had a different view if they would have known everything that was to come.

Certainly, if we would have applied the President's own formula which was one in every four surplus dollars for a tax cut, the tax cut would have been dramatically smaller, because we're now down to $600 billion in surplus over the 10 years with the President's budget – one-quarter of $600 billion would be $150 billion tax cut instead of a $1.6 trillion tax cut. But, people were using what they thought was the best forecast at the time.

When you appeared before us last March, you used a reference that stuck in my mind ever since, a reference to a well-known fairy-tale, and you talked about characterizing the tax cut plan as a Goldilocks tax relief plan, "not too big, not too small, just right."

When you explained the math to the Committee last year, you outlined as this chart indicates, "Start with the $5.6 trillion surplus, take away $2.6 trillion in Social Security surplus and $1.6 trillion for tax relief, and we are left with a $1.4 trillion cushion..."

Today, as I've indicated, we face a far different picture with those surpluses largely disappearing. All of this tells me that a prudent person putting out a budget this year would decide not to dig the hole deeper.

In fact, I don't think it would be a bad idea if the administration and the Congress kept in mind the observation you made earlier this week at the Finance Committee. You said 10 year projections are a useful discipline, but they are not rock solid predictions. This is a point I tried to make last year and you certainly alerted to people last year that 10 year predictions are a crap shoot. But, I do think we have to remind ourselves of that fact.

But, in that context the President now comes with a budget with another $600 billion in tax cuts when all of it will be coming out of the Social Security trust fund monies. I personally think that is a serious mistake in light of the fact that the baby boom generation starts to retire in just six years.

In addition, the tax cuts the President proposes are heavily back-loaded. More than 70 percent of the tax cuts being proposed by the administration will take effect in the second five years. More than 40 percent of the cuts take effect only in 2012 – the final year of this budget window. And the cost of these additional tax cuts in the second ten years is $4 trillion, right at the time the baby boom generation is retiring and the fiscal condition of the country is dramatically altered by that fact.

Leaving aside the tax policy problems with what the President has proposed, what is especially troubling to me and many members of the Senate is the taking of Social Security and Medicare trust fund surplus money to use for other purposes.

Remember what you said last year to the Finance Committee on the subject of protecting Social Security. As a member of that Committee, I remember that very well. You said then that, "The Social Security dollars that are going to flow into the government over the next 10 years are safeguarded, lock boxed, fenced off, protected from all evil-doers. I do not know if there are more strong ways to say it. Social Security dollars are set aside without any threat of encroachment."

Now we look back and see that is just not so. If we look at what we're faced with now – we go back to the bad old days in 1996 and 1997 we were taking all the Social Security trust fund money and using it for other purposes. We were able to dramatically reduce that in 1998. We were able to stop that practice completely in 1999 and 2000, where we took none of the Social Security surpluses for other purposes. But now we've seen a reversal. In 2001, it started in a relatively modest way, but the next three years of the President's budget we're taking under his plan all of the Social Security surpluses to be used for other purposes. And over the next decade under the President's plan, $1.7 trillion of Social Security surpluses will be taken to pay for tax cuts and other expenditures of government.

The President's plan has enormous consequences. Last year, you assured us that you would be able to pay down as much of the publicly held debt as was possible to do – some $2 trillion. But now, we see instead of being able to pay down $2 trillion of debt, that is dramatically reduced to $521 billion. The result is that federal interest costs go up dramatically. Last year, we were told over the next decade we would pay some $600 billion in interest cost. That has now been increased to $1.6 trillion. So that's a trillion dollars that's going out in interest costs that's not available to strengthen our national defense, or improve homeland security or meet the other pressing needs of the country, or to pay down debt.

The truth is, I believe, there are no surpluses left, none. I think the words mislead us perhaps. They certainly mislead the American people. I believe to the extent surpluses are from trust funds, that those monies are already fully committed and should not be designated as surpluses.

Before Chairman Greenspan's testimony before this Committee, he and I had a very interesting conversation, and he said one of the things that has concerned him is the liabilities the federal government has that are not on the books of the federal government. They're not on the books of the federal government, because the theory is the federal government could stop the programs of Social Security and Medicare, and so those liabilities are considered contingent liabilities. Chairman Greenspan said to me, in his judgement the vast majority of it is not contingent at all.

And, that's why I likened this to the Enron theory. I'm not accusing anybody of corruption here. That's not the point. The point is, as I understand it, the biggest problem with Enron is that they did not face up to their true debt. In effect, they were hiding debt from creditors, from shareholders, and perhaps even from themselves. Perhaps there were executives who didn't fully appreciate the amount of debt that they had. I wouldn't be surprised by that. Frankly, I wouldn't be surprised that there are colleagues who don't fully appreciate the debt that we have. And so the use of language is important, and I have become increasingly concerned that when there's talk in Washington of surpluses that sends a signal to people across the country that there's money here that's available for spending, that's available for tax cuts, that it's extra, that it's beyond what the need is. And, I don't think that is the case. I really don't think we have surpluses. In many ways, what I am talking about is a very conservative view. I can tell you there are people who don't welcome it on my side of the aisle, but I believe it's the case.

Where will it lead us? CBO Director Crippen concluded his testimony here 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– that's not his quote, that's my statement. Back to his quote, "...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."

This is the reality that is just beyond this 10 year budget horizon, and I think it's got to inform all of our actions – administration proposals, congressional action – and if we believe that's where we're headed, it's got to put a brake on what we do on both the spending side and the tax cutting side. That's my own strongly held belief.

I believe Director Crippen gave us the hard truth. As I have said before, I believe the President's budget fails to address that long-term fiscal imbalance facing the country. And I believe that his proposal, not so much in the short-term, as that's not to me the issue. I am much less concerned with this year's budget and even to some extent next year's budget. I am much more concerned about our long-term glide slope here and where it's taking us.

Mr. Secretary, that's my own view of our condition. My disagreement with the administration is a fundamental one. It does not flow from any disrespect or disregard. In fact, as I've expressed before and I would express to you, I have the highest regard for the President's management of the war effort and for the conduct of this administration in facing this incredible challenge to this nation. I must say there have been many times sitting at home where I have felt real pride in how the President has conducted himself, how you Mr. Secretary have conducted yourself and I acknowledge that fully here. The disagreement I have is I think we're on a long-term course that does not add up, and puts our long-term financial security in jeopardy.

I just want to make clear that my concern about taking money from the trust funds to pay for other things is when I see the administration proposing to do it, not in the time of recession – that I could live with, that I could accept – but it's when they're forecasting strong economic growth, and it's not just temporary, now in the middle of this conflict. Frankly, this conflict is not all that expensive. The recession has been more of a drain. They're talking about taking $2 trillion out of the trust funds over the whole next decade. And they're forecasting strong economic growth during that period. I just say to you my own belief is we've got to be willing to pay for what we want to spend. That is especially critical when we have the baby boom generation poised to retire. And, that's going to change the fiscal outlook for the country. So I just think it is unwise to be taking money out of the trust funds for this entire decade when it's the decade the baby boomers start to retire.