

**Excerpted Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad
Hearing with Secretary of State Colin Powell
on the President's Fiscal Year 2003 Budget Proposal
February 12, 2002**

Conrad Opening Statement

The hearing will come to order. Welcome Mr. Secretary. It's always a privilege to have you here before the Committee. As you know, Senator Domenici has been advised by doctors to take it easy for a bit, so he will not be with us today. He has a statement for the record that we'll make part of the record at this point. A number of our colleagues will be joining us.

We're going to be talking about the budget of the United States and how it relates to the 150 function and how it relates to the dramatic changes that we are confronting as a nation since the attacks on this country on September 11th.

First of all, I want to say to you Mr. Secretary how much we respect how the President and his administration have conducted themselves in the face of this attack. Certainly, we want to acknowledge the extraordinary efforts that you have extended to manage this crisis. Our respect for you, which was always high, has done nothing but grow as you have managed to hold this coalition together and you have dealt in a very thoughtful way with the many demands on your time and on your energies in this period. So we thank you for that as Americans. I have said from this podium many times I have been proud as an American to see how we as a country have responded.

This hearing will be about other steps that are necessary and how they impact the budget. I thought for just setting the record that I might go through where we are in the budget with what the President has proposed, what the priorities are that he has signaled to us and then Senator Smith, who has been designated to fill in for Senator Domenici is here, he'll make his statement, and then we'd hear from you and then each of the members will have seven minutes for their questions and comments and if we have additional time we'll do that.

In the President's budget, this is what we see in terms of the percentage increases over the baseline. Those who are listening who aren't familiar with baseline, baseline takes previous budgets, adjusts them for inflation, adjusts them for increases in the number of people eligible for the various programs because of demographic changes. This shows the increases in spending requests over that baseline, and as we can see the President is asking for the biggest percentage increase over baseline in homeland security, 23 percent; a 10 percent increase over baseline for national defense; a two percent increase for international affairs; and all other domestic programs are being reduced by six percent.

Let's go to the next chart which shows the billions of dollars over baseline. Instead of looking at percentage terms looking at the billions of dollars over baseline, we can see homeland security is \$5 billion over the Congressional Budget Office baseline; national defense is \$36 billion over the baseline; international affairs \$400 million; and all other domestic programs

being reduced \$23 billion.

International affairs priorities within the international affairs budget. This is what the President is recommending to us. Development and humanitarian assistance increased \$114 million; international security, military assistance increased \$417 million; all other activities reduced by \$126 million.

There has been a lot of criticism in the United States for not being a big enough contributor to international affairs. Number one in the world is Denmark. They are contributing just over one percent of their GNP for these purposes for foreign aid contributions. They are the leader in the world, the biggest percentage of their GNP going for this purpose. We're at one-tenth of one percent, so we're 22nd in the world to put it in perspective.

On the other hand, in dollar terms, we're number two. That is, we're 22nd in percentage of GNP going for foreign aid. On the other hand, we're number two in the world in total dollars going for foreign aid – we're \$9.6 billion a year. The Japanese outstrip us. They're at \$13 billion. Number three is Germany at \$5 billion.

So that gives a bit of an overview putting things in perspective as we move forward and consider the question as to what the budget should be in this area. Mr. Secretary, when we get into questions, there will be a number of things that I will inquire about. The President said in his State of the Union that we face an axis of evil with the North Koreans, the Iraqis, the Iranians, so as we build a budget we need to know what that means. What is it that we are going to confront, what is it that we need to consider as we write a budget? Second, as I indicated to you in the paper this morning, I noticed that there are a number of assistance groups that are asking for a doubling of aid and we'll want to talk a little about that, and other matters as well.

Question and Answer

Conrad Question:

There is an ocean of red ink, and it's not just this year, not next year, it's the entire next decade. Taking nearly \$2 trillion out of Social Security trust fund to pay for these other things, taking \$500 billion from the Medicare trust fund to pay for these other things. Some of us just don't think that's appropriate. It is a profound mistake for the economic future and fiscal future of the country. So if we're going to reduce those invasions of the trust funds, where does the money come from? You've come here and made a very powerful case, as you always do. The question is where does the money come from? That's the question we've got to answer. And, so I'm asking for your help. If these priorities are critically important as you describe, do we cut spending other places? If we don't do that, do we raise revenue to pay the bill? And your answer is?

Powell Answer:

Or do you increase the national debt, and I think where we are right now is that for the foreseeable future, for the next several years we may well have to increase the debt, as your chart shows, in order to deal with these priorities.

I have restrained my appetite in presenting my case to OMB and to the President. I would have liked to have asked for a lot more. To some extent, I cut from what my staff thought was appropriate, what I thought was appropriate, because I knew that there were limits of what the President could do.

And so I believe that my budget is a reasonable one, shows some real growth, and it recognizes that a lot more growth was needed for homeland security and for the defense department, and the President made a judgement that this combination of spending, which focused on homeland security, focused on defense, focused to a slight extent on foreign operations and the running of the State Department, and cut other departments, and also picked up additional debt for the American people, was the right allocation and the right way to go about it, in the hope that economic growth would return quickly and it would cause there to be less of a claim or less debt on the American people as a result of the necessary expenditures.

Your chart also shows that for the last ten years, and for many years before that, we were also running a deficit. We were fortunate to come out of that for a year or so, and now we are back down into a deficit spending situation and I hope we will see that black little hilltop you show return with the restoration of economic growth. To some extent it was the terrorist incidents of last year which hurt the economy and probably kicked it into the situation we have now.

Conrad Response:

Let me just say to you, Mr. Secretary, that in these numbers there's forecast of strong economic growth. The administration is forecasting 3.1 percent growth on average for the 10 years, and yet we still see massive deficits, and not just for the year or two, not just at the time of economic downturn, but through the entire decade. As I indicated, \$2.2 trillion under the President's plan is being taken from the Medicare and Social Security trust funds to pay for these other things. That's right at the time the baby boom generation starts to retire and that's what leaves us with this very difficult set of choices.

You come here and make a very strong and persuasive case for additional resources. We know that every dollar that you ask for of additional money comes out of the Social Security trust fund. And if we don't think that should be done – and the American people tell us they don't think that should be done – that leaves us with only two options if we are to grant your request, that means cutting spending some other place or raising the revenue to pay for it. Your answer is add it to the debt, but that means taking it out of the Social Security trust fund which the American people have overwhelmingly told us don't do.

So I say to you, and through you to the administration, I don't think they've come up with the right answer here as to how to pay for these things, and I think we've got an obligation together – if we say these things are needed – to pay for them, and not just stick it on the charge

card.

Conrad Closing Statement

Let me just conclude as I began by saying you do a superb job as a witness. You really do, and I don't say that to many witnesses, you just do an excellent job making your case. I make the case back to you, and I know this is not your responsibility in the administration, but I don't see this budget plan as adding up. I really do not. If it was just for this year, I could be more understanding because of the economic slowdown and the war. But we see here red ink for the next decade in terms of the non trust fund accounts of the federal government. They're not just small – it's huge, over \$2 trillion being taken from the trust funds in the President's plan to pay for these other matters, the tax cut and other expenses of the federal government. That will make future choices extraordinarily difficult for a future Congress and a future President.

My own view is that if we want to spend this money, we have an obligation to pay for it. This generation just can't send the bill to our kids.

Some people have asked me, "Why are you so fixed on this?" Well, I'm fixed on it because I have a daughter – she was here in the audience as a matter of fact, she wanted to hear you, she's made a special study of Islam, learned Arabic – I know some point down the road, she's going to turn to me and say, "Dad, you were chairman of the Budget Committee, what were you doing when you guys ran up these big debts?" I want to be able to say I confronted it. I said what was going to happen and tried to do something about it.

And, I very much hope the administration will come back with a plan as to how we're going to cope with these deficits and debt. I think just as it posed a huge problem for the company of Enron, it is going to present a huge problem for our country. This money is owed. It ultimately is going to be paid. Those that ran up the tab have an obligation to pay it.