Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing on the President's FY 2005 Budget Proposals
with OMB Director Joshua Bolten
February 5, 2004

Opening Remarks

Mr Chairman, I also want to welcome Director Bolten to the committee. This is a challenging time -- certainly for you, for the administration, for the Congress -- as we address what I believe are deficits that are far too large and growing geometrically. Certainly as we look ahead, past the five year window, I think we have to be most concerned about the fiscal direction of the country.

When I look at past statements by the administration, I remember very well in 2001, they told us we could have massive tax cuts and that there would be no deficits even with an economic downturn. That proved to be wrong. Then the next year, they told us the deficits would be "small and short-term." That also proved to be wrong. The deficits have been large and long-term. Then in 2003, they told us that the deficits were small by "historical standards." That, too, proved to be wrong. These deficits are record deficits. Now, this year we're being told that they are going to cut the deficit "in half over the next five years." I think we have to ask the question, "Will that too be wrong?"

Let me go to just a back of the envelope analysis that tells me that will be wrong as well. The President says in the fifth year the deficit will be $237 billion, but he's not counting the $259 billion he's going to be taking of Social Security surplus funds – every dime of which will have to be paid back. He's not counting the $23 billion from the Medicare trust fund. He's not counting the $55 billion it would take to deal with the alternative minimum tax problem, which he's paying for one year but not beyond. And, he has no cost for the residual war cost – the war on terror, Afghanistan, Iraq, which the Congressional Budget Office says in that year will be another $30 billion. That's over $600 billion that will be added to the debt.

Just a reality check, I went to the President's budget document and looked at 2009, and what one sees is the President himself says he's going to add $633 billion to the debt in that year. So, how is it that we've got much larger accumulations of debt than the deficit picture the President asserts would provide?

Well, first of all, he's taking all of the Social Security trust fund surpluses over the next decade – $2.4 trillion, and not accounting for it, not accounting for it at least with respect to deficits.

In addition, the tax cut the President is proposing explodes outside the five-year budget window. He's only looking at five years when we all know much of the effect of his additional tax cuts occur beyond the five-year budget window. This is the cost of the tax cuts including the associated interest cost.

And the same is true of the alternative minimum tax that was the old millionaires tax that now is going to be a middle class tax, because we have 2- or 3-million people effected by it today. It's going to be 40 million people by the end of the budget period, 40 million people, and it's going to cost $658 billion to fix. The President's got one year of that cost, but doesn't have a dime beyond that time.

And the same is true of war cost. The Congressional Budget Office says [that over] the 10-year period – $280 billion of cost for the President's defense policies, the war on terror. And yet the President's got no money provided beyond September 30 of this year. They tell us we don't know what the cost will be, but we know the right answer is not zero.

The thing that most concerns me is the long-term trajectory, because what we see is that right now we're in the good times in effect – even though the deficits are at record levels – because we have these substantial trust fund surpluses. But look what happens when the trust funds – the green bar is Social Security, the blue is Medicare – when they go cash negative, at that very time the cost of the tax cuts explode.

Now, I'll just end with this chart that shows the President's own analysis of the long-term budget circumstance. This shows that the current situation of record deficits is the good times. That when the baby boomers retire, and when the President's tax cuts go fully in effect, these deficits go right off the cliff.

So, I think we have to alert the American people that we're on a course that is simply not sustainable, that fundamentally threatens the economic security of the country. The biggest way it does is upward pressure on interest rates, the biggest way it does is people deciding they don't want to hold dollar-denominated assets.

I just conclude with an article that's in the *[Wall Street Journal]* this morning saying "Asian Central Banks Consider Alternatives to Big Dollar Holdings." Already we've seen the dollar go down almost 30 percent against the Euro in the last 18 months. I think we have got to get very, very serious about the fiscal condition of the country.

Thank you.

Question and Answer Period

Conrad: Director Bolten, when did you know that there was a difference, a substantial, dramatic difference between the estimates of the cost of the prescription drug bill between CMS and your agency?

Bolten: I think all of those who were involved in the Medicare discussions were aware that there were differences between the assumptions of the CBO and the HHS actuaries. And my understanding is that that was true all the way through the Medicare considerations.

Conrad: And did you ever feel that you had an obligation to tell members of the Congress that you thought the bill was going to cost much more?

Bolten: I wasn't directly engaged with the members of Congress on the bill, but I know that Secretary Thompson, who was, did discuss with members some differences in the assumptions. But within the administration, we were also aware on this legislation, as in all legislation, that what counts as the legislation is being considered is the CBO score.

Conrad: Well, when you say you weren't engaged with members, you were engaged with me. You came up here and told me that you thought additional steps needed to be taken to reign in spending, but you never once said to me that you had a belief that the cost was going to be far in excess of what was before the Congress.

Bolten: Senator, yes, I did. And I engaged with you and several other members on the long-term outlook here. You'll recall that our conversation was about our interest in creating a unified trust
fund, which I think would most accurately reflect the overall costs.

Conrad: But you did...

Bolten: But on the details of the bill, I was not engaged with the members. But I don't think that's what's really relevant here. What's relevant here is that at the time that you all were considering the bill, it was the CBO's score that counts, and that's what everybody was operating on.

Conrad: Yes, but I'd say this to you. I think you had an obligation if you believed that the cost was going to be far in excess of what CBO was telling us to say so. I won't go further with it. I just tell you I'm personally disappointed that somebody in the administration didn't send up a very clear signal that in their judgment this bill was going to cost a third as much as what we were told at the time.

You keep saying you're going to cut the deficit in half five years from now. The only way you're going to cut the deficit in half five years from now is just not to count things. Let me ask you this. When you say you're going to cut the deficit in half, you say it's going to be $237 billion. Are you counting the $259 billion you're going to take from Social Security in that year that you have to pay back? Is that in that?

Bolten: Senator, with this administration, as all previous administrations, at least in recent decades, CBO looks at the deficit picture on a unified basis so that what counts for deficit purposes is the unified budget deficit or surplus, as the case may be.

Conrad: But isn't that $259 billion going to add to the debt of the United States? The money that's being taken from Social Security in 2009, you've got to pay back, don't you?

Bolten: Sure. It is a government obligation. But what...

Conrad: And that adds to the debt?

Bolten: It does not. It adds to the overall debt of the government, but it does not add to the debt held by the public. It's...

Conrad: Not the debt held by the public, but it adds to the gross debt of the United States, and it's got to be paid back. And let me just say why I'm concerned about this. Because back in the '80s, there was virtually no Social Security surplus to be concerned about. In '83, the last time as a percentage of GDP we had a deficit as big as this one, there was virtually no Social Security surplus.

In this year alone, your estimates are the Social Security surplus is going to be $259 billion. And you're taking it all. You're not taking it all just for that year, you're taking it all for the next decade. That's $2.4 trillion. And you're not letting the American people understand all that's got to be paid back.

But it doesn't end there. The same thing is true with Medicare. The alternative minimum tax, which you're paying for for one year, has a cost in 2009 of $55 billion. It's nowhere. You've got no, in addition to that, no calculation of residual war costs. The CBO tells us it's going to be $30 billion that year. If you add all that up, that's over $600 billion of added debt when you're telling the people it's going to be a deficit of $237 billion. I think that's misleading the people, and all of this right before the baby boomers retire.

Bolten: If you can hold the chart up for just one second...

Conrad: Yes.

Bolten: Senator, we disagree, not about the problem with Social Security -- and I share very much your concern about the long-term, unfunded liability in Social Security. But in terms of correctly describing what our deficit situation is, I think the right way to look at it is on a unified basis because it's what the government needs to borrow today from the private sector or tomorrow from the private sector that's relevant in the factors that you expressed concern about at the end of your remarks, which was is private capital being crowded out, what's going on with interest rates.

Right now, we don't see the deficits we're running today putting pressure on interest rates. But I think you're right to be concerned about it. But the right way to look at it is, what does the government need to borrow today or tomorrow in order to meet that obligation. Let me move on to the other elements. On the Medicare surplus...

Conrad: Let me just respond to that for a moment. I tell you, I think we've got a fundamentally different circumstance than we faced in the '80s because the baby boomers are about to retire. And the hard reality is debt held by the public is a different metric than the gross debt of the United States. The gross debt of the United States matters a lot more when the baby boomers are about to retire. And it's why if you look back at the '80s, there was virtually no Social Security surplus. Now there's huge Social Security revenues coming in, growing dramatically. It's $150 billion this year. It's going to be $250 billion by your calculation in just five years. And you're not counting it as part of the deficit when, in fact, it's all got to be paid back. It's adding to the debt. And what we've got here is a gross debt that is spinning totally out of control at the worst possible time.

Bolten: Well, I do want to emphasize that I completely share your concern about the long-term, unfunded liability of Social Security, which begins to bite within the next 10 or 15 years very badly when Social Security itself will start taking in less money than it's putting out. So I don't want to minimize concern about Social Security. I do want to say we have a disagreement about the right way to characterize deficits today.

Looking at some of the other elements on your chart, I think to suggest that there's a Medicare surplus doesn't tell the actual story, that Medicare is divided into two parts, part of which has a trust fund which is in surplus. But the other half of Medicare is running a large cash deficit.

Conrad: That's true. But we have made a decision around here – we made it long ago – that we are going to fund Medicare in different ways. Some of it was by premiums, some was by general fund transfer. We do have a trust fund, and it's in surplus. And it is being taken and used for other things. And the point is it's got to be paid back.

That's the fundamental problem I have with telling people the deficit's going to be cut in half, because the hard reality is the debt in 2009 is not going to be increased by $230 billion. The debt, according to your own calculations, if you go to your own budget documents, the debt is going to be increased by $633 billion in 2009. I think the American people need to know that. My time is up.

<u>*Closing Remarks*</u>

Let me just say in conclusion. I think you are a good and decent person. I think the budget that you've put before us is a total fiction. As I look ahead, you just leave out things that are critically important for the American people to know.

This is what I think is a closer approximation to the truth because this includes the long-term effect of the President's tax cuts that he advocates. This includes dealing with the alternative minimum tax problem, which is supposed to be a millionaires' tax that is about to turn into a middle-class tax increase. And this deals with Social Security.

And when you do that and you look ahead, what you see is the deficits aren't going down. The additions to the debt are going up, up and away. And these are the good times. These are the good times before the full effect of the President's tax cuts take affect and before the full impact of the retirement of the baby boom generation takes affect.

So I believe this budget and, frankly, your presentation, badly understates how serious the fiscal condition of the country is. In that way, I think it's an enormous disservice to the American
people. I'm sad to say that, but I believe that is the truth.

The biggest thing you've left out is you folks, after promising -- in fact, we went back and looked at the White House Web site. And April 24th of 2002, the President had this statement on his Web site. “We're going to keep the promise of Social Security and keep the government from raiding the Social Security surplus.” It's interesting it's not on the Web site anymore. And well it should not be because you've taken every penny of Social Security surplus, not just this year, not just next year, but every year for the next 10 years. Every penny of Social Security surplus, thrown that into the pot to pay for tax cuts and other things. Those chickens are going to come home to roost because that money has got to be repaid.

How is it going to be repaid when the baby boomers start to retire and the full affect of making the tax cuts permanent takes hold? We've already got record deficits, and the President's plan has increased the spending and cut the revenue. He's restraining the growth of spending in a small part of the federal budget, but most of the budget is increased. The overall budget is increasing. The spending is increasing, and we've got record deficits now. And he says increase the overall spending, cut the revenue.

It doesn't add up. You know, we're honest. We know it doesn't add up. It doesn't come close to adding up. And he's got us headed for the fiscal cliff. That's my belief.

I thank the Chairman again for his many courtesies. And I'd just say that on the question of tax cuts and Social Security, the [Center on Budget and Policy Priorities] has told us you take the tax cuts for 75 years and the Social Security shortfall for 75 years, the tax cuts are three times as big as the Social Security shortfall over the 75-year period that the analysts examined. So we do need to get serious.

And getting serious, I believe, means no more tax cuts unless they're paid for and get real tough on the spending side as well. And unless we acknowledge the reality of our fiscal condition, we'll do neither. And that's a huge mistake because the faster we get on this problem, the less Draconian solutions will have to be.

Again, thank you, Mr. Director, for being here today.