Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing with CBO Director Douglas Holtz-Eakin
on CBO's January 2004 Budget and Economic Outlook
January 27, 2004

Mr. Director, I very much appreciate the analysis that you have put before us because I think it is important to the work of this committee and important to the work of the Congress.

This was the headline this morning in the *Washington Post*: "CBO Says '04 Deficit Will Rise to $477 Billion" this year. Pretty stunning. That is $100 billion more than the biggest deficit we have ever had in this country. And the sub-headline says, "Extending Tax Cuts Could Double Debt."

The President is fond of saying, 'It is the people's money, we ought to give it back to the people.' But, it is also the people's debt. And in effect what the President is doing is borrowing money from the people in order to give it back to some people, and dramatically increasing the debt. And I think we have to question very carefully whether this set of policies that is exploding the deficit -- not just in the short-term -- I want to make clear I'm much less concerned about the short-term than I am the long-term. I think it is the long-term implications of deficits and debt that is growing geometrically that we have to worry about.

In the last year of the Clinton administration we enjoyed a $236 billion surplus. Now, in the third year of President Bush's term, we have a $477 billion deficit – by far, the largest in dollar terms we have ever had.

But, it's not just in dollar terms that we see a large deficit. Some have said, 'Well, the deficit is relatively small as a percentage of GDP.' I think when fairly judged, one doesn't see that. One sees, in fact, that the deficit, as a percentage of gross domestic product excluding Social Security, looking at it on an operating basis, is extremely high by that measure as well. Five-point-five percent of GDP has only been exceeded once since World War II, and that was in 1983.

But, it's not just the short-term deficits that alarm me. The thing that is of much greater concern is that we face an unending flood of red ink, massive budget deficits for as far as the eye can see. This builds on your CBO baseline. The making permanent of the tax cuts, which the President advocates, and fixing the alternative minimum tax – just making those changes, no other changes – making the tax cuts permanent, which the President advocates, and fixing the alternative minimum tax, which will apply to over 40 million taxpayers by the end of this decade if we don't take action, and what you can see is deficits that are massive throughout the ten year period.

Some have said, 'Well, it's because of spending. It's a spending explosion that has created the problem.' First of all, I think all of us have to acknowledge spending has gone up. Most of the spending increase has been for defense and homeland security. That's where the big increases have occurred. But if you look, the red line is total outlays of the federal government since 1980. The trend on spending as a share of gross domestic product has actually been sharply downward. Yes, there has been a substantial up-tick as a result of September 11, the increased expenditures for defense and homeland security being the primary culprits. But you can see even with those increases, we are well below the levels of the 80's and 90's.

Let's go to the next chart that shows where the increase has occurred. The increase in spending, 92 percent of it, has been in just these categories: defense, of course by far the biggest, which all of us supported as a response to September 11 and the other events that transpired; the next biggest increase is homeland security; the third category is rebuilding New York, the airline bailout, and increased international spending. That's where the increases have been.

The President is now focused on domestic spending, which is a very small part of federal spending. He says he's going to restrain growth of domestic spending. The fact is there's been very little growth in domestic spending, not discretionary spending. Many of us talk about discretionary spending, which would include all four of these categories. But you can see that in domestic spending, in real terms, there's been very little growth. In real terms, the growth has been in defense, international and homeland security.

It's been the revenue side of the equation where we've really seen things fall off. As a share of GDP, we now anticipate, with CBO's numbers, that revenue as a share of gross domestic product will reach its lowest level since 1950. So we have clearly got a serious revenue problem.

The President tells us not to worry, that he'll cut the deficit in half. But if we look back at what he's told us every year, it's turned out to be wrong. He told us in 2001, "[W]e can proceed with tax relief without fear of budget deficits..." That was wrong. In 2002, he told us, "[O]ur budget will run a deficit that will be small and short-term..." He was wrong again. Last year, he told us, "Our current deficit...is not large by historical standards." He was wrong again. Now, he tells us, "[T]he deficit will be cut in half over the next five years..." Will he be wrong again? Well, I don't know. But, I think it really misses the point, because the larger truth is whatever happens in the near term is dwarfed by the long-term implications of his budget policies.

You can see the dollar has declined precipitously against the Euro, which confirms a warning that's just been made. And, I'm going to conclude with this. This was in the *Washington Post* yesterday: "Currency traders fretting over that dependency," referring to our need to borrow money, "have been selling dollars fast and buying euros furiously. The fear is that foreigners will tire of financing America's appetites. Foreign investors will dump U.S. assets, especially stocks and bonds, sending financial markets plummeting. Interest rates will shoot up to entice them back. Heavily indebted Americans will not be able to keep up with rising interest payments. Inflation, bankruptcies and economic malaise will follow."

None of us know when that line is crossed, when these twin deficits – the budget and trade deficit – will lead to the kind of results that were being discussed by economists yesterday in the *Washington Post*. But goodness knows we've got lots of warnings. The Comptroller General of the United States warning us of the growth of deficits and debt. The International

Monetary Fund saying the growth of deficits and debt in this country threaten not only our own economic security, but global economic security.

Mr. Chairman, these are serious questions that really require serious responses by this committee, the Congress and the administration.