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

<u>*Opening Statement*</u>

Thank you Mr. Chairman. Thank you first of all for the many courtesies that you have extended to our side of the aisle during the transition. We appreciate very much the way you and your staff have accommodated us as changes were made. It is certainly a very good start to a relationship, and I want to thank the Chairman.

I also want to welcome him to his new responsibility, and to indicate that I look forward very much to working with him. We have a long relationship, having served many years together in the Senate. We have areas where we very much agree. I think both of us believe that deficits do matter and that these budget deficits that we have now are too large and they need to be reduced and that we have a role with our colleagues, a responsibility in trying to put forward plans to get these deficits under control.

I want to thank Mr. Holtz-Eakin for his appearance today and for the hard work of his organization. They help us judge where we are and where we are headed.

I would like to, if I could, to start out with just a few slides with respect to our current condition, and put it in some perspective and look ahead to what we see coming at us if we don't take action. This first slide shows what has happened over the last several years. Back in 2001, we had a budget surplus of $128 billion. Every year since then, the deficit has gotten larger. Record deficit of $377 billion in 2003. That increased to $412 billion last year. Now, the administration is projecting a deficit this year of $427 billion, a new record.

The great concern that I have is not just the next four years or five years. The President has set a goal of reducing the deficit, cutting it in half in the next five years. My great concern is what happens right outside the budget window. The President has proposed making the tax cuts permanent. This dotted line shows the effect for the five years of the budget window. But, look at what happens after the five years of the budget window to the cost of the proposed tax cuts – it absolutely explodes beyond the five-year budget window.

That is not only true of the tax cuts proposed by the President. That same pattern pertains to fixing the alternative minium tax, the old millionaires tax that has now become a middle class tax trap. Three million people affected now. Ten years from now, there will be 40 million people caught up in the alternative minimum tax if we fail to take action. It costs over $770 billion to address that. That's not in any of the budget numbers. It's not in the CBO report today. I am not faulting CBO. It is not their fault it's not there. It's the rules they are governed by.

I think we should make clear that CBO is required to do their estimates based on current law. And so when the President proposes additional tax cuts, that's not in the CBO estimate.

When we have a challenge of the alternative minimum tax, that's not in their estimates.

We see the same pattern with respect to the cost of the war. There's the $80 billion the President has just requested. But, the long-term outlook over the next 10 years is $426 billion of additional spending that most estimates indicate will be required with residual war costs.

If we put all those things back in, what we see over the next 10 years is red ink as far as the eye can see. We see massive deficits, not only this year, but every year going forward over the next 10 years, and very little improvement during this period.

And, if as some are proposing we would fund the transition cost of changing Social Security [with borrowing], moving to some part of Social Security being in private accounts, that would make the deficit situation far more dire. We'd go from an ocean of red ink to an expanding ocean of red ink so that by the end of the 10-year period, we'd be approaching a shortfall of $800 billion a year.

Our debt, if we put all those things back into the calculation that CBO does not include because they are not allowed to under the rules that govern them, we see the publicly held debt of the United States exploding to $11 trillion by 2015. And this money is being borrowed not only ourselves, but we're borrowing money all around the world. We've now borrowed over $700 billion from Japan, over $190 billion from China. We've even borrowed more than $69 billion from South Korea. Some of us are alarmed by this dramatic increase in our external debt. Our external debt has increased 82 percent in just the last three years.

This is why it matters. *Financial Times* ran this headline last week, "Central banks shun US assets." And the point they're making in this article is that increasingly foreign banks are concerned about the debt of the United States, both the trade deficit and the budget deficit and the extraordinary borrowing that are required by both.

That sums up the additional comments I wanted to make, Mr. Chairman, as we head into a review by Mr. Holtz-Eakin of their longterm outlook. I thank you.