

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing on Transparency of Budget Measures
with CBO Director Douglas Holtz-Eakin
February 16, 2005**

Opening Statement

First of all, I thank Senator Allard acting as Chairman for us this morning. I agree with you. I think this is very important because we're starting to talk now about our long-term obligations and the shortfall we're experiencing in those long-term obligations.

This was recently in *Business Week*, and this is what they said: "...[T]here are no good reasons for hiding the cost of all these endeavors or denying their consequences. New private retirement accounts could cost \$1.5 trillion from 2011 to 2015 and add \$100 billion a year to the budget deficit for 20 years. Making tax cuts permanent could cost \$2 trillion. Fixing the AMT could cost an additional \$500 billion. These are real numbers that should be included in any real budget. If President Bush believes the policies proposed are best for the nation, then he should lead an honest dialogue about how we should pay for them."

Mr. Chairman, Director Holtz-Eakin, I agree with that. I think we have a runaway train on our hands. Not just in the short-term, but more seriously I think in the long-term.

As I look at the budget, and I see what's left out: full 10-year numbers are left out – we all know what that means because the tax cuts go up dramatically in cost the second 10 years; funding for the Iraq war beyond this next fiscal year; alternative minimum tax reform; Social Security privatization transition costs -- I'm told now that the cost of that over 20 years is approaching \$5 trillion; and, we have no spending policy details past fiscal year 2006, highly unusual.

When we put all these things back in, here's what we see. The President's budget shows the deficit improving. But when we put all the things back in that have been left out, we see the deficit improving slightly over the next four to five years, but then going back in the wrong direction. And, all of this kind of hides our real long-term situation. The Comptroller General was here the other day and testified we have \$43 trillion of obligations that have not been covered, of unfunded obligations, \$43 trillion, most of that Medicare, \$27 trillion of Medicare. Social Security was about one-eighth of that amount. My own conclusion is we have to be addressing all of these things. We have to be addressing the imbalances in Medicare and Medicaid and Social Security. We have to address the budget deficits, all of that I think is going to require not only spending discipline, but fundamental tax reform.

One other comment I would like to make because I think this is also critical to our understanding of the problem. The long-term economic growth assumptions of the Social Security Administration are 1.8 percent a year. That's what they are forecasting, the economic growth will be over the next 75 years. If we look at the previous 75 years, growth has averaged, as I understand it, about 3.4 percent. The major difference is we have a dramatic reduction in new entrants to the workforce. But that is really a very pessimistic outlook. I asked the Social

Security Administration to tell us what would happen if productivity growth was 2.6 percent, instead of 1.6 percent. They told me then Social Security's funding shortfall would decline by more than half, from 1.89 percent of payroll to .82 percent of taxable payroll. If average productivity growth doubled to 3.2 percent, then Social Security's funding shortfall would decline 90 percent. So, these estimates really matter, and it does strike me that they're extraordinarily pessimistic. That's one of the things I would like to talk to Dr. Holtz-Eakin today.

Notwithstanding any of that, we still have a problem. We still have a problem, and the problem is the baby boom generation. It is going to dramatically increase the number of people eligible for these programs. And as I have indicated, the Social Security problem of whatever dimension needs to be addressed. Our far bigger problem is Medicare and frankly Medicaid is eating the states alive. So I am delighted we're having this hearing today and look forward to the testimony of Dr. Holtz-Eakin.

Mid-Hearing Statement

I really think we're on a long-term course which the Director describes as unsustainable. And these things are real. There's no question about it.

Alternative minimum tax is quickly becoming a middle class tax trap. Three million people affected now. It's going to be 30 to 40 million people affected. We're going to have to deal with it and it costs money to do. It's not in the budget. The war costs past September 30 of this year. Congressional Budget Office tells us it's very substantial, but it is not in the budget. The cost of going to Social Security individual accounts, or personal accounts, whatever one wants to call them, private accounts, has an enormous cost and it's not in the budget.

And when we put the things back in the budget that the President is proposing, it just further takes us into a swamp of red ink, and at the worst possible time before the baby boomers start to retire. And we know what is going to happen. We know that the number of people in this baby boom generation are going to double in very short order, the number of people eligible for Social Security and Medicare, and we know that Medicare costs are going up before we even consider the new numbers. The cost of medical treatment are going up far in excess of inflation. Is that not the case Director Holtz-Eakin?

Holtz-Eakin: Yes.

Conrad:

So we're on a collision course. The more and more I come here I feel like I'm in a sort of a detached-from-reality state in the Congress in working with the administration, because we know these things. It's not even a close call. We know none of this adds up, and yet we act as though nothing is happening and really nothing needs to be done.

My own view is that the work that we would have to do to put the country in a more

secure position for the future is really quite stunning - to take on the challenge of the shortfall in Medicare and Social Security, and the existing budget deficits, coupled with the President's plan for even more tax cuts - none of it adds up. It doesn't even come close to adding up.

I guess my most fervent wish would be that all of us, that the President, say, "Time-out." Let's get everybody to bring their best ideas on how we deal with Medicare and Social Security and tax reform, because I think that has to be a piece of it, and I say that not as code words for a tax increase, I say to my colleagues. I say that because I truly believe our current tax system is hemorrhaging hundreds of billions of dollars a year that is owed that is not being paid.

I used to be a tax administrator. I see the estimates of the IRS that say \$300 billion in 2001 was the tax gap. I don't think they're anywhere close to how big the tax gap is. I think it is much bigger. They are working on studies now that I think will reveal that. And I don't think that just jiggering around with the current tax system is going to fix a significant proportion of that. We've tried to do that before. Senator Allard has been a part of those efforts. I have been part of those efforts. So, I think the agenda is very, very significant, and yet we are kind of dealing with the edges of it. And the sooner we get on this much more ambitious agenda, the better for the country.