Transcript of Opening Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing on the President's FY 2006 Budget Proposal
with Treasury Secretary John Snow
February 10, 2005

Mr. Chairman, I want to take just a moment and go back over some history I reviewed yesterday because I keep hearing things that I think are mistaken in terms of our economic history.

This is the chart I wanted to refer to that shows the relationship between our spending and our revenue since 1980. The red line are the outlays and the green line are the revenues. And the last time we had a huge gap, major budget deficits, was in the previous Bush administration. And you can see outlays were running 22-23 percent of gross domestic product. Revenues were varying between 17-19 percent. So we had that gap, and that gap is what created the deficit and increases in the debt.

Then in 1992, President Clinton was elected, and a five-year plan was passed that reduced outlays as a percentage of gross domestic product, as a share of our national income, and increased revenue. And some of our colleagues, in fact on the other side most of our colleagues said at the time, this set of policies would crater the economy. It still rings in my ear Senator Dole's final speech that increasing taxes is going to crater the economy. Well we can go back now and check the record and see what, in fact, happened. It didn't crater the economy. It set off the longest economic expansion in our nation's history, the lowest unemployment in 30 years, the lowest inflation in 30 years, the strongest business investment expansion in our history.

Well, how can that be? How can it be if you're reducing spending and raising taxes that the economy strengthens? Well, one key reason is the other part of policy that effects the economy – that is monetary policy under the control of the Federal Reserve Board. Because the Congress and the President had been responsible on fiscal policy, the Federal Reserve was more accommodative on monetary policy, and that helped us grow.

We even had two years that we were not only in balance, but we stopped using Social Security trust fund money for other purposes. Then, we ran into 2001, the recession, of course the horrible attack, a plan of tax reductions, and of course spending increases, mostly for defense and homeland security. You can see the increase in spending, the reduction in revenue. About half the reduction was tax cuts, about half of the reduction was because of economic slowdown and other factors.

Tax cuts, without question, were an important thing to do. We had a great difference about how big the tax cuts should be, who it should go to. We had great disagreements about that. We also had disagreements about how long lasting they should be in light of our long-term fiscal imbalances. But I want to make clear I proposed almost a trillion dollars of tax relief at the time to give lift to the economy.

The problem I see with the President's policy is there's no closing of this gap going forward. The spending line remains well above the revenue line under the President's projections, under CBO's projections, under the blue chip forecaster's projections. And I don't see any plan by the administration to close this gap.

And what strikes me as most dangerous about this gap, which constitutes a deficit, which means the debt is growing, is it is happening at the worst possible time. It's happening right before the baby boomers retire. And that is going to dramatically increase pressure on the government. So my own reading of this history is that we have got to work on closing this gap. We have to work on the spending side of the equation. You also have to work on the revenue side of the equation, and I don't see any proposal from the President – none – to deal with the revenue side of the equation. And I hope, Mr. Secretary, we can address this as we get into your remarks.

I thank the Chair and I look forward to the testimony of the Secretary and we welcome you to the committee.