Transcript of Floor Statement by Senator Kent Conrad (D-ND)
on Senate Democratic Alternative Budget for FY2004
March 24, 2003

We are on the verge of completing action on the budget resolution for this year. The occupant of the Chair knows well, tomorrow we will turn our attention to the final amendments. There will be 40 amendments in order on our side. Some number of amendments on the other side. And we will complete action by 4:00 p.m. on Wednesday. These are momentous decisions that have very important long-term implications. And so I thought I'd take a moment today to review where we are, where we're headed, and to propose an alternative that I'll be asking my colleagues to vote on tomorrow, so that we have a chance to describe in some detail what the elements of the Democratic alternative are to the budget being proposed from the other side.

Let me start by reviewing where we are and reminding our colleagues that just two years ago we were told we had some $5.6 trillion in surpluses over the next decade, and now we know that if the President's tax-and-spending policies are adopted, instead of surpluses, we will have $2.1 trillion of deficits over the next ten years. That's especially important given the fact that the baby boom generation is poised to retire in this ten-year period. In fact, they start to retire in 2008. This is an extraordinary reversal that has occurred. $5.6 trillion in surpluses two years ago, $2.1 trillion in deficits now. That is a $7.7 trillion reversal.

Let's look at where the money went. This next chart shows where the money went. Obviously some of it is because of the economic downturn. Some of it is because of additional spending as a result of the attack on this country. The biggest reason for the disappearance of the surplus is the tax cuts that have been already passed and those that the President proposes. If you take those tax cuts and the associated interest costs, you see it's the biggest single reason for the disappearance of the surplus. The second-biggest reason is labeled here, "Other Legislation." That is primarily spending. It is spending on national defense and homeland security. That's where virtually all the additional spending has gone. Third biggest reason are technical changes, primarily lower revenues. Revenues being lower than anticipated, not as a result of the tax cut, but because the economic models incorrectly predicted what revenue would be for various levels of economic activity. And the smallest reason for the disappearance of the surplus is the economic downturn, although it has clearly played a role at 9 percent.

I think what is most sobering about where we are and where we're headed is this chart from the President's own budget. This is from page 43 of his *Analytical Perspectives*. It looks from 2002 going out to 2050, if the President's policies are adopted – his tax cuts, his spending. What it shows is, we never escape from deficit, never. And that these are the good times, that these deficits are the smallest as a percentage of our gross domestic product, even though they are record deficits in dollar terms. These are the largest deficits we have ever had in dollar terms. This year the deficit, not counting Social Security, will be over $500 billion on a $2.1 trillion budget. That is a very large deficit by any measurement. But look what happens if we adopt the President's plan. Those deficits get larger and larger and larger as we go forward, because the cost of the tax cuts explode at the very time the cost to the federal government explodes for the retirement of the baby-boom generation.

Some are saying, well, deficits don't really matter. Somehow, even people who their whole careers have believed that deficits matter, that we ought to combat deficits, are now saying, well, deficits don't really matter, that these are relatively small deficits as a percentage of gross domestic product terms, and we needn't really worry about them.

I'd say this. First of all, these are not small deficits. $500 billion deficit out of a $2.1 trillion overall base is a deficit of almost 25 percent. As a percentage of GDP, $500 billion deficit on a GDP of $10.5 trillion is a deficit approaching 5 percent of GDP. That is in the range of the very large deficits we saw back in the 1980's. But again what I hope will be remembered is that these are deficits that are right on the verge of the retirement of the baby boom generation. And that's when the costs to the federal government explode. That's why these deficits are especially dangerous to the long-term economic security of the country.

For those who say, well, deficits don't really matter, let's turn to Alan Greenspan, who is the Chairman of the Federal Reserve. He believes deficits matter. He said, there's no question that as deficits go up, contrary to what some have said, it does affect long-term interest rates. It does have a negative effect on the economy, unless attended to.

This chart, I think, is especially important because it shows why this matters so much. This shows the moment in time that we are in and why the previous chart from the President's analysis shows this to be the sweet spot. It is because the trust funds of Medicare and Social Security are right now producing hundreds of billions of dollars of surpluses. This year the Social Security trust fund alone will produce over $160 billion surplus. That's why we are right here. That's the green bar on this chart. That's the Social Security trust fund. The blue bar, the smaller bar, is the Medicare trust fund. It is also producing surpluses, although substantially smaller than Social Security. You can see they are much larger in total than the tax cuts that are in place.

But look what happens in the next year. Then the size of the tax cuts almost equal the trust fund surpluses, and that is true the rest of this decade. Then look what happens as the trust funds start to go cash negative in the next decade. The cost of the tax cuts explode.

Now, let's reality test. We're already in record debt deficits now – biggest deficits in dollar terms we've ever had. We're already in record deficit land – biggest deficit on a unified basis – that means when you put everything into the pot, all spending, all expenditures, all revenue. The biggest deficit we ever had before was under the previous President Bush, $290 billion. This year, the deficit on a unified basis could approach $400 billion. And remember, that doesn't count the $160 billion that's being taken from the Social Security trust fund. You put those together, you owe over $160 billion.

What is ominous about this is, as we go forward, when the trust funds turn cash negative, the cost of the President's tax cuts absolutely explode, driving us right off the cliff – deeper and deeper deficits, deeper and deeper debt. And that's going to present a future Congress and a future administration with extremely difficult choices.

Here is what the former Director of the Congressional Budget Office – put in place by our friends on the other side of the aisle – he was their choice for the Director of CBO – CBO is nonpartisan but they had the opportunity to pick him because they were in the majority – this is what he said: “Put more starkly, Mr. Chairman, the extremes of what will be required to address our retirement are these: We'll have to increase borrowing by very large, likely unsustainable amounts; raise taxes to 30 percent of gross domestic product, obviously unprecedented in our history; or eliminate most of the rest of the government as we know it. That's the dilemma that faces us in the long run, Mr. Chairman, and these next ten years will only be the beginning."

That's what he's referring to there, only the beginning. This is going to get much more serious as the baby boom generation retires and as the cost of the President's tax cuts explode. Now, some are saying, well, but this is a growth package, and we're going to grow out of this problem by more and more tax cuts.

The so-called growth part of the President's tax proposal costs $994 billion. $726 billion, that's advertised in the newspapers, but they forget about the associated interest cost. If you reduce your revenue or increase your spending, that adds to your interest cost. When you take the whole cost together, it's $994 billion in this ten-year period. But the first year stimulus is only $40 billion. So the President only has 4 percent of his package in the year in which we know we need lift to the economy. We know we need stimulus. He's only providing 4 percent of his package in that year. It doesn't make much sense really if we're tying to get the economy moving again – and then makes matters worse by adding in the long term to the deficits and debt that will make our future choices more difficult and more dangerous.

This is an analysis of what the President's plan does to economic growth. It was done by Macroeconomic Advisors. This firm is under contract to the White House to do their macroeconomic analysis. They are also under contract to our Congressional Budget Office. Here's what they say. They say that the President's plan crowds out investment and slows the economy after 2004.

It's not a growth package at all. It is a package that will hurt growth, will retard growth, will reduce jobs, will reduce opportunity. Why? Because they have concluded the President's plan and the tax cuts in it are offset not by spending cuts, but by borrowing the money. You can't borrow your way to prosperity. And what happens? Because of the President's plan, we go deeper into deficit. Remember, we're already in record deficit now. You cut revenue and you raise spending, which is the President's plan, you go deeper into deficit. You go deeper into deficit. You reduce the pool of societal savings. That reduces the pool of funds that are necessary for investment. Less investment, less growth. That is their conclusion.

But it's not just their conclusion. We also saw an analysis by Economy.com, by Mark Zandi, the noted economist there, on the economic impact of the President's plan and compared it to the plan the Democrats have offered. What they concluded was that the plan offered by the Democrats is about twice as strong a stimulus as the President's. In 2003, the President's plan would increase growth by four-tenths of 1 percent, the Democrat’s plan by seven-tenths of 1 percent – almost twice as much. In 2004, the President's plan would increase growth by half of 1 percent. I think the most interesting conclusion is the conclusion for the entire ten-year period. Zandi has concluded that the President's plan actually hurts economic growth for the ten-year period. From 2003 to 2013, he finds that the President's plan is negative.

And why? Well, he says, because of this crowding out effect. Because the President's plan creates more deficits, that means more borrowing. That means the federal government is in competition with the private sector to borrow money. That drives up interest rates. Interest rates go up, economic growth goes down. That is the fundamental problem with the President's plan.

And, again, it's not just Chairman Greenspan. It's not just Macroeconomic Advisors. It's not just Economy.com. A group of some of the most prominent CEO's in America, 250 of them, that belong to the Committee for Economic Development, came out two weeks ago with a detailed report that found the following:

- Number one, current budget projections seriously understate the problem. In other words, the problem of growing deficits and debt is much bigger than has been acknowledged.
- Number two, while slower economic growth has caused much of the immediate deterioration in deficit, the deficits in later years reflect our tax and spending choices.
- Number three, deficits do matter.
- Number four, the aging of our population compounds the problem. This is really a confirmation of everything I've been saying to my colleagues.

Deficits do matter. Of course they matter. Just like they matter to a family. You can't go out and spend more money than you have in income without it catching up to you at some point. By the way, it doesn't happen right away. Just like to a family, you can run up those charge cards. You can spend more money than you've got coming in for a while. For a while. But at some point it catches up to you. So too with nations, even great nations like ours. We can spend more than we take in for a while. But at some point, the chickens come home to roost.

You can't have deficits that are growing as a percentage of your gross domestic product. That's what every economist will say. You can't have deficits that grow consistently above the size of the growth of your economy. And that's the problem with the President's plan. The deficits grow faster than the economy is growing in the long run. Not just a little bit faster; a lot faster. That's what puts us in a difficult situation.

And that's not just the opinion of the sources I cited. Here's from the *Virginia-Pilot*: "'Our challenge is to allow Americans to keep more of their money,' the President said in his speech Tuesday. That was a sound argument when the nation was building up a surplus year after year. But our financial outlook has changed for the worse. There's no money left over to give us back."

Remember when two years ago the President had his plan for a big tax cut. And he said, look, we're only giving back one out of every four of surplus dollars? Remember, the surpluses are gone. There are no surpluses left. Now all we see are deficits and red ink. There is no money to give back.

They continue, "So the government will borrow billions to make good the President's I.O.U. Americans should be skeptical about the promise of something for nothing. It's your tax cuts. But it is also your Social Security, health care, your schools and roads. They all suffer when the government has to borrow to meet its daily expenses."

And it's not just the newspaper in Norfolk, Virginia. Here's the *Deseret News* of Salt Lake City, Utah. They say: "Now is not the time to cut taxes. War is unpredictable. A long, protracted campaign that triggers counterattacks by terrorists and Iraqi sympathizers could be hugely expensive."

Boy were they prescient, because today we learn the President is going to come up here this week and ask for another $75 billion for this year alone to wage the war in Iraq, not a dime of which is in the budget. None of that is in the budget.

"Coupled with giant tax cuts, it could send the budget deficit back into levels not seen in a decade or more, which would stifle growth and hamper investment." Exactly the points that I've been trying to make to our colleagues during this budget debate. "Congress ought to put the President's tax plan on the shelf for a while until it knows better how the men and women in uniform are going to be spending their year."

Let's look at the budget that's been proposed on the other side, because here's what we see. We see that this year alone, that the deficit will be somewhat less than the President's proposed level, but still nearly $500 billion. And it never goes away. This is all red ink. This is all borrowed money. Not a single year is the deficit below $300 billion under the President's plan or under the plan that the Republicans are offering us here in the Senate chamber. Truly stunning. Those are the biggest deficits we've ever seen.

Well, it's not just deficits, but it's also the debt of the country. Two years ago the President promised that under his plan he would virtually eliminate the debt by 2008. Well, we see that that is no longer operative. If we enact the Senate GOP budget plan, the debt -- total debt was $6 trillion in 2002 – will be $12 trillion in 2013. Almost doubling in that period. Many of us think that would be a serious mistake.

This is what we see. This line across the chart at zero is baseline. That's if we don't change the revenue policy of the federal government and we don't change the spending policy of the federal government. That's the so-called baseline. If we adopt President Bush's budget, you can see we have $2.8 trillion of added debt during this period. The Senate GOP plan would add $2.2 trillion of debt.

Now, again, what's critical is that we're on the verge of the retirement of the baby boom generation. This is a time we ought to be paying down debt, or prepaying liability. Instead, they're talking about dramatically expanding debt either under the President's plan or the Senate GOP plan.

I'm going to offer an alternative on behalf of Senate Democrats. And here are the key elements of this plan. Instead of a $1.6 trillion tax cut, we will offer a tax cut much more modest, one that is at the front end to give stimulus to the economy, that would cost $61 billion.

And in terms of covering the costs of the Iraq war, there's no provision in the President's budget, no provision in the Senate GOP budget. We would provide the $80 billion for the supplemental that the President will apparently call for.

On homeland security, the President and the Senate budget are in the $22 billion to $26 billion range for the ten years. We would provide $80 billion for homeland security, because we think it's necessary.

Under prescription drug benefit, both of them would provide $400 billion during this ten-year period. We would provide $594 billion for a fuller prescription drug benefit. Make no mistake, this is no Cadillac plan. To give the American people the plan that we as members of Congress have over that period would cost not $594 billion, but $1.8 trillion. To give the plan to the American people that our military has would cost $2.2 trillion over that same period. So it's important to understand that while we're putting more money into prescription drugs than the President's plan or the Senate Republican plan, it is a long way from being generous. $594 billion, as I've indicated, that is about one-third of the cost of what giving the plan that all federal employees have to the American people.

On education, there's no additional money for IDEA. That's the promise that we made to states and local communities when we passed the disabilities act legislation for our schools. We said we'd fund 40% of the cost. We only do half as much. To keep the promise to phase it in over ten years costs $73 billion. We provide for it. Neither the President or the Senate GOP plan does.

On transportation infrastructure, the President actually cuts $18 billion below the baseline, below level funding. The Senate GOP plan also cut, but now it's been amended by a floor amendment, so they bump it up $27 billion. We would provide $71 billion over ten years above the baseline. Why? Because, number one, it's stimulative. You start building roads and bridges, those are good-paying jobs. But more than that, it increases the efficiency of our economy. Anybody that doubts that, go out to Wilson bridge tonight at 5:30 and see what's happening. Look at the people who are going nowhere. That has an economic cost to our society. Go out on route 66 tonight. See what's happening there. Absolute gridlock.

It's not just in the Washington metropolitan area. It's all across America. In my state of North Dakota, which is not heavily populated, we've got a substantial part of our road bridge network that needs repair. We've got many of the bridges in this country, I think it's something like 40% of the bridges in this country are substandard. That's going to cost money to fix them. But if a bridge goes out, that creates lockjaw in the whole economic system of that area. That's something we ought to attend to.

And veterans. No additional money in the President's budget or the Senate Republican budget for our nation's veterans. We would provide $13 billion over the baseline to say to our veterans we honor what you do to defend this country. And we believe the promise that has been made to you on your health care and on your treatment ought to be kept. I think virtually everyone knows the baseline budget for veterans is insufficient. And we try to address that with those additions.

The difference in deficits, the President adds $2.1 trillion to deficits. $1.6 trillion under the Senate GOP plan as amended. Our's $863 billion. The difference between our plan and the President's plan is over $1.2 trillion. We have $1.2 trillion less in deficits than the President's plan. And we have over $750 billion less in deficits than the plan proposed by the Republican majority. Balancing the budget, the President never does. Senate Republicans, 2012, perhaps 2013. We balance in 2011. I think that's a wiser course for America, and what we should do.

I hope very much that our colleagues will give close consideration to this alternative budget when we vote. I wanted to provide these details – and I will put more descriptions of our alternative in the *Congressional Record* so it's available to our colleagues – so that when we vote tomorrow on this alternative people will have a chance to make their own judgment and to compare very directly what we have proposed, what the President has proposed, what the Senate majority has proposed.

I would hope very much our colleagues will take a close look at what we're suggesting. $1.2 trillion less in deficits than the President's plan. Over $750 billion less in deficits than the majority has proposed. And yet, we have also tried to address the war cost, which is not included in either the President's budget or the budget from the majority here in the Senate. We've tried to address keeping the federal government's promise to local subdivisions on education funding. We've also tried to address the transportation gridlock in the country by providing more funds there and the health care needs of America by some additional funding on prescription drugs. And of course, then the other difference, the additional funding for our nation's veterans, something that we believe is especially called for in this time when they are sacrificing so much half a world away in the battle in Iraq.

Again, the budget is about choices. That's what we're doing here. We're making choices on behalf of the American people. What is the future going to look like? I believe the budgets proposed by the President and the Republican majority are dangerous for this country. I believe that deeply. They are pushing us deeper and deeper into deficit and debt right on the eve of the retirement of the baby boom generation. The cost of the President's tax cuts explode at the very time the cost of the government explodes because of the retirement of the baby boom generation. And remember, we're already in record deficits, and the retirement of the baby boomers is not 20 years away, it's not 10 years away. The leading edge of the baby boom generation starts to retire in five years.

I believe we will be condemned in history for failing to face up to our responsibilities and our obligations if we don't recognize what's right over the horizon. And that's not a matter of projection. That's a matter of simple fact. The baby boomers have been born. They're alive today and they're going to be eligible for Social Security and Medicare. We know exactly what's going to happen.

The cost of the federal government of having twice as many people eligible for Social

Security and Medicare in the years ahead can only do one thing. It will drive up dramatically the cost of those programs: Social Security and Medicare. And at the very time those costs expand and explode, the cost of the President's tax cut will expand and explode and put this country in deep deficit, in deep debt and fundamentally threaten the economic security of this country. I fear that some of our colleagues actually intend to shred the programs of Social Security and Medicare. I don't know what other plan they can have in mind. Because these details, these projections of the spending and revenue of the federal government are very clear. Even if -- by the way, some have said to me, well, if the economy grows more strongly, won't that help? Yes, it would help. But understand that all of these numbers assume strong economic growth. They assume the kind of economic growth we've had in the past.

Let me also say that some will look at the plan that I have provided and say, gee, Senator, you've got some more spending than the Republican plan. Yes, I do. I pay for this war. I increase funding for homeland security. I increase funding for our veterans. I increase funding for education and prescription drugs. Just in those areas. The rest of the budget, in domestic affairs we hold to a 4 percent increase. That means other parts of the budget are actually having to be cut in order to provide for the priorities for education and prescription drugs. Other parts of the budget are having to be cut.

Let me just show this final chart. This shows the long term spending of the federal government from 1981 out through 2013. And what you can see is the peak of federal spending as a percentage of gross domestic product occurred back in the1980's when we were at 23.5 percent of gross domestic product going to the federal government. You can see that that has come down markedly to less than 20 percent. Now we've had a jump back up because of the increased defense spending and increased homeland security spending. But look at the difference between my budget and the Senate GOP plan. Very little difference. We wind up at 19.3 percent of gross domestic product under the plan that I am proposing, down from 23.5 percent in the early 1980's. The Republican plan goes to 18.8 percent -- one-half of one percent difference. And that one-half of one percent is important because, again, it's a matter of priorities. It's a matter of choices.

The budget I'm proposing puts in the $80 billion to fund this war in Iraq. Our friends on the other side don't have any money to fund the war. Number two, I provide additional funding for our nation's veterans, $13 billion. Not a lot of money over ten years, but it's meaningful to them and it means we can keep promises we've made to them. And in the other major areas of difference, I've provided some additional funding for prescription drugs. Again, a plan that's very modest compared to what members of Congress and federal employees have. I have also suggested additional funding for transportation because we need it. We need to improve the efficiency of our transportation system in this country.

Those are the choices that are going to be before our colleagues. The plan that I have offered here today is a plan that will produce, as I've indicated, $1.2 trillion less in deficits than the President's plan. Over $750 billion less in deficits than the Senate GOP plan. That's important. That's critically important. I hope my colleagues will take a close look at this plan. I would welcome their support. I would urge them to give full consideration.

And finally let me say the other major difference is on education. The plan that I have offered would move us toward keeping the promise that we made to states and local jurisdictions all across America when we passed the IDEA Act. We promised we'd provide 40 percent of the funding. We're doing half of it. That's not good enough. When the federal government makes a promise, it ought to be kept.

Tomorrow under the rules of the Senate, we won't have this time to discuss these options. We won't have much time for debate at all. There will be a minute a side before the vote is called. But all of us will be held accountable for the choices we make tomorrow. Their choice is not just for tomorrow and not just for this year. Their choice is for the next decade. And there's rarely been a more important decade in terms of the choices being made because what we're about to see is something that's never happened in this country before. A circumstance in which we have this baby boom generation that almost overnight is going to double the number of people eligible for our retirement programs in this country.

Nobody can say, nobody will be able to say ten years from now when the crunch really hits, gee, we had no idea this was going to happen. Our colleagues are on notice. They know. We've presented now over and over and in great detail where we're headed. The choice is ours to make. I hope we make it wisely.