

**Transcript of Senate Floor Statement by Senator Kent Conrad (D-ND)
on New Deficit Estimates in OMB's Mid-Session Review
July 17, 2003**

Those are not the only claims they have not been very careful with because the day before yesterday we saw an announcement of the biggest deficits in the history of the country. This, after the President told us just 2 years ago that we did not need to worry about future deficits. In fact, there were going to be massive surpluses. He said in a speech on March 27, 2001, when he was campaigning for a massive tax cut: "Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens."

This is what the President told the country. It has proved to be totally wrong. These are now the biggest deficits we have ever had in the history of the country, \$455 billion, and that understates how big these deficits really are. Just using that number, which the administration has put out, is by far the biggest deficit we have ever had. The previous record was \$290 billion. So this is a very large deficit by any measurement.

The President then told us the next year, after it became clear that his earlier statements were not correct, that: "...our budget will run a deficit that will be small and short-term..."

Well, that has proved to be wrong again. These deficits are not small, and they are not short term. In fact, these deficits are of record size and we see no end to them. By the administration's own analysis now, we see no end to these deficits.

This chart shows the portrayal of deficits over the last 30 years, and one can see that the deficit this year is the biggest of all time. Look at the trajectory, which is truly stunning. We have gone from surpluses that we ran for a 3- or 4-year period to this extraordinary rise of the deficit. Still the administration is trying to downplay its significance.

Earlier this year, the then-OMB Director said: "I think...that at today's levels of 2 to 3 percent of GDP" – Or gross domestic product – "these are modest and manageable deficits."

The current OMB Director has continued with that same theme. He said in June: "Our current deficit, as measured as a percentage of gross domestic product, is not large by historical standards and is manageable within the overall context of our economy."

Let's examine the claim that these are modest deficits as a percentage of our gross domestic product. This chart looks at the record of deficits as a percentage of our gross domestic product. This is what it shows. If one takes out Social Security -- which one should because it should not be included in the calculations of the operating expenses of the Federal Government -- what one sees is, as a percentage of the gross domestic product, this is the second largest deficit in 57 years.

I was reading the *Washington Post* this morning. The writer of that story said the White House makes a good point that the deficit is 4.2 percent of the gross domestic product and we have had deficits that large before. What that neglects to take into account is the fact in 1983 there were no Social Security funds to raid. This year, the administration is not only running a \$455 billion deficit but on top of that they are taking \$154 billion of Social Security money. So on an operating deficit basis the deficit is over \$600 billion; that is 5.7 percent of gross domestic product. There were no Social Security funds back in 1983. There were no surplus funds to take. In a fair comparison, this is the second biggest deficit on a gross domestic product basis in 57 years.

Previously, the President has acknowledged the importance of paying down the debt, of not running deficits. In fact, in 2001 he said: "...my budget pays down a record amount of national debt. We will pay off \$2 trillion of debt over the next decade. That will be the largest debt reduction of any country, ever. Future generations shouldn't be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren."

Now we can check the record, words versus reality. The President said he was going to pay down the debt so there would be almost nothing left by 2008. Now we see, with this latest report from the President's own administration, instead of almost no publicly held debt by 2008, we will have \$5.5 trillion of debt.

When is this administration going to admit its plan is not working? How much more evidence will they have to have before they acknowledge this whole plan is an absolute, abject failure? This President has told us repeatedly there weren't going to be any deficits. Then when it became clear there are, he said they were going to be small. Now that it is obviously apparent these deficits are massive and large, they say, don't worry, we are going to reduce them in the future.

None of it is true. These deficits are massive. They are long lasting. And we have not seen anything yet.

This is a chart that shows what has happened to revenue as a percentage of gross domestic product. What this shows is that revenue this year, according to the administration's own projections, is going to be the lowest since 1959. We have a revenue problem and the President's answer is, cut the revenue some more. Let me repeat that: We are going to have the lowest revenue as a share of gross domestic product since 1959 and the President's answer is, cut the revenue some more. Not cut the spending to match the reduced revenues. He is advocating increasing spending. But cut the revenue some more, make these deficits even bigger, does that make any sense to people listening? It makes no sense to me.

We look at the 2003 transformation from the administration telling us there would be surpluses to now record deficits; 77 percent of the reversal is on the revenue side of the equation; 23 percent is spending. Friends, we have a revenue problem. We also have a spending problem. But the revenue problem dwarfs the spending side of the equation.

When we look at the spending side of the equation, this is what we see in terms of the increases in discretionary spending that have occurred over the last 3 years. Where has the money gone? In 2001, ninety-five percent of the increase went to defense, homeland security, and response to September 11. In fact, the lion's share, the green bar on the chart, is defense: 73 percent of the increase in spending that has occurred is because of defense; 15 percent is homeland security; 7 percent is New York City reconstruction and airline relief as a result of the attack of September 11.

If we look at 2002, we see the same thing: 55 percent of the increase is defense; 17 percent is homeland security; 21 percent is for rebuilding New York and airline relief and international funding for Afghanistan and Iraq. So 93 percent of the increase in discretionary spending for 2002 is defense, homeland security, rebuilding New York, airline relief, and, of course, international aid because of the efforts in Iraq and Afghanistan.

In 2003, it is exactly the same thing. The increase in spending, where is it? Defense, 76 percent; 11 percent, homeland security; 7 percent, aid to New York and airline relief and the international initiatives.

The administration says the whole problem is the attack on the country with these burgeoning deficits and the economic slowdown. They have left out the biggest factor of all. The biggest factor of all is their tax cuts. The biggest chunk, 36 percent of the reversals from surpluses to deficits over this budget period, is from the tax cuts implemented and proposed by the President; 27 percent is lower revenue not associated with the tax cuts; 28 percent is spending. As I have indicated, only 9 percent is the economic downturn.

All of this is happening at the worst possible time because right now the trust funds of Social Security and Medicare are producing large surpluses. But we all know those days will not last. We all know there is something coming called the baby boom generation; they will retire and the trust funds that are throwing off hundreds of billions of dollars of surpluses will turn to cash deficits. They will turn cash negative. When that occurs, we can see what will happen to the finances of the Federal Government.

Perhaps most startling about this chart is the President's tax cuts, explode in cost at the very time the cost to the Government explodes because of the retirement of the baby boom generation. So the deficits being run now, which are record deficits, are going to be thought of as the good times because this is the sweet spot in the budget cycle. This is when things are, in fact, manageable for the moment. Why? Because the trust funds are throwing off hundreds of billions of dollars of surpluses.

This chart is not mine. This chart is from the President's own budget proposal, from page 43 of his Analytical Perspectives. This is the President telling the Nation what he thinks will happen if his tax plan and his spending plans are adopted. This is what it shows. This is the period we are in now. Remember, these are record deficits now, the biggest we have ever had; even on a GDP basis, the second biggest in 57 years. But they are nothing compared to what we are headed for.

Is anybody paying attention? I commend the news media for recognizing that the deficit this year is a record and next year is going to be even bigger. But they are missing the big story. The big story is where this is all headed. Not according to me, this is according to the President himself. There is no end to the deficits, and they absolutely explode when we get to the time the baby boom generation is retiring and the costs of the President's tax proposals are fully phased in.

These are deficits, not in dollar terms but as a percentage of GDP. The President's people say they want to have their budgets evaluated on that basis. This is an evaluation on that basis. What it shows is that we never escape from deficits and that the deficits absolutely explode if the President's policies are adopted -- not any additional spending by Congress, this is his spending plan, his tax plan. It is an unmitigated disaster for this country.

If we had deficits of this magnitude today, instead of announcing a \$455 billion deficit, the deficit for this year would be \$1.2 trillion. That is where this is all headed. That is the dirty little secret of what is going on here in Washington. This President is digging a hole that is deep, deep, deep, and it is filled with red ink. It is not going to work. It is going to lead us to a future Congress and a future President who are going to have to make really stark decisions, draconian decisions. Because if this plan is adhered to, a future Congress and a future President will have to shred Medicare, shred Social Security, and most of the rest of the Federal Government as we know it. Maybe that is the intention of some. Maybe that is what they want to do. I am beginning to suspect it must be, because they are smart people, they know where all this is headed. This is their own analysis of where it is headed.

The Chairman of the Federal Reserve said on July 16, in testimony before the Senate Banking Committee: "There is no question that if you run substantial and excessive deficits over time, you are draining savings from the private sector, and other things equal, you do clearly undercut the growth rate of the economy. That is one of the reasons I have argued for years about getting the deficit down. So I have no question that if we do not come to grips with these deficits issues, it will make it more difficult for us to maintain the type of growth rates which...will bring total employment up and bring the unemployment rate down."

Is anybody listening? Is anybody paying attention? Does anybody care about the economic future of this country, the economic strength of the Nation? Because all of it is being threatened by these policies.

The President told us you have to do this because it is going to improve economic growth. He told us 2 years ago, if we adopted his plan, economic growth would return and the country would be on a stronger course. Let's just check the record.

What we see is that this President's record on economic growth is the worst of any President in the last 50 years -- and not by a little bit, but by a lot. The fact is, this President's economic plan is not working. If we look at the critical question of job creation, what we see is that the Bush economic record shows the worst results since the Presidency of Herbert Hoover. This President has been in charge. His economic game plan has been in place for over 2 years -- 2 ½ years. It is not working. It is failing. It is just as clear as it can be.

This is the historical record on job creation in the private sector. There has not been a weaker record since Herbert Hoover. In fact, no President in the last 70 years of the history of this country — no President has lost private sector jobs over their term in office. Not one President. This President has. As I have indicated, you have to go back to the Presidency of Herbert Hoover to see this kind of economic record.

Let me just end with the *New York Times* editorial of yesterday entitled “The Deficit Floats Up and Away.” It says: “Having done its utmost to choke back the revenue flow into the Treasury, the Bush administration offered a running tab on this year's exploding budget deficit yesterday. To hear the casual patter of White House aides about the deficit, one would think it was pocket change...In fact, the shortfall has ballooned 50 percent in just five months.”

Is anybody paying attention? The shortfall increased, according to the administration's own assessments, by 50 percent in just 5 months. They have been wrong every step of the way. Every single assertion by this administration about the effect of their economic plan and their fiscal plan has been wrong, and not wrong by small amounts but by massive amounts.

They told us 2 years ago, when they put this plan in place, that we would be having surpluses now, not deficits. Instead, we not only have deficits, we have the biggest deficits in the history of the country and next year is going to be worse. That is their own projection, and they have not even counted in the cost of the war in Iraq. Oh, they put it in for this year, but nothing for next year.

Does anybody seriously believe we are going to be done with the operations in Iraq by October 1 of this year? Apparently the administration does because they have not put one dime in their budget for operations in Iraq next year. That is just irresponsible, wildly irresponsible.

The result is we are going to have deficits that are going to be so large, they will be unlike anything we have ever seen before. Remember, this is the sweet spot. Because not only are they taking money from the Medicare trust fund, they are going to take more than \$160 billion from the Social Security trust fund next year. They aren't counting that. They don't want to talk about that.

The President said, when he brought his plan forward 2 years ago, he could fully protect Social Security. You know what we see now -- he is not protecting it at all. He is not only going to take every penny of Social Security surplus this year, he is going to take every penny of Social Security surplus next year, every penny the next year, every penny the next year, every penny the next year -- virtually every penny for the next 10 years. This is a course that is a disaster. It is time for people to stand up and speak out and face up to this fiscal disaster.

I thank my colleagues and yield the floor.