Transcript of Opening Floor Statement by Senator Kent Conrad (D-ND) on the Fiscal Year 2004 Budget Resolution March 17, 2003

Today we begin a fundamental and critically important debate on the fiscal future of our country. We do it as our country is poised on the brink of war. We do it when our country is now in record budget deficits. We do it at a time when we see challenges facing our country on many fronts. This is a debate of enormous consequence.

I, first, thank our chairman of the Budget Committee, Senator Nickles, for the way he has conducted our committee. He is new as the chairman. He has walked into a difficult, challenging situation, but he has conducted himself as a real gentleman and we, on our side, appreciate that very much. He has also gathered an exceptionally good staff. We appreciate working with them as well.

This debate is about the fundamental question of where this country will go in its fiscal future. We will decide whether this country will continue down the dangerous path of deficits, debt and decline, or whether we will take a step back toward fiscal responsibility, balanced budgets, and economic strength.

In the two years since the Bush administration has come into office, our Nation has suffered a dramatic and disturbing downturn in our fiscal and economic affairs. We went from a position of unparalleled growth, job creation, and opportunity to one of deficits, growing debt, growing unemployment, and doubt about our Nation's economic future. This budget resolution that we will begin debating today will determine whether we continue on the path set by this administration, a path that is rapidly undermining our fiscal strength, or whether we begin to reverse this dangerous course.

The budget resolution that we have before us, the majority passed out of the Budget Committee on a party-line vote, I believe is not the answer to what ails this country. It follows closely the President's proposal for massive tax cuts for the wealthiest among us that will only drive us deeper into deficit and debt.

The chairman of the committee calls part of those tax cuts a growth package, which is what the President terms it. We respectfully disagree. I do not believe, and many on our side do not believe, that it is a growth package. We believe instead that it will inhibit growth because deficits and debt will explode and the heavy weight of those deficits and debt will hold down economic growth. When you run deficits, you reduce the pool of societal savings. When there is less of a pool of societal savings, there is less money available for investment. And without investment, you cannot grow. I think on both sides of the aisle we agree on that basic premise.

The majority's resolution includes fully \$1.4 trillion in new tax cuts, \$726 billion for the so-called growth package, and more than \$600 billion to make the President's 2001 tax cuts permanent. With interest costs, these tax cuts will add \$1.7 trillion to the deficit. Let's make no mistake, these are not tax cuts that are being paid for by cutting spending, they are not tax cuts that come out of a surplus, they are tax cuts that will be funded by borrowing the money. I should also add, they will also be financed by taking over $2 trillion out of Social Security trust fund surpluses to pay for them.

At a time when we are on the brink of war in Iraq, we face a crisis with North Korea, we face an ongoing global fight against terrorism and al-Qaeda, deficits are at record levels and continue to grow, job losses are mounting, and the retirement of the baby boom generation looms just over the horizon, I cannot think of anything more irresponsible than enacting this plan. Now is a time that we should be focusing on strengthening our Nation's defenses and homeland security, improving our economy, and restoring fiscal discipline over the long term to assure that future generations are not saddled with these debts.

If Congress were to actually adopt the plan before us, it would plunge the country off a fiscal cliff and threaten the education of our children, the financial security of our seniors, the stability of our economy, and the ultimate strength of our Nation. First of all, it disturbs me we are even considering a massive tax cut package at a time when we are on the brink of war. How can we call on our troops to be willing to make the ultimate sacrifice but ask for no sacrifice here at home to fund their endeavors? I do not think that sends the proper message, when our troops are in the field, on the brink of battle.

Past Congresses and past Presidents have almost always called on the American people to help share the burden of conflict by buying Government bonds, by forgoing tax cuts, or even paying higher taxes to pay for a war. The American people proudly carried this burden and recognized it was their responsibility and a small price to pay for the privilege of living in the greatest and strongest country in the world. They certainly did not consider tax cuts for the wealthiest when their fellow countrymen were in battle and their Nation was in deep deficit and growing debt.

Amazingly, despite the fact that we are on the verge of war, neither the President's budget nor the majority's resolution includes any resources for such a conflict. How can we consider cutting revenues by $1.9 trillion, with the interest costs included, as the President has proposed, and have not one penny in the budget for the looming war?

Some say, well, it is hard to predict what the war will cost. Indeed, that is true. But one thing we know for certain is the right number is not zero. But that is what is in this budget resolution -- zero, zero for putting our troops in position to launch an attack on Iraq, zero for the conflict almost certain to come, zero for the reconstruction of that country, zero for the occupation.

We do have estimates of what all those things cost. Before the Armed Services Committee, they were told in some detail that the costs of just having our troops in place, without going to war -- just having them in place -- between now and the end of September, would be from $64 to $84 billion. But there is not a dime in this budget. What sense does that make? Are we in total denial that having a quarter of a million troops poised for a war against Iraq is not going to cost anything? Surely we know that is not true. The cost is substantial, and we ought to provide for it in this budget.

Let's consider just how much this war could cost. Officially, the administration has refused to provide Congress with a cost estimate. The press reports have cited administration officials acknowledging that they could request a supplemental appropriation of $60 to $95 billion to cover war costs in 2003 alone. This chart shows how much the administration could request in a supplemental for these war costs, and it shows how much has been put in the budget resolution before us. The number is zero.

Colleagues, we know that is not right. That should not be our budget for this looming war. And nowhere has the administration accounted for the possibly large postwar costs, such as occupation, humanitarian assistance, and reconstruction, not to mention any indirect costs to the United States, such as an extended spike in oil prices. That is why it is so important that Congress be provided with a war cost estimate before we proceed with large tax cuts or large new spending initiatives. Congress should have the information before we make these long-term commitments, not after.

It is disturbing to read press reports that Republican leaders may be asking the administration to delay their supplemental request until these tax cuts are locked into a budget resolution. This is how *Congress Daily* reported the situation:

> "Vice President Cheney met with Senate Majority Leader Frist [on] Thursday to discuss, among other things, the timing of a spending request on military action in Iraq. It is not expected that such a request would come until after the House and Senate complete floor action on the budget resolution, a key aide said.....[H]owever, having a supplemental that could total somewhere between $65 and $95 billion come up while the tax cuts and the budget resolution are being debated could threaten the Republicans' economic agenda. House leaders have also said they want the supplemental war request delayed as long as possible to provide breathing room between the tax cuts and war spending."

If this report is accurate, and the war supplemental is really being held to give breathing room for the tax cuts, we are in worse shape than I even imagined.

To understand why the majority's budget plan is, I believe, making incorrect assumptions with respect to the economy, it is worth reviewing what has happened to the budget over the last two years. When the President was advocating his first tax cut in 2001, he promised we could easily afford it. He ignored warnings that the tax cut he was proposing was too large. In a speech just two years ago, the President said:

> "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."

He was wrong. We now know how wrong he was. Instead of the $5.6 trillion in projected surpluses over the next 10 years that were projected when the President came into office, now, according to the Congressional Budget Office's latest estimates, if we adopt the President's budget plan, we will face a $2.1 trillion deficit over that time period. That is a stunning downturn of nearly $7.7 trillion in just two years.

I listened to our chairman give the reasons for this downturn. The one thing I did not hear him mention was the effect of the tax cuts. And yet the tax cuts over the 10-year period are the biggest single reason for this deterioration in our financial condition.

What could be more clear? Let's just do the math. We were told we would have $5.6 trillion over the next decade in surpluses. Now we are told if we adopt the President's tax and spending plans, we will be $2.1 trillion in the hole over that same period. The tax cuts we passed in 2001 were $1.35 trillion plus the associated interest costs. If you reduce revenue, and that means you have more deficit and more debt, that means your interest cost goes up. The total cost of those tax cuts, about $1.7 trillion.

Now the President comes before us with an additional $1.6 trillion of tax cuts over this period of time. The associated interest cost takes that to a total cost of $1.96 trillion. If you add the $1.7 trillion from the previous tax cuts, the $1.96 trillion from these tax cuts, you get almost $3.7 trillion; $3.7 trillion of the $7.7 trillion of deterioration. That is about 40 percent of the variance. That is the biggest reason.

The second biggest reason is the increased cost associated with the attack on this country -- increased defense cost, increased homeland security cost, which we all have supported.

The third biggest reason, quite apart from tax cuts, is the economy is not throwing off the tax revenue anticipated for this level of economic activity. That is a simple mistake in the calculations.

The fourth reason is the economic downturn. Those are the key reasons for this collapse in our fiscal fortunes. But let's be clear, the tax cuts are the biggest single reason.

In last year's State of the Union address when this change in our fiscal fortunes was becoming more clear, the President saw what his policies were doing and he began to acknowledge that deficits had returned. He said then:

"...[O]ur budget will run a deficit that will be small and short-term..."

Again he was wrong. It is now very clear that the deficits will be neither small nor short term. In fact, the Congressional Budget Office has told us that the deficit would total $338 billion in 2004 if we were to adopt his plan. And if, as the law requires, we are to exclude Social Security from that calculation, the deficit in this coming year would be $512 billion. In fact, we would see throughout the rest of this entire decade deficits would never be below $400 billion.

This chart shows it. This is what CBO told us back in May would occur without the President's policies, the top line. And we would have emerged from deficit in about 2011. If, instead, the President's policies are adopted, and this is the balance line, this is where you have no deficits, this is what happens if the President's policies are adopted. We never escape from deficits the entire rest of this decade, and they are not small. They are very large. In fact, they are record deficits, record in dollar terms, over $500 billion in 2004 alone on a budget of $2.2 trillion. That is a deficit of over 25 percent. That is not a small deficit.

In 2001, the President gave a radio address to the Nation. He said then:

"...[M]y 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 [nation] 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."

The President was absolutely right in his values and in his sentiment, but that is not what we are getting in terms of a policy. What we now see is endless deficit and endless debt passed on to our children and grandchildren. In fact, when he said he would virtually eliminate the debt back in January of 2001, he said there would only be $36 billion of debt left by 2008. Now we see, instead of almost eliminating the debt, it is growing. In fact, it will be over $5 trillion by 2008, over $5 trillion. That is just the publicly held debt. That doesn't include the debt we are running up to the trust funds of Medicare and Social Security, debts that will also be in the trillions and trillions of dollars.

The consequences of this dramatic increase in debt are many. But one of them that hurts this Nation the most is the increased interest cost we will face. Back in January of 2000, we were told the interest cost during this period would be $622 billion. Now we see that instead of $622 billion, the interest cost will be $2.3 trillion; $1.7 trillion in interest cost, money that can't be used to build a destroyer to protect the Nation, money that can't be used to eliminate the terrorist threat to our country, money that can't be used to educate a child, or feed a hungry person, or do anything else that government does. Instead, it is wasted money, wasted in the sense it won't do anything positive other than pay our bills.

That increase in debt, that increase in deficits is, to me, the greatest threat posed to our national economic security. Again, if we listen to President Bush, we know his heart is in the right place. In his State of the Union address this year he said he would not pass on our problems to future generations. He said then:

> "This country has many challenges. We will not deny, we will not ignore, we will not pass on our problems to other Congresses, to other presidents and other generations."

That is precisely what the President's budget plan, and what the budget plan before us, does. It passes on the burden to future generations. It asks our children to shoulder the debts we are running up.

It is interesting to look at what the President's policies will do according to his own analytical perspectives. From page 43 in his budget, what this chart shows is the next 10 years, the budget sweet spot. Even though we are in very large deficit, even though we are in record deficit, even though the debt is mounting, we can see this is the good times because this is the chart from the President's own budget document looking out as far as 2050. What it shows is, if the President's policies are adopted, his proposals for tax cuts, his proposals for spending, we are going to take a leap off the cliff into deficits that are unsustainable and that are dramatic and that are devastating to this country's economic strength and economic future.

We need to remember this is the worst possible time for us to be accumulating such a mountain of debt. This is precisely the time when we should be paying down debt, or prepaying the coming liability of the baby boom generation.

When we look at the next two decades, we can see that the President's tax cut explodes in costs at exactly the same time the Social Security and Medicare tax surpluses disappear. Right now, the tax cuts are somewhat less than the trust fund surpluses from Social Security and Medicare.

But look what happens when those trust funds go cash negative in the next decade. At the very time the trust funds of Social Security and Medicare go cash negative, the cost of the President's tax cuts explode. That is what this chart shows us. The blue bar, which is the smallest, is the Medicare surplus. Ultimately, it becomes Medicare deficits. The green bar is what Social Security is running now in surplus, which will also turn to deficits when the baby boomers start to retire. The red bar shows the President's tax cuts.

What this chart shows is as clear as it can be. None of this adds up. It doesn't come close to adding up. Right now, while the trust funds are running substantial surpluses, those funds are being used to pay for the tax cuts and other expenditures of Government. They are not being banked. They are not being used to pay down our other debt so that we would be in a better position when the baby boomers retire. And those surpluses are not being used to prepay the liability we all know is to come. Instead, those trust fund surpluses are being spent. They are being spent to fund these tax cuts; they are being spent to fund other expenses of Government.

Look what happens when we get out into about the next decade. Then as the baby boomers retire, the trust fund turns to cash negative, instead of throwing off big surpluses.

For example, this year, the Social Security trust fund surplus is over $160 billion. That is real money -- $160 billion in this year alone. But all of that is going to change when the baby boomers start to retire. Then the trust funds of Social Security and Medicare go cash negative. As the years progress, we go cash negative in a big way. That is the very time that the cost of the President's tax cuts explode. The result: massive deficits, massive debt.

This chart is looking out to 2018, when we will have a deficit approaching a trillion dollars for that year alone. That is what these charts show. That tells me that this budget plan can only have one conclusion, and that is to take us on a course to massive cuts in Medicare, in Social Security, and in all the rest of Government. That is the only conceivable outcome of a policy that has been laid down by the President and that has been largely adopted in the budget resolution.

I don't think that is the direction in which the American people want to go. But they need to know that the logic of this plan is inescapable. It is massive deficit; it is massive debt.

The President has proposed what he calls an economic growth package. Clearly, we need to have an economic growth strategy. That is something on which we can all agree. We need an economic growth strategy because we have lost 2.5 million jobs in the private sector since January of 2001. Let's be clear. What has caused that? No. 1, economic downturn. No. 2, the attack on this country that made the economic downturn more severe. Those are the culprits in the near term for what has happened to us. So we simply must respond to 2.5 million jobs lost during that period of time.

But the President has told us that his growth package, which doesn't cost $725 billion -- when you include the interest costs, it costs $994 billion from 2003 to 2013 -- almost a trillion dollars of costs, only a very small part of it is effective this year when the economy is weak and needs a boost. This doesn't make sense to me, nor does it make sense to many economists. Clearly, we need a growth strategy. This is where the chairman and I are in complete agreement. We need a growth strategy.

But we need a growth strategy that will really grow the economy, one that will provide lift at a time of economic weakness, but one that will return us to fiscal balance in the long term so we are not putting upward pressure on interest rates that would only slow economic growth and kill a stronger economic future.

Some have said deficits don't matter, deficits don't affect the economy. Chairman Greenspan, head of the Federal Reserve, believes deficits matter. He said in testimony before the Senate Banking Committee:

> "There is 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 impact on the economy, unless attended."

Well, it is not just Chairman Greenspan who believes it. Mark Zandi, a well-respected economist with Economy.com has evaluated the Democratic plan for economic growth and contrasted it with the President's plan. What he concluded is that, in the short term you get more economic growth from the Democratic plan because we put more into giving lift to the economy now, when it is weak. He shows that, in 2003, we would have almost twice as much economic growth as the President's plan. The same is true in 2004. And perhaps even more interesting, he concludes that over the long term, the President's economic growth plan actually hurts economic growth.

Let's be clear. We believe the President's so-called growth plan will help in the short term -- not as much as our plan would, but it would help -- but it actually hurts in the long term. Why? Because the tax cuts are not paid for by spending reductions in the President's plan. Instead, the President's tax cuts are financed by borrowing and taking the money out of the Social Security trust fund surpluses. That is a prescription for putting upward pressure on interest rates and for hurting long-term economic growth.

Again, that is not just my view, that is not just the view of Mr. Zandi; it is also the view of Macroeconomic Advisers. They happen to be the group that is hired by the White House, hired by the Congressional Budget Office, to give long-term assessments of what different policies will do for economic growth. This is what they have said the effect of the President's plan will be.

This chart shows the President's policy compared to the base. The base is the green line; the President's policy is the black line. What it shows is that in the short term the President's policy would increase economic growth -- again, not as much as the Democratic plan; nonetheless, it would be positive. Over the long term, it would be worse than doing nothing. It would actually hurt long-term economic growth. Again, the reason for that is very simple. The reason is, if you finance these tax cuts with borrowing, you are increasing deficits, increasing debt, and that provides a dead weight on this economy. We have the Federal Government in there competing with the private sector to borrow money. That drives up the cost of borrowed money, drives up interest rates, and that hurts economic growth.

It is just not my view, or the view of Macroeconomic Advisers, or Mr. Zandi; it has now been expressed by a group of the most distinguished corporate leaders in America.

The nonpartisan Committee for Economic Development, a group of some 250 CEOs of major companies, has looked at the President's plan, and they have come forward with the following conclusions. I should emphasize the Committee for Economic Development is a nonpartisan, nonpolitical group of 250 leading businessmen and academics, a group composed of largely fiscally conservative business leaders and academics, including executives from the Bank of America, Bell South, Allied Signal, PricewaterhouseCoopers, Deloitte & Touche, Ford Motor Company, and many more.

This group issued a report opposing the President's tax cut and noting that it would explode deficits and debt right in the face of the retirement of the baby boom generation. That is exactly right. Here is what they found.

No. 1, current budget projections seriously understate the problem.

No. 2, while slower economic growth has caused much of the immediate deterioration in the deficit, the deficits in later years reflect our tax-and-spending choices. So this is the debate between the chairman and me. He is saying the tax cuts are not the reason for the opening up of these deficits, and he is right, in the first few years of this 10-year plan. But over the full 10 years of the 10-year plan, the biggest reason for the return to deficits is the tax cuts. That is not just my conclusion, that is the conclusion of this group of corporate leaders.

No. 3, deficits do matter. When you have to be borrowing money for the Federal Government, that puts the Federal Government in competition with the private sector and that puts upward pressure on interest rates, especially at a time when the economy is recovering.

No. 4, the aging of our population compounds the problem.

I do not know what could be more clear. We have record deficits now. The President says cut another $2 trillion out of the revenue base and do not offset it by cutting spending, but increase spending and do it when we all know the baby boomers are about to retire and will really explode costs to the Federal Government. What earthly sense does this make? We are cooking a stew here that will be impossible to choke down. We will be choking on deficits and debt in this country, and you do not have to just take my word for it. The President's own budget documents have reached precisely the same conclusion. They show we never emerge from deficit and that as the baby boomers retire and the costs of the tax cuts explode, the deficits mushroom, the debt grows geometrically to unsustainable levels.

Let me put up the reasons for the decline we were discussing earlier. The reasons for the disappearance of the $7.7 trillion -- remember two years ago, we had a forecast of $5.6 trillion of surpluses over the next decade. We now know, according to the Congressional Budget Office, if we adopt the President's tax-and-spending plans, instead of $5.6 trillion of surpluses, we will have $2.1 trillion of deficits. That is a swing of $7.7 trillion in two years.

Where did the money go? Over the 10 years, 38 percent went to the tax cuts, both those already passed and those proposed; 26 percent went to the problem of the models not correctly forecasting revenue for various levels of economic activity. That is apart from the tax cuts. It is less revenue, but not caused by the tax cuts. The two of them together are 64 percent of the reason for the disappearance of the surplus. Sixty-four percent is less revenue than anticipated. Most of it is the tax cuts, but the other is mistakes in forecasting. Twenty-seven percent of the reversal is additional spending caused by the attack on the country, the additional defense spending, and the additional spending for homeland security. Only 9 percent is the economic downturn.

Now we have the Committee for Economic Development telling us that we are on a course that does not make sense. So we look at the proposal before us by the chairman of the Budget Committee that passed on a party-line vote out of the committee. What does it show us?

It shows us that if you do not use Social Security, if you do not throw that money into the pot, if instead you treat it like a trust fund, if instead you protect it, if you treat Social Security as a true trust fund, the deficit in 2004 under the budget chairman's mark will be $503 billion out of a budget of approximately $2.2 trillion. That is a huge deficit. What we see is never emerging from deficit if we do not use Social Security for other purposes for the whole rest of the decade. In fact, we never get below $300 billion in shortfall on an operating basis.

Where is the money coming from? Mr. President, $2.7 trillion is being taken from Social Security surpluses and used to pay for these tax cuts and being used to pay for the other expenses of Government.

These chickens are going to come home to roost. This is a profound mistake, I believe. I believe we should have either used this money to pay down debt or prepay the liability we know is to come, but to take this money from Social Security surpluses when we are right on the eve of the retirement of the baby boom generation, we know what it is going to do. It is going to force incredible choices on a future Congress and a future administration. They are going to have to run up massive debt or have enormous tax increases or deep cuts to Social Security and Medicare. This is reality talking now, and it is a hard reality, but it is something we have to face up to.

Instead of paying down debt, here is what is happening to the gross Federal debt. It is exploding. It was $6 trillion in 2002. If we adopt the chairman's mark, it will be $12 trillion at the end of this budget period; $12 trillion in debt.

The chairman said the tax proposals of the President are not weighted to those at the top. I must say I differ. I do not know what tax plan he is studying, but the tax plan I look at that the President has advocated shows the overall tax cuts are almost totally weighted to the top end.

This is from the Center on Tax Policy, and it shows that taxpayers with over $1 million of income a year will get an $88,000 tax cut -- $88,873. That is pretty generous. Taxpayers who are in the middle of the income scale, those earning from $21,000 to $38,000, get a $265 tax cut. If that is not weighted to the top, I do not know what is.

By the way, this AGI, adjusted gross income, of $21,000 to $38,000, is 20 percent of taxpayers who are in the middle of income distribution in this country. They take the income of all those in America and divide them into groups of 20 percent. The group that is in the middle 20 percent has an adjusted gross income of between $21,000 to $38,000. They get very little by way of this tax cut. Those at the top -- and, of course, people earning over $1 million a year are in the top 1 percent of this country -- get a tax cut of over $88,000. This is trickle-down economics all right. It did not work before, and I do not think it will work now.

This shows the benefit by quintile of the President's proposal. It shows the bottom 20 percents get two-tenths of 1 percent of the benefit; the second 20 percent gets 10.8 percent; The third 20 percent get 23 percent; the fourth 20 percent get 32 percent; the top 20 percent get a third of the benefit. So that is clearly heavily weighted to the top.

I conclude by saying I hope we pause, think, and reflect about what adopting these policies would mean to the economic future of the country. I think these are fateful decisions that are about to be made, fateful decisions that will have an effect on this country for many years to come. I very much hope that before we are finished our work on this budget resolution that we change course, that certainly we enact a growth package, one that includes tax cuts, one that gives a lift to the economy but one that does not burden us with deficit and debt for years to come; that we return to an understanding that fiscal responsibility is critical to long-term economic growth. That must be the conclusion that we come to during this debate on the budget resolution.

I yield the floor.