Transcript of Floor Statement by Senator Kent Conrad (D-ND) on Budget Outlook and Tax Bill
May 6, 2003

I come to the Chamber today to talk about the budget circumstance in which we find ourselves, the President's proposal for additional tax cuts and, more largely, why I believe we are on a course that is utterly disconnected from reality.

First, let me say the news media reports of the tax cut debate are among the worst I have ever seen. I believe the American people listening to news reports would believe that we are debating a tax cut of either $350 billion or $550 billion and that the President proposed a tax cut of $726 billion. That is what you read about; that is what you hear about; that is what is broadcast. But it is wrong. It is not even close to being right.

The President proposed a tax cut of $1.6 trillion. This at a time when we are running record budget deficits. Let me make this clear. The deficit this year is going to be between $500 and $600 billion on a budget of $2.2 trillion. That is a massive deficit, a record. We have never had a unified deficit above $290 billion. Yet in that context, the President proposes large and exploding tax cuts that will dig the hole deeper and deeper. And the press reports that he has proposed $700 billion in tax cuts. How can this be?

It is very simple. In the budget that was passed, there are two pots of money for tax cuts: the so-called reconciled tax cuts, the ones given special protection from the normal legislative process; and the unreconciled tax cuts, those that have to move in the regular order. If you put the two pots together, here is what passed the Senate and the House: $1.3 trillion of tax cuts.

What passed the House was $550 billion of so-called reconciled tax cuts; $725 billion unreconciled. The press has completely forgotten and left out the $725 billion. You don't see it reported anywhere. So it is not unusual.

I had a banker say to me this morning: Gee, Kent, I didn't realize that the President was seeking $1.6 trillion of tax cuts. I thought it was $726 billion and that the difference was between the $350 billion that there was an agreement on in the Senate and the $550 billion in the House. That sounds like a reasonable compromise.

Of course, that was missing the basic facts because the news media has failed utterly in its responsibility to share full information with the American public so they can make judgments about what the policy of the country should be. This is a broad failure. It is truly remarkable. I read story after story in the most respected newspapers in America that the tax cut is $550 billion or $350 billion. That is just one part of a much larger tax cut proposal that is before us.

In the Senate, we passed the following: $550 billion of reconciled tax cuts, protected from filibuster, given special protections in the Senate, and $725 billion of unreconciled tax cuts.

Why does any of this matter? It matters because of what has happened. Two years ago we were told we could expect almost $6 trillion of surpluses over the next decade. In fact, the specific number we were told by the administration was $5.6 trillion of surpluses over the next decade. The Congressional Budget Office agreed with that. Now we see, just 2 years later, instead of surpluses, if we enact the Republican budget, the Congressional Budget Office tells us we will run $2 trillion of deficits over that same period, 2002 to 2011. That is a reversal of $7.6 trillion in just 2 years.

Where did the money go? The President said in a speech the other day that the reason for the disappearance of the surplus is the attack on the country and the weak economy. Those are two reasons, but they are not the biggest reason. He forgot the biggest reason. The biggest reason is the tax cuts, both already implemented and the additional ones proposed by the President.

If you look over the same 10-year period, 36 percent of the disappearance of the surplus is because of the tax cuts, both those already implemented and those proposed in the Republican budget. Twenty-eight percent is from the increased spending as a result of the attack on this country; that is, the increased defense spending, increased homeland security spending, the money to rebuild New York and the money to rebuild the Pentagon. Twenty-seven percent is because of revenue being lower than expected. Quite apart from the tax cuts, the revenue is also lower than anticipated. That trend is continuing. In a few moments, I will refer to the latest numbers on what is happening to our revenue. They are truly alarming.

I hope people are paying attention to the overall circumstance we face. We are in record budget deficit now. The President is proposing massive additional tax cuts, although he is also proposing increased spending, not reduced spending to pay for the tax cuts, but increased spending. We are on the eve of the retirement of the baby boom generation which will dramatically increase the cost to the Federal Government. Only 9 percent of the disappearance of the surplus is because of the economic downturn.

Some have suggested deficits are going to be relatively small and short term. That is not what we see. We see very large deficits continuing throughout the entire decade. In fact, they never get below $300 billion on an operating basis. Those are massive budget deficits by any calculation. These numbers probably substantially understate the deficit.

Let me repeat that. These numbers are according to the Congressional Budget Office. They exclude Social Security, setting Social Security aside, as it should be. You never have deficits over the entire next 10 years of less than $300 billion.

But that badly understates how serious the deficit situation is going to be. There is no money in here for the reconstruction or the occupation of Iraq. There is no money in here to fix the alternative minimum tax, which is a ticking timebomb. Right now 2 million people are affected by the alternative minimum tax. By the end of this decade, it is going to be 40 million people affected. It costs $600 billion to fix. There is no money in this budget for that. In truth, the revenue is still falling far short of expectations. That is not in these numbers, either.

This, although it is dire, understates the seriousness of the budget deficits we will face. Goldman Sachs just did an analysis. This is what they found. They concluded that instead of $2 trillion of deficits over the 2002 to 2011 period, if we enact the President's plan over the next decade, the deficits will be over twice that: $4.2 trillion over the 2004 to 2013 period. Remember, just 2 years ago we were told there was going to be $5.6 trillion of surpluses. Now Goldman Sachs has done an analysis saying the true deficits are going to be closer to $4 trillion over the 2004 to 2013 time period. That is an absolutely stunning reversal in just 2 years.

We were told 2 years ago that if we enacted the President's plan, we would pay off virtually all of the publicly held debt by 2008.

Now we see instead the gross debt of the United States exploding -- $6.7 trillion today. If the President's plan is enacted, and what has been passed in Congress goes through, the debt will increase --

gross debt -- to $12 trillion in 2013, and this at the worst possible time. Why the worst possible time? Because the baby boom generation is going to start to retire. They are going to double the number of people eligible for Social Security and Medicare.

It is not surprising, then, that at the very time the President is asking for a big, new tax reduction, Republicans are asking for the biggest expansion of the debt in the history of the United States. Think about this. We cannot pay our bills, we are running record deficits, we are piling up debt at a record rate, and the President says let's cut revenues some more. Now, as a short-term matter, that might make some sense, to give lift to the economy. We know it stimulates the economy to cut taxes and to spend the money. Those two things stimulate the economy.

In the short-term, that would make sense to me. In fact, very little of the President's so-called stimulus package is effective this year. It is a very odd thing. Only 5 percent of the President's so-called growth package is effective this year at a time of economic weakness. Ninety-five percent of the cost is in future years which, of course, adds to the deficit, adds to the debt, at the very time the President says the economy will be growing stronger.

So there is an incredible disconnect between what the President says is the problem -- economic weakness now -- and his plan, which is to provide tax cuts that have very little impact now and have most of their cost later on, 5 years from now, 6 years from now, 10 years from now -- at the very time we know the cost of the Federal Government will be going up as a result of the retirement of the baby boom generation.

Is anybody watching? Is anybody listening? Is anybody thinking about what happens to this country right over the horizon? I am not talking about next year. I am not talking about the year after that. I am talking about 5 and 6 years from now when the President's plan explodes in cost, at the very time the cost to the Federal Government explodes as a result of the retirement of the baby boom generation, doubling the number of people eligible for Social Security and Medicare. This is clearly a plan that does not add up. It doesn't connect with the reality that we all know is going to occur. As a result, Republicans are asking for the biggest increase in the debt in the history of the country. They have just asked for nearly a trillion-dollar increase in the debt. The biggest previous increase was $915 billion in the President’s father's administration.

I must say I find this circumstance alarming for the future economic strength of the country. Now, this is a chart that I did not prepare. This is a chart that is right out of the President's own budget. It is from page 43 of his analytical perspectives. It is the long-term view, according to the President's own analysis, of what happens to the budget deficits if his plan is passed -- his spending plan, his revenue plan. Here is what he says will happen. You can see we never get out of deficit and that once we get past this 10-year period, when the trust funds are throwing off big surpluses, the Social Security and Medicare trust funds are now producing big surpluses -- once we get past that point, the baby boomers start to retire, the cost of the President's tax cut explodes, and the deficits explode into large, unsustainable amounts that will fundamentally threaten the economic security of this country. Again, this is not my chart, this is the President's chart showing what happens, in his view, if his policies are passed -- his spending plan, his tax plan. The deficits explode. Remember, what is most sobering is that we already have record deficits. Where you see the relatively small amount of red ink, that represents record budget deficits -- the biggest we have ever had in the history of the country. What the President is saying is it is going to get worse with his plan -- much worse.

A fundamental reason for that is shown on this chart. On this chart, the blue bar is the Medicare trust fund. The green bar is the Social Security trust fund. The red bar is the tax cuts that have passed

Congress in the budget. What this shows us is the trust funds right now for Social Security and Medicare are running big surpluses. This year alone, Social Security is going to run a surplus of over $160 billion. But we are not taking that money and paying down the debt or prepaying for the liability that is to come. Instead, that money is being taken to pay for tax cuts and to pay for other expenses of Government. You can see that this is the level of the tax cuts that have been enacted so far and that are proposed. Look what happens. As the trust funds start to move from big surpluses in this decade and start to be reduced as the baby boomers retire -- and you can see that, ultimately, in the next decade they go negative, cash negative -- then the trust funds are losing money. That is at the very time the cost of the President's tax cuts explode, leading us deeper and deeper into deficits, deeper and deeper into debt, when we are already experiencing record deficits. This is a disconnect from reality that is very hard to understand.

Mr. President, some are now saying, well, deficits don't really matter; you can run budget deficits like this as long as the people will continue to loan you money. It is OK and it doesn't have an adverse affect on the economy. I don't believe that. What is amazing to me is most of my Republican colleagues didn't used to believe that. They believed deficits matter. I always have. But I am certainly not alone in that judgment.

This quote is from Chairman Greenspan, head of the Federal Reserve, the man who has the dominant responsibility in this country for managing the economy -- at least from the monetary point of view. That is the obligation of the Federal Reserve. What does he say? He said:

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.

Of course, that is right. How does it affect long-term interest rates? I think if you just think about it in commonsense terms, to the extent the Federal Government is going to be borrowing money, it is competing with everybody else who is trying to borrow money -- people trying to borrow money to buy a home, people who are trying to borrow money to buy a car, people who are borrowing money to run a small business, or even a large business; and to the extent there is more competition for those dollars that are available, the higher cost of borrowing money; the higher cost of borrowing money, interest rates go up. When the Government runs big deficits, that is reducing the pool of money available for investment.

It reduces the pool of societal savings when the Federal Government is running deficits. If you reduce the pool of money available for investment, you reduce investment. Without investment, you cannot grow. That is why many of us believe the President's so-called growth plan is an antigrowth plan. It is not going to help growth; in the long-term, it is going to hurt growth because it is all financed with borrowed money. It is all financed by putting it on the credit card. It is all financed not by cutting spending or raising other revenue, it is financed by borrowed money.

Chairman Greenspan just came before the House Financial Services Committee. As noted in the New York Times, he said: Tax cuts without spending reductions could be damaging. He said very clearly: The economy was poised to grow without further large tax cuts, and the budget deficits, resulting from lower taxes without offsetting reductions in spending, could be damaging to the economy.

We are not talking about a growth package here. We are talking about a package that is going to undermine growth. That is not just my view. It is not just the view of the Chairman of the Federal Reserve. The distinguished economist Mark Zandi did an analysis of the competing plans before us to boost economic growth.

He found that the Democratic plan would provide about twice as much job growth in 2003 and 2004 as the President's plan but not have the negative consequences of the President's plan over the next decade. He found the President's plan actually hurts economic growth because it is all financed with borrowed money. It increases deficits, reduces the pool of societal savings, reduces the pool of money available for investment, and hurts the economy long term.

It is not just Chairman Greenspan, it is not just me, it is not just distinguished economists like Mr. Zandi. In fact, we have now had 10 Nobel laureates in economics come out and say the Bush tax plan will not help the economy, it will hurt the economy; that long term, it will reduce economic growth, not increase it.

Interestingly enough, that is also the conclusion of Macroeconomic Advisers, who have been hired by the White House and the Congressional Budget Office to do this kind of economic analysis.

Do you know what they found? The President's plan will give a boost in the short term, but it is worse than doing nothing after 2004. After 2004, it will actually hurt economic growth, will hurt job opportunity, will hurt the strength of the American economy. Why? Because, once again, it is financed with borrowed money. It runs up the deficit. It runs up the debt. It reduces the money available for investment, and that hurts economic growth, not help it.

The Congressional Budget Office has just done what is called dynamic scoring. You will recall that some have said, and the President has said if we cut taxes, it will actually increase revenue. We will get a big boost from cutting taxes in the economy, and that will raise revenue. The President's own economists do not believe that. They say if you cut taxes, as the President has proposed, you will reduce revenue and reduce it dramatically.

The Congressional Budget Office is now headed by a man who was previously on the President's Council of Economic Advisers. He was appointed by our Republican friends. They control the Senate and the House. They had the ability to choose the new head of the Congressional Budget Office. He came from the President's Council of Economic Advisers. He did an analysis of what our Republican colleagues and what the President are telling America.

The President is saying: If you go out there and cut taxes, you get more revenue. That is not what the head of the Congressional Budget Office found. He found you get increased deficits. Guess what? If you cut the revenue when you already have massive budget deficits, the deficits get bigger. That is his conclusion.

Our Republican friends have said: If you just use dynamic scoring, if you just take into account the effect of the tax cuts, you will see that you get more revenue. Their own appointee did just that. He used dynamic scoring. He took into account the effect of the tax cuts, and here is what he found:

The net effect of the proposals in the President's budget on economic output could be either positive or negative...Importantly, regardless of its direction, the net effect through long-term changes to the supply side of the economy...would probably be small.

He did not stop there. He did seven different ten-year analyses of the President's budget proposal. Using the old method called static scoring, CBO projects the President's budget has a $2.7 trillion impact on the deficit -- negative impact. In other words, it is going to take $900 billion of forecasted surplus. It takes that first and then goes $1.8 trillion in the hole. So it is a negative total impact of $2.7 trillion.

The new head of CBO, who just came from the President's Council of Economic Advisers, did an analysis using the dynamic scoring our Republican colleagues wanted him to do. Do you know what he found? In four of the seven ten-year models, the deficits would be even larger than under the old method of analyzing deficits. Why? Because the deficits are increasing. It is increasing the debt, and the dead weight of those deficits and debt hurt the economy. They hurt the economy because they reduce societal savings. They reduce the money available for investment, and without investment, you cannot grow.

Is anybody paying attention to these linkages? Is anybody paying attention to the long-term implications of what is being proposed?

They did dynamic scoring. In four of the seven long-term models, they found deficits even larger than what occurred using the old method of analysis because the effect of these tax cuts is not positive. Over time it is negative because they are not offset by spending reductions. They are all financed by borrowed money. You cannot borrow your way to prosperity. Nobody ever has. No country certainly ever has.

When they did this analysis, they found three models that showed somewhat smaller deficits than would occur using static scoring. Using dynamic scoring in three of the seven long-term models, they had somewhat smaller deficits, although not much smaller; instead of $2.6 trillion, $2.5 trillion, and $2.3 trillion. Do you know what their assumption was here? That over the next decade -- this is using dynamic scoring -- over the next decade, people would work harder in anticipation of the large tax increases to come as a result of the President's policy now; that the President's policy now will require huge tax increases in the future to balance the books and, as a result, people will know that and work harder over the decade; meaning, they will make more money, there will be more tax revenue, and, as a result, the deficits will be somewhat smaller.

Let's do a reality check on this question of if we just put these tax cuts into effect, we will get more revenue. I remember very well 2 years ago. I came to this floor on many occasions. In the Budget Committee, I showed this chart on many occasions. This was CBO's analysis of where the deficit was headed, the range of possibilities from the best-case scenario, in terms of the surplus, to the worst-case scenario.

This is what they told us 2 years ago was the range of possibilities, and they adopted the midrange of this possible series of outcomes as their $5.6 trillion ten-year surplus projection.

I had so many of my Republican colleagues come to me and say: But, Kent, you are being way too conservative. You are saying that we might not get this midrange of outcomes, that it might be worse, and so we ought to be cautious about what we do. Do you not understand that when we put in place these big tax cuts, there will be more revenue, not less revenue; that there will be more revenue and so there will not be $5.6 trillion of surpluses, there will be $7 trillion of surpluses or $7.5 trillion of surpluses? It will be much higher than the midrange of the forecast.

What has happened? Here is reality. That is the red line down here on this chart. This is what is projected based on what has actually happened in the real world and what the President has proposed. This is where things come in, not at the midpoint of the range, not at the bottom end of the range of CBO's forecast of possible outcomes for the surplus and the deficit, but below the bottom end of the range.

So much for dynamic scoring saving the day. We did the big tax cuts that the President said would produce more revenue. It did not work. It did not come close to working. We are going down a blind alley. We are going down a path that will inexorably lead to massive budget deficits, a massive buildup of debt, and fundamentally threaten the economic security and strength of this country. That is where we are headed, and it is just as clear as it can be.

Newspapers all across the country are questioning the wisdom of what the President is proposing. The Cleveland Plain Dealer from April 24:

Although the dividends tax cut Bush seeks might some day be a reasonable step, that day is not now. Not amid talk of a Federal deficit approaching $500 billion next year. Not when Alan Greenspan, the Federal Reserve chairman Bush just reappointed, sees no economic stimulus in a plan he said, if enacted, should be paid for by offsets elsewhere to avoid the danger of deeper deficits. Not when there is no end in sight to the costs of recreating Iraq as a democracy.

It is not only the Cleveland Plain Dealer. It is others as well. The St. Louis Post-Dispatch:
The national debt isn't free. We'll pay interest on it for decades. Every dollar of interest is a dollar that can't be used for education, law enforcement, defense, or help for the poor and elderly. The public senses this, and that is why it is not eager for a new tax cut....In fact, Mr. Bush is steering the economy toward an iceberg. Massive deficits year after year contribute to higher interest rates. Higher rates can choke off prosperity.

They have it right.

Here is what has happened to jobs during the current administration. We have lost 2.7 million jobs since January 2001. Let me be clear, the President's economic policy is not responsible for all of this. This is a combined effect of the bubble bursting, of a runup in investments that was unprecedented. It is, in part, the effect of the attack on this country which, without question, hurt this country's economy. It is also, I believe, in part a result of an economic policy that does not generate confidence going forward. We cannot run record budget deficits and go out and propose increasing the spending and cutting the revenue dramatically, but that is what the President is proposing.

We have record budget deficits now. He is not talking about cutting spending. He is increasing the spending by over $600 billion above the baseline. He is cutting the revenue. Think about this. If one were at home and they couldn't pay their monthly bills -- their bills were more than their income -- would their answer be to go out and increase spending and reduce their income? Is that what one does? That is what the President is proposing we do as a nation.

We are going to have the biggest budget deficits in the history of America this year. The President's answer is, increase spending and cut the revenue. That might make sense as a short-term measure. That might make sense for the moment to give a lift to the economy. The President is not proposing this as a short-term measure. He is proposing increasing spending and cutting revenue over the entire next decade and beyond, driving us deeper into deficit, deeper into debt, right at the time we know the baby boomers are about to retire.

This is the record on job growth of this administration compared to previous administrations. We can see in every previous administration we have had positive records of job growth. In this administration, we have had negative job growth. This plan is not working.

I said at the beginning I would talk about the latest numbers we have seen on revenue, and they are truly alarming. We have just received the results of the first 7 months of this year in terms of the revenue. What we are finding is that revenue is running $100 billion below the forecast for the first 7 months of the year. We already have a projection of record budget deficits, the biggest in the history of the country. Now we learn that in the first 7 months the revenue is running $100 billion below the forecast. That means, obviously, the deficits will be $100 billion higher if those trends continue. All of us hope they do not, all of us hope they are reversed, but if they do continue, here is what we see: Revenues, as a percentage of our national income, as a percentage of our gross domestic product, are headed toward the lowest level since 1959.

Remember, 3 years ago revenue was at the highest level we have had since 1969. In fact, the President used that as a reason to have a big tax cut. Remember? He said revenue is coming in at a higher rate as a percentage of our national income, as a percentage of our gross domestic product, as it has been since 1969 -- I think he used since 1970 at the time in making the argument. And so he said: We have to cut taxes.

Guess what. Now the revenue is going to be the lowest it has been since 1959, and his answer is cut taxes some more, increasing spending and cutting taxes. This is a prescription for deficits that are deep and abiding and that will fundamentally hurt this economy. That is what Chairman Greenspan is telling us. That is what 10 Nobel laureates are telling us. That is what over 500 economists are telling us.

That is what the Committee for Economic Development, made up of 250 of this country's leading corporations and academics, is telling us. They are saying this is a policy that is unwise. That is what former Secretary of the Treasury Bob Rubin, former head of the Federal Reserve Paul Volcker, and former Republican Senator Warren Rudman who served on the Budget Committee with great distinction are all warning us about.

When you run record budget deficits, you cannot add on top of that record tax cuts and increase spending and wind up with anything more than even deeper deficits and deeper debt. That is especially unwise given the fact the baby boomers are about to retire.

The Washington Post said this morning in an editorial labeled "Tax Cut Trickery: Part II":
The House Ways and Means committee plans to take up a tax plan that makes President Bush's look like a model of budget honesty, fiscal probity, and distributional fairness. The plan concocted by Chairman Bill Thomas junks the president's proposal to end taxes on dividends in favor of a proposal to cut the top rate on both dividends and capital gains to 15 percent. The Thomas plan is more straightforward than the administration's complicated proposal but has not much else to recommend it. First, it is tilted even more heavily to the very wealthy. An analysis by the Urban Institute-Brookings Tax Policy Center shows that households with annual incomes of more than $1 million would see their taxes drop an average of $42,800 under the Thomas capital gains-dividend cut, compared with $26,800 under the Bush dividend plan. Taking the two plans as a whole, those households would receive an average tax cut in 2003 of $105,600 under the Thomas plan and $89,500 under the Bush plan.

Let me repeat that. The Washington Post is reporting that under the Thomas plan, the chairman of the House Ways and Means Committee, taxes on those earnings over $1 million a year would be cut by over $100,000 for 2003 alone. Taxes under the President's plan for people earning over $1 million would be cut by almost $90,000. This is at a time when we are in record budget deficits, at a time we are on the eve of the retirement of the baby boom generation that will double the number of people eligible for Social Security and Medicare. This is going to dramatically increase the cost to the Federal Government. This is disconnect from reality.

I yield the floor.