Transcript of Senate Floor Statement by Senator Kent Conrad (D-ND) on Senate Tax Bill May 12, 2003

I would like to respond to some of the arguments my colleague from Arizona made in his remarks because he referenced a number of matters which are mistaken. First, the Senator from Arizona said the current weakness in the economy is not a result of weak consumer demand. He then referred to numbers last year where for a couple of quarters consumer demand was good.

Weak consumer demand is right at the heart of the weakness of this economy. Consumer demand in the first quarter of this year went up at 1.4 percent. That is tepid. That is weak. That is right at the heart of the weakness of the economy. In the last quarter of last year, consumer demand went up 1.7 percent. That is right at the heart of why this economy is weak. People have lost confidence, and they have lost jobs, and they are not buying. That is why companies aren't investing.

Have we missed what has occurred? Our colleague said it is a capital problem, a lack of capital. That would suggest we have a lack of capacity in our manufacturing. That is not what we are seeing. The capacity of America is operating at 74.8 percent. That means 25 percent of the manufacturing capacity is idle. Why is it idle? Is it because of a lack of investment? Absolutely not. It is idle because there is a lack of demand. People are not buying. If we want to give a lift to the economy, we ought to strengthen consumer demand so they will buy from our businesses, so our businesses will have a reason to invest.

We know we have overcapacity in telecommunications, in computer chips, and in area after area. The reason we have a tremendous bubble in markets is because overcapacity developed.

That takes us to the plan before us. I believe the plan the President has put before us is ineffective with respect to dealing with the weakness in our economy. I believe it is fiscally irresponsible, and I believe it should be defeated. I believe the President's plan will actually weaken the economy further because it is going to explode the deficits and debt we see in this economy. Finally, the proposal is unfair because it is heavily weighted to the wealthiest among us.

One of the assertions made by my colleague from Arizona was that our corporate taxes are very high in this country. They are not. On this chart is a comparison of taxes made by the Organization for Economic Cooperation and Development, which is the international scorekeeper. This looks to the most recent year for which they have full figures. For corporate income taxes as a percentage of gross domestic product, the average is right here, about 3 1/4 percent. The United States is way down here on the chart. The suggestion that we have the second highest taxes on corporations next to Japan is just not so. It is just not so.

The reason they come to the conclusion they do is they take our nominal tax rates -- the tax rates that are in the law books -- and forget to look at what actually happens when you start paying taxes: the deductions, the writeoffs, the ability to reduce your tax burden from what is in the law. Certainly, we all know what the tax rates are in the law. But that isn't what the corporations pay. In fact, corporations pay substantially less than that because of deductions, exclusions, and writeoffs. So the reality is that we are a relatively low cost tax jurisdiction when you compare us with other countries in the world.

When we look at the question of stimulating the economy, I think this comparison is important. On this chart is Senator Daschle's plan. Here is the first-year cost and the 10-year cost, compared to what is before us in the Senate -- called the Senate Finance Committee plan -- and this is the House plan. You can see that in terms of stimulus, in terms of giving lift to the economy now, Senator Daschle's plan is far better, far stronger than the other competing plans. He has $125 billion of stimulus to the economy this year. The bill before us has $44 billion. The bill from the House has $48 billion in the first year. So they have very little lift to the economy in their plans.

Let's think about it logically. We have a $10.5 trillion economy, and they are proposing giving a $45 billion, or $46 billion, or $48 billion lift -- in a $10 trillion economy. Most economists say you have to at least have 1 percent of gross domestic product to 1.5 percent to have any significant effect. They are far short of that -- less than one-half of 1 percent. They are not going to give any meaningful lift to the economy. Senator Daschle's plan is about 1 1/4 percent of the gross domestic product. But, in addition to that, his cost over 10 years is much less. Their cost over 10 years is much more.

Why is that important? Because we know we are already in record deficit and we know that if we follow the President's plan, the deficits are going to explode, leaving us in a totally unsustainable situation.

Now, some have gone out and analyzed the effect on jobs of these various plans. Here is what they have found. Comparing the Democratic plan to the President's plan, they found that our plan gives about twice as much lift to the economy in the first year as does the President's plan. In the second year, it is about twice as much lift to the economy. But we do not have the negative long-term effect that the President's plan has.

Some people may look at this and say, What negative effect could the President's plan have long term? Well, economists have studied his plan -- including 10 Nobel laureates in economics -- and they have said the President's plan is not an economic plan, not a job growth plan; it will hurt long-term economic growth; it will diminish job creation in the country because it is all financed with borrowed money. The deadweight of those deficits and debt is going to hurt our long-term economic condition.

You know, it is interesting, the people hired by the White House to make these determinations came to that same conclusion. This is a group called Macroeconomic Advisers, hired by the White House to do macroeconomic analyses -- our own budget office -- and here is what they told us: The President's policy will give a short-term boost before 2004, and then it is worse than doing nothing.

After 2004, look at what happens to economic growth under the President's plan, according to Macroeconomic Advisers. It gives a short-term boost right before the 2004 election, and then look at what happens to economic growth. It plunges, and you are better off for the long term having done nothing.

How can that be? Here is what Macroeconomic Advisers -- I didn't hire them, the White House did; the Congressional Budget Office hired them. Here is what they said, talking about the President's plan:

“Initially the plan would stimulate aggregate demand by raising disposable income, boosting equity values, and reducing the cost of capital.” These are arguments our friends on the other side of the aisle have made.

“However, the tax cut also reduces national saving directly while offering little new, permanent incentive for either private saving or labor supply. Therefore, unless it is paid for with a reduction in Federal outlays, the plan will raise equilibrium real interest rates, crowd out private sector investment, and eventually undermine potential gross domestic product.”

That is not a plan that is an economic growth plan. It is a plan that will undermine long-term economic growth. It is not just Economy.com and 10 Nobel laureates in economics, and it is not just Macroeconomic Advisers. Here is a group of 250 of the leading CEOs in America's Committee on Economic Development. They say the current budget projections seriously understate the problem of the growing deficits. They say 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. Deficits do matter. The aging of our population compounds the problem. I think they got it exactly right and the President has it exactly wrong.

This is the chart that tells us what is happening to our budget deficits. This chart shows us that the deficits are skyrocketing. In fact, they will be between $500 billion and $600 billion this year. We have never had a budget deficit of more than $290 billion in our country's history, and we are heading for a deficit, on an operating basis, of over $550 billion. That is on an operating basis.

To be fair, on an operating basis, I think the previous record deficit was $350 billion or $360 billion. So this is by far the biggest deficit, on an operating basis, we have ever had. It doesn't end anytime soon. The whole rest of this decade, we are running operating deficits, each and every year, of over $300 billion.

Let's review the background of how we got here. You will recall that 2 years ago we were told by the administration we could expect almost $6 trillion in surpluses -- $5.6 trillion in surpluses, we were told, over the next 10 years. Now we see, according to the CBO, if we adopt the President's tax policy and his spending policy, instead of surpluses, we will have $2 trillion in deficits. That is fiscally irresponsible.

I am not talking about the short term. The Senator from Wyoming said you sometimes have to run a deficit to give lift to the economy. I agree with that. But we are talking about never getting out of deficit, according to the President's plan.

Take his own budget documents -- and I will show them in a moment -- according to the President's own analysis of his own plan, you never escape from deficits, and they absolutely explode as the cost of the tax cuts increase at the very time the cost of the Government increases with the retirement of the baby boom generation.

Where did all that money go? Where did it go? Nearly an $8 trillion turn in 2 years -- a turn for the worse. Where did it all go? The biggest chunk went to the tax cuts, those already passed and those proposed. That is 36 percent of the disappearance of the surplus.

The second biggest reason is additional spending in response to the attack on this country and the war. That is 28 percent of the disappearance of the surplus -- increased spending for defense, increased spending for homeland security. Oh, no, this is not a matter of the Democrats were spending money. We all supported increasing defense spending and increasing homeland security.

The third biggest reason for the disappearance of the surplus, 27 percent of the reason is lower revenues, not as a result of tax cuts, but revenues lower than anticipated because the models predicting how much revenue we would get have simply been wrong. This is lower revenue, not as a result of tax cuts. Lower revenue is the third biggest part of the reason for the disappearance of the surplus. Those two together are 63 percent.

Only 9 percent of the disappearance of the surplus over the next 10 years is because of the economic downturn.

Now we have record budget deficits. The surpluses are all gone, and we are talking about massive deficits. What our friends on the other side of the aisle recommend is more tax cuts, massive tax cuts; not just tax cuts this year or next to give lift to the economy at a time of weakness, but tax cuts that go on in perpetuity.

They are not the tax cuts that have been advertised on television. They say there is a debate between $350 billion in the Senate and $550 billion in the House. That is not what the budget provides. The budget that our Republican friends passed provides for $1.3 trillion of additional tax cuts; $350 billion reconciled in the Senate bill, and another $200 billion allowed in the conference report. Then there is the part the media never talks about, another $725 billion of tax cuts that are the so-called unreconciled tax cuts, which simply means they are not given special protection on the floor from the normal operating procedures in the Senate.

Here we are with record deficits, and our friends propose another $1.3 trillion. Look, some of us are supporting tax cuts as well. I support additional tax cuts this year and next to give lift to the economy now, but I do not support running massive deficits that are only made deeper and more serious by tax cuts that have effect 5 years from now, 8 years from now, 10 years from now, and 15 years from now. It does not make any sense.

When I say we are faced with $2 trillion of deficits in the next 10 years according to the Congressional Budget Office, others say the deficits are going to be much more serious than that. Goldman-Sachs, a very distinguished private investment firm, has done an analysis. It says: No, the deficits are not going to be $2 trillion over the next 10 years; they are going to be $4 trillion. In fact, they are going to be $4.2 trillion when they do their estimates of where things are headed.

To buttress their idea, if we just look at the first 7 months of this year and the revenue that is coming in, what we see is it is $100 billion below the forecast. The forecast that was made just 7 months ago is proving to be all wrong. The revenue is running $100 billion below the forecast.

If that trend continues this year, we are going to have the lowest revenue to the Federal Government since 1959. When revenue was at a high percentage of the gross domestic product, the President said: You have to cut taxes; you are getting too much revenue; people are being overtaxed. So we did cut taxes. We cut them dramatically in 2001. Now we are headed for a circumstance in which the revenues are going to be the least since 1959, and the President's answer is cut taxes some more.

Again, I would support tax cuts and additional spending to give stimulus to the economy now. And yes, spending stimulates just like tax cuts do. In fact, they are probably a little better because at least some part of tax cuts get saved and do not get into the economy and do not stimulate the economy.

I would support a balanced package. I would certainly support additional tax cuts now to give lift to the economy now. Remember, very little of the President's proposal is effective now. Very little of the proposal before us is effective now. About 5 percent of the President's plan is effective this year. Ninety-five percent is off in the future. It makes no earthly sense. He is giving tax cuts when he is forecasting the economy to be strong. He is giving tax cuts when he is forecasting massive deficits. He is giving tax cuts right on the eve of the retirement of the baby boom generation when the cost of the Federal Government is going to explode.

Two years ago, the President told us: Adopt my plan and we will pay off virtually all the debt. That turned out to be wrong, too. This year, we have had $6.7 trillion of gross Federal debt. Now the Congressional Budget Office tells us if we adopt the President's plan, 10 years from now we will have $12 trillion of debt. The debt is going to almost double and at the worst possible time because the baby boom generation is going to start to retire.

I think the juxtaposition of all this is really odd. Maybe that is the best word to put to it. The President is asking for a massive tax cut when we already have record budget deficits, and at the very time our Republican colleagues are asking for the biggest increase in our debt in the history of the country. They are asking for a $984 billion increase in the debt. The largest increase we have ever had was in the President’s father's administration when the debt was increased at one fell swoop by $915 billion.

The President today said to the American people: This money is not the Government's money, it is your money, and you ought to get it back. I agree with the President absolutely. The money that comes to the Federal Government is the people's money. He is absolutely right.

But this debt is the people's debt. Social Security is the people's Social Security. Medicare is the people's Medicare.

Make no mistake about it, we the people are on the hook for this debt. When the President says, when we are already running record deficits, cut the revenue some more and increase spending -- remember, the President's budget plan was not cut taxes and cut spending. The President's budget plan was to increase spending and to cut taxes, even when we have record deficits. The result is a massive explosion of debt, and it is the people's debt, make no mistake about that. In the future, when they come around to start to retire this debt, it is all of us who are going to be on the hook.

Maybe it is not going to be us. Maybe it is going to be our kids. Maybe that is the idea. Let us give ourselves big tax cuts. I would be a big beneficiary of those tax cuts.

I would get thousands of dollars of tax relief under this plan. I do not think it is right to give me a big tax cut now and shuffle it off to my kids and everybody else's kids. That is what is happening. That is, again, not my estimate of what is happening. This is from the President's own budget document. This is his long-term outlook of what happens if we adopt his plan. This is on page 43 of his analytical perspectives, and it shows the deficits now which, remember, these are record deficits. They look small on this chart because that is in comparison to what is to come. This is in percentage of GDP terms. This is not in dollar terms. So this is an apples-to-apples comparison.

Look what is going to happen if we adopt the President's spending and tax cut plan. The deficits explode, according to his own analysis of his own plan. It is not surprising why that is the case. This is the chart that tells it all. The blue bars are the Medicare trust fund. The green bars are the Social Security trust fund. The red bars are the tax cuts. What it shows is right now the trust funds are running big surpluses in anticipation of the retirement of the baby boom generation. But instead of using that money to pay down debt or prepay the liability, we are taking it and using it to pay for tax cuts.

What happens when those trust funds go cash negative when the baby boomers retire? Under the President's plan, at the very time the trust funds go cash negative, the cost of the tax cuts explode. Does this make sense? Is this really an economic growth plan? We are not talking about tax cuts now to give a lift to the economy when it is weak. We are talking about tax cuts that explode 10 and 15 years from now at the very time the expenses of the Federal Government explode because of the retirement of the baby boom generation.

Some are saying, well, deficits really do not matter. We do not need to worry about deficits anymore. The Chairman of the Federal Reserve Board thinks deficits matter. This is what he said to 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.”

He is exactly right. Deficits do matter. They always have. When Chairman Greenspan looks at this tax cut, here is what he says: Without spending reductions, they could be damaging to the economy. With a large deficit, Mr. Greenspan said, you will be significantly undercutting the benefits that would be achieved from the tax cuts.

I conclude by saying not only is this plan ineffective in terms of giving lift to the economy and irresponsible in terms of the exploding deficits and debt, but it is also unfair. It is unfair because it overwhelmingly gives the greatest benefit to the wealthiest among us.

The effect of this plan on people earning over $1 million in 2003 is this: They will get a $64,000 tax cut on average. That is for those earning incomes of over $1 million. Those who are in the middle of the wage distribution in our country will get a tax cut of $233.

We heard earlier that this thing has tremendous benefits to the elderly. Well, it certainly does. It has tremendous benefits to those who are wealthy who are elderly. Elderly earning more than $500,000 a year would get a $24,000 tax break.

I conclude by saying that if one is elderly and earns less than $50,000 a year, they will get a $90 tax reduction. If they are elderly and earn more than $500,000, they get a $24,000 tax reduction. That is not my idea of fair. That is not my idea of being effective for economic growth, and it is ultimately self-defeating because the plan is all financed by borrowed money.