Transcript of Senate Floor Statement by Senator Kent Conrad (D-ND) on GOP Tax Cut Bill
May 22, 2003

I compliment our colleague from Florida on an outstanding statement. The Senator from Florida, who sits next to me on the Senate Finance Committee, has long been a voice of fiscal responsibility. His record is clear. I very much hope people across the country were listening to his excellent statement.

I also want to take a moment to thank our ranking member on the Finance Committee, the Senator from Montana. Earlier this evening, he gave outstanding statement describing the problems with what is being proposed here. This is not a growth package. This is not a package that is going to lift the economy. In fact, the evidence is increasingly clear that, in the long term, this is going to hurt economic growth in this Nation.

The ranking member also made clear the unfairness of this package. This is as unfair a package as I have seen in the 17 years I have served in the Senate.

All of those who vote for this package are going to have a lot of explaining to do in the future because, as a former tax commissioner, I guarantee you are going to see one scandal after another as a result of the passage of this tax bill.

This is going to provide lots of fodder for lots of writers, as they examine the consequences of this tax bill because it is going to produce, I predict on the floor of the Senate tonight, some of the most perverse tax outcomes we have ever seen as a result of legislation to pass the Congress.

As Warren Buffett observed, in commenting on the President's proposed repeal of taxes on dividends, his receptionist was going to pay a rate of taxes 10 times what he pays. He is the second richest man in the United States, and his receptionist is going to pay taxes at a rate 10 times what he pays.

Let me be clear. The measure we will vote on tomorrow morning is not quite the same measure as he was critiquing in his op-ed piece in the Washington Post. Instead of his paying one-tenth of what his receptionist pays, it may be down to one-eighth of what his receptionist pays.

I tell you, this is a scandal, and it is going to explode, and it is going to explode right in the faces of those who vote for it.

Here is the reality. We were told 2 years ago by the President that we could expect almost $6 trillion of surpluses--$5.6 trillion, to be absolutely precise--over the next decade. Now we know, instead of nearly $6 trillion of surpluses, if we enact the President's plan, we can look forward to $2 trillion of deficits. That is the hard reality confronting this Nation.

This chart shows what is happening to budget deficits year by year. The President said, once we went into deficit, after he told us, you do not have to worry about that, that is not going to happen: My program with big tax cuts is going to lift the economy; it is going to produce more jobs, more economic growth; we are going to be able to pay off the debt; we are going to be able to protect Social Security, protect Medicare.

Here are the results. The deficits are exploding. The deficit this year, on an operating basis, is going to be between $500 and $600 billion. It is going to be about $400 billion before you deal with Social Security. Under the President's plan, every penny of Social Security surplus money is going to be taken this year to pay for tax cuts and other expenses of the Government--every single dime.

The President said the deficits will be small and short lived. Wrong again. These deficits are massive, and we see no end in sight. We have $550 billion of deficits on a $2.2 trillion budget? That is large by any calculation. We do not see deficits on an operating basis below $300 billion a year anytime for the next decade.

The President told us 2 years ago, if we adopted his plan, we would be able to virtually eliminate the national debt. He said he would be able to retire all of the debt that was available to retire. He said by 2008 we would be down to $36 billion of publicly held debt. Now, after adopting his plan, we see that by 2008 we will not be down to $36 billion.

Instead, the debt is going to be $5.2 trillion. That is the publicly held debt. That is just part of the story. The gross debt of the United States is even worse. The gross debt of the United States at the end of this year will be approximately $6.7 trillion. If we adopt the President's plan, at the end of this decade it is going to be $12 trillion. The deficits and debt are exploding. They are exploding at the worst possible time.

Why is it the worst possible time? Here is the reason it is the worst possible time. This chart shows the Medicare trust funds, the Social Security trust funds, and the cost of the tax cut the President has proposed. The blue bar is the Medicare trust fund, the green bar is the Social Security trust fund, and the red bars are the tax cuts. You can see that right now the trust funds are throwing off big surpluses. In fact, just this year, Social Security will produce a surplus of $13 billion. But look at what happens later on in this decade and in the next decade when the baby boomers start to retire. Then the trust funds turn cash negative. At the very time they go cash negative, the cost of the tax cuts explodes, dragging us deep into deficit and debt in a way that is totally unsustainable--over $1 trillion a year in deficits.

This isn't my projection. These are the President's own projections. This is page 43 of his analytical perspectives from the budget. Here is his long-term outlook on the deficit as a percentage of the gross domestic product. Economists like to use that measurement because it is an apples-to-apples comparison over time. It takes out the effect of inflation.

This is the President's projection of where we are headed. If we adopt his tax plan and his spending plan, we never get out of deficits. These deficits that look relatively small compared to where we are headed according to the President are, in fact, record deficits. The deficit we are going to run this year is going to be the largest deficit ever in the history of America. The previous largest deficit we ran on a unified basis where all the money is put into the same pot and all the expenses come out of that pot--the largest deficit we ever had on the unified basis was $290 billion. On a unified basis this year, the deficit is going to be over $400 billion. That is here. As a percentage of gross domestic product, you can calculate it yourself--$400 billion on a $1.5 trillion economy. That is about 3.6 percent or 3.7 percent of gross domestic product deficit. But look at where we are headed. Again, this is the President's assessment of where we are headed if we adopt his plan.

Deficits as a percentage of gross domestic product of over 12 percent. Twelve percent on the economy of today would be a deficit of over $1.2 trillion this year.

Who is going to loan us the money? America is going to become a deadbeat. Why has the dollar plunged 20 percent in value in just the last several months? Why are economists saying it is poised to plunge perhaps another 10 percent? What are the implications for foreigners who are buying dollar-denominated investments today when they see the dollar dropping like a rock? Do you think they want to hold American bonds? Do you think they want to hold American stocks when the value of the dollar is dropping like a rock? What happens to the American economy if they start to pull their money out of our stock market and out of our bond market? Do you want to see interest rates jump and see equity values plunge? Just have this dynamic continue, and it will rattle the eyeteeth of the markets in this country. The idea that this is going to increase markets--I am afraid it is going to be painful.

This year alone, revenues are running $100 billion below forecasts--forecasts made only 7 months ago. Yet it is running $100 billion below what was forecast. If that continues, we are going to have the lowest revenue as a percentage of our gross domestic product since 1959, the lowest revenue in 44 years.

Remember when the President told us 2 years ago when revenue was the highest percentage of gross domestic product it has been in 40 years, he said we had to have a big tax cut to give the money back to the people. And we did. Now revenue is poised to be the lowest it has been in more than 40 years, and the President's answer is the same: Let's have another big tax cut. Give the money back to the people. He says it is the people's money. He is right about that. That is exactly whose money it is. It is the people's money.

Do you know what else? It is the people's debt. It is the people's Social Security. It is the people's Medicare. And this President is running up the debt in an unprecedented way and at the worst possible time. He is running up the debt right before the baby boomers start to retire.

If there is any question about his running up the debt, we are going to have it in our face tomorrow. We are going to have it before us tomorrow. He is asking not only for one of the biggest tax cuts ever, but he is asking for one of the biggest increases in debt ever. In fact, it is the biggest increase in debt in the history of our country.

The last time he increased the debt, it was a $450 billion increase in June of 2002. But by April of 2003, the President is back asking Congress to increase the debt by $984 billion in one fell swoop--almost $1 trillion of added debt.

This is an economic plan that is not working. It is failing. It is dangerous to the future of our country. The plan before us isn't going to work.

How can I be so sure? I just said we have a $10.5 trillion economy, and this tax cut will provide $55 billion of lift in a $10.5 trillion economy. That is less than one-half of 1 percent of gross domestic product. If all of it translates into increased economic activity, the most it can affect is one-half of 1 percent of gross domestic product.

This is a $350 billion package. At least it is advertised to be, despite the gimmicks it has. It is the most gimmick-laden package we have ever considered on the floor of the Senate. It costs $350 billion. Only 16 percent of it is effective this year to give stimulus to the economy. It is an upside-down plan. It provides too little lift now when we need it, and it costs too much in future years when we can't afford it. It is totally an upside-down plan.

If you took out the gimmicks, all the sunsets, and the phase-ins, and the dodging around that is in this plan, it doesn't cost $350 billion. It costs $1 trillion.

Those who are the most fervent advocates of this plan have no intention to sunset the various elements of this tax plan. If you do not sunset it, the true cost is $1 trillion.

We go to the question of, Will this stimulate the economy? This is the answer of the people who were hired by the White House and hired by the Congressional Budget Office to answer that question. This is their answer, as shown on this chart. This black line is the President's policy. The green line is the base; that is, if you do nothing.

What this shows is, you get that one-half of 1 percent increase in GDP in the early years, but after 2004 this plan is worse than doing nothing--worse than doing nothing in terms of economic growth. Why?

Well, the people who do that analysis--and, again, they are hired by the White House; they are hired by the Congressional Budget Office to do this kind of analysis--this is what they say:

Initially the plan would stimulate aggregate demand significantly by raising disposable income, boosting equity values, and reducing the cost of capital. 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– which it is not– the plan will raise equilibrium real interest rates, ``crowd out'' private-sector investment, and eventually undermine potential GDP. That is what Macroeconomic Advisers say. They are not alone.

This is from the Joint Committee on Taxation with a macroeconomic analysis of the House bill, which is the basis of the conference agreement we will have before us to vote on tomorrow:

The simulations indicate that eventually the effects of the increasing deficit will outweigh the positive effects of the tax policy, and the buildup of private non-residential capital stock will likely decline.

I do not know how many of our own experts we have to have tell us that we are going down the wrong path, but let's say you don't put any stock in the people we have hired to advise us. Let's say you don't trust the Joint Committee on Taxation. Let's say you don't trust Macroeconomic Advisers.

How about 250 of the most prominent CEOs in America, the Council on Economic Development? They say current budget projections seriously understate the problem. While slow economic growth has caused much of the immediate deterioration in the deficit, the deficits in later years reflect our tax-and-spending choices. And the inevitable conclusion: deficits do matter.

Those who are running around this town now telling us that deficits do not matter are the folks who, for years, made political careers in saying deficits did matter. Well, deficits do matter. Anybody who tells the American people they don't is shoveling smoke.

The final point they made is the aging of our population compounds the problem. They could not be more right.

Of course, they are not alone. Here are 10 Nobel laureates in economics, 10 people who have had the greatest achievement, the greatest recognition in economics. What do they say?

The tax-cut plan proposed by President Bush is not the answer to our problems. Regardless of how one views the specifics of the plan, there is wide agreement that its purpose is permanent change in the tax structure, not the creation of jobs and growth in the near term.

``Not the creation of jobs and growth in the near term.'' They need to change the title of this bill from the ``Jobs and Growth Package'' to the ``Not Jobs and Growth Package'' because that is what it is because it explodes the deficits and debt. It is all financed with borrowed money. The dead weight of those deficits and debt will reduce economic growth, not improve it.

The economists go on to say--again, 10 Nobel laureates– Passing these tax cuts will worsen the long-term budget outlook, adding to the Nation's projected chronic deficits.

It is not just them. This is the head of the Federal Reserve Board, Chairman Alan Greenspan, who endorsed the President's last round of tax cuts. Now he is saying we have to start paying attention to the growth of these deficits.

He says: 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 to.

But he said more. He said the tax cuts that the President is proposing should be paid for. The President has no proposal to pay for these tax cuts. He is not offsetting them by reducing spending. In fact, he is increasing spending by over $600 billion above the baseline at the same time he is recommending $1.6 trillion of additional tax cuts, when we already have record deficits.

My grandmother told me: If somebody tells you something is too good to be true, it probably is. When the President told us, 2 years ago, you could have it all, you could have a major defense buildup, you could have a massive tax cut, you could protect Social Security and Medicare fully, and in addition, you would be able to pay off the national debt, that sounded awfully good. But do you know what? It was not true. It was not close to being true.

We have already seen that instead of paying off the debt by 2008, it is going to be over $5 trillion. We also know now, instead of protecting Social Security, the President's plan is going to take and loot virtually every penny of the Social Security surplus every year for the rest of the decade. This year, he is going to take every dime. Next year, he is going to take every dime; the next year, every dime; the next year, every dime.

There are real consequences to the decision that is going to be made on this floor tomorrow. These are consequential decisions.

Chairman Greenspan said: If, however, in the process of cutting taxes you get significant increases in deficits, which induce a rise in long-term interest rates, you will be significantly undercutting the benefits that would be achieved from the tax cuts.

Again, it is not just Chairman Greenspan or 10 Nobel laureates or any of the others we have cited. Here are people at McKinsey & Co., one of the foremost consulting firms in the Nation, in fact, in the world. Mr. Koller and Ms. Foushee noted in a recent report that, as of last year, owners of 61 percent of all common stock were not subject to tax. They were not even subject to tax.

Anybody who is listening: If you have a 401(k), you do not pay taxes on dividends. In fact, 61 percent, according to their analysis, of all common stock owners were not subject to tax. So markets are driven by investors who are not concerned with the tax treatment of dividends. Thus ``the proposed tax cut'' on dividends ``seems unlikely to have a significant or lasting effect on U.S. share prices.''

It is not just consultants from one of the most prominent consulting firms or 10 Nobel laureates or the Chairman of the Federal Reserve who are warning us about the danger of the direction we are taking. But here is Warren Buffett. I think he is the second most wealthy man in America. He calls this ``dividend voodoo.'' He calls dividend tax relief ``welfare for the rich.'' He said:

When you listen to tax-cut rhetoric, remember that giving one class of taxpayer a ``break'' requires--now or down the line--that an equivalent burden be imposed on other parties.

Now, obviously, that is true because we are in deficits. Remember, all of this money that is going out for a tax cut is being borrowed. In whose name is it being borrowed? It is being borrowed in all of our names.

This is not out of surplus funds. This is out of borrowed funds. Every dime of this tax cut is being financed with borrowed money. When the President says it is the people's money, he is right. It is also the people's debt. That is how this is being financed. It is being financed by debt. Mr. Buffett goes on to say:

Government can't deliver a free lunch to the country as a whole. It can, however, determine who pays for lunch. And last week the Senate handed the bill to the wrong party.

Supporters of making dividends tax-free like to paint critics as promoters of class warfare. The fact is, however, that their proposal promotes class welfare. For my class. Mr. Buffett is referring to himself and other extraordinarily wealthy individuals.

Where is a big chunk of the money coming from? Here it is. We are going to run, in Social Security, $2.7 trillion in surpluses over the next decade. Under the President's plan, $2.698 trillion is being taken to pay for these tax cuts and other expenses. This is the biggest raid on Social Security that has ever been conducted. It is being done right on the eve of the retirement of the baby boom generation. What a profound mistake.

This plan is also deeply unfair. As Mr. Buffett said: His class is the biggest beneficiary. But he has that right. For those earning over $1 million a year, their tax cut for this year alone will be over $93,000. Let me say that again. If you are fortunate enough to be earning over $1 million a year in 2003, this package will give you on average a tax cut this year of over $93,000. If you are a middle-income person, if you are in the 20 percent of taxpayers who are right in the middle of the income distribution, your average benefit will be $217. Do you think that is fair?

Our friends on the other side will say: Well, rich people pay more taxes. Indeed, they do. That is how our tax system works. But they don't pay that disproportionate a share of the taxes. No. No. They pay about 23 or 24 percent of the taxes. They are getting almost 40 percent of the benefit out of this plan. That is what is going on here. Don't let anybody tell you this is a fair plan, evenly distributed, based on what people pay in taxes, because it is not. It is not even close to being evenly distributed.

It doesn't end there. This tax bill produces gimmick after gimmick after gimmick to hide its true cost. This is a ``now you see it, now you don't'' tax plan that comes and goes. Taxes are lower. Taxes are raised. Taxes are jumping all around because they have to hide the true cost of this plan.

Here is how they propose fixing the standard deduction marriage penalty. The marriage penalty is eliminated when you get to a standard deduction for joint filers of $9,500. So for 2003 and 2004, they are at $9,500. Then in 2005, they drop it down to $8,265, representing a huge tax increase for those couples for 2005. Then they jump it up to $8,740 for 2006; $8,883 for 2007; then in 2009 and 2010, it goes back up to $9,500. Then look what happens in 2011, 2012, 2013. I mean this thing is embarrassingly bad. Then it goes down to the standard deduction to $7,950--meaning another big tax increase for people facing the marriage penalty. They don't just do it with the marriage penalty.

Here is what they do with the child tax credit: it was $600 in 2002; they increase it to $1,000 in 2003 and 2004. Then they cut it to $700 for 4 years. Then they raise it to $800. Then in 2010 they raise it to

$1,000. Then they cut it in 2011, 2012, and 2013 back down to $500.

Does this make any sense to anybody watching or listening; this kind of tax policy? The ranking member calls this a yo-yo tax plan. It is at least a yo-yo. And it doesn't end with the marriage penalty or the child tax credit. Here is the 10-percent bracket. It shrinks for 2 years, then disappears altogether in 2011. Look at this plan. I don't know. It is not a pretty thing. From $12,000, it goes up to $14,000 for 2 years, then back down to $12,000 for 3 years, then it jumps for 3 years up to $14,000. Then it goes down to zero for 3 years. Who is kidding who about this plan?

This thing is absurd on its face. Here is the small business expensing limit. From $25,000 in 2002, they increase it to $100,000 for 2003, 2004, 2005. Then they cut it back to $25,000 all the rest of the time. Top rate on dividends, same pattern, jumping all around: 38.6, then they cut it to 15 percent for 6 years. Then they jump it back up to 35 percent for 5 years.

Our ranking member has called it a yo-yo tax plan. There is the yo-yo, up and down and all around. Economists say this is going to create such confusion, such chaos, such a lack of predictability in the tax system that in and of itself, the unpredictability will cost the economy substantially.

The top rate on capital gains, same thing, jumping all around: 20 percent, then down to 15 percent for 6 years, then it is back up to 20 percent for 5 years.

This is a tax policy that not even a mother would love, if this were a child. We can do better than this. This is a policy that is irresponsible fiscally. It is ineffective in terms of stimulus, and it is totally unfair. Those are the best things I can think to say about it.

This is a tax policy that is going to plunge us right off the cliff into deficits and debt as far as the eye can see, and it is going to hurt this economy.

I urge my colleagues to vote against the conference report. I thank the Chair and yield the floor.