MINORITY VIEWS OF RANKING DEMOCRATIC MEMBER SENATOR KENT CONRAD (D-ND)

At a time when we are on the brink of war in Iraq, we face an ongoing global fight against terrorism, deficits continue to mount, job losses continue to grow, and the retirement of the baby boom generation looms just over the horizon – I can't think of anything more irresponsible than another round of massive permanent tax cuts for the wealthiest. But, unfortunately, that is exactly what the Majority has proposed in its budget resolution.

Now is a time that we should be focusing on strengthening our nation's defense and homeland security, improving our economy, and restoring fiscal discipline over the long-term to ensure that future generations aren't saddled with our burdens. Yet, the Republican budget resolution would do just the opposite.

By embracing most of the President's massive tax cut proposals, the Majority has thrown caution and prudence to the wind. The Senate resolution includes $1.4 trillion in new tax cuts – $726 billion for the President's so-called "growth" package and more than $600 billion to make the President's 2001 tax cut permanent. If Congress were to actually adopt this plan, it would plunge the country off a cliff into a mass of deficits and debt – and fundamentally threaten the education of our children, the financial security of our seniors, and the strength of the nation.

Congressional Budget Office (CBO) projections show that under the Majority's plan deficits would exceed $500 billion in 2004, when not counting Social Security. And deficits of more than $300 billion would continue in every year of the decade. The only reason that the Majority's plan appears to have less deficits than what the President proposed and to reach unified balance in 2013 is that the Senate Republican plan assumes significant cuts in domestic priorities over the next 10 years – affecting education, transportation and infrastructure, and other programs as well as putting pressure on homeland security funding – and real cuts in defense after 2008.

And despite their previous claims about the importance of protecting Social Security, the Republican resolution would pay for its new tax cuts almost entirely with Social Security money. In total, the plan would raid Social Security funds by $2.7 trillion, taking Social Security payroll tax dollars to fund its tax cuts for the wealthy and its spending proposals.

And much like the President's budget, the Senate Republican plan would build up a mountain of debt. Under the plan, gross federal debt would skyrocket, reaching $12 trillion by 2013.

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To understand why the Republican plan is the wrong answer to the problems facing this country, it is worth reviewing what has happened to the budget over the last two years.

When the President was selling his first tax cut in 2001, he promised that we could easily afford it. He ignored warnings that the tax cut he was proposing was too large. In a speech to Western Michigan University in March 2001, 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.*"

We now know how wrong he was. Instead of the $5.6 trillion in projected surpluses over the next ten years that were projected when the President came into office, now, according to CBO's latest estimate, if we adopt the President's budget plan, we will face a $2.1 trillion deficit over that time period (see Chart 1). That is a stunning downturn of nearly $7.7 trillion in just two years.

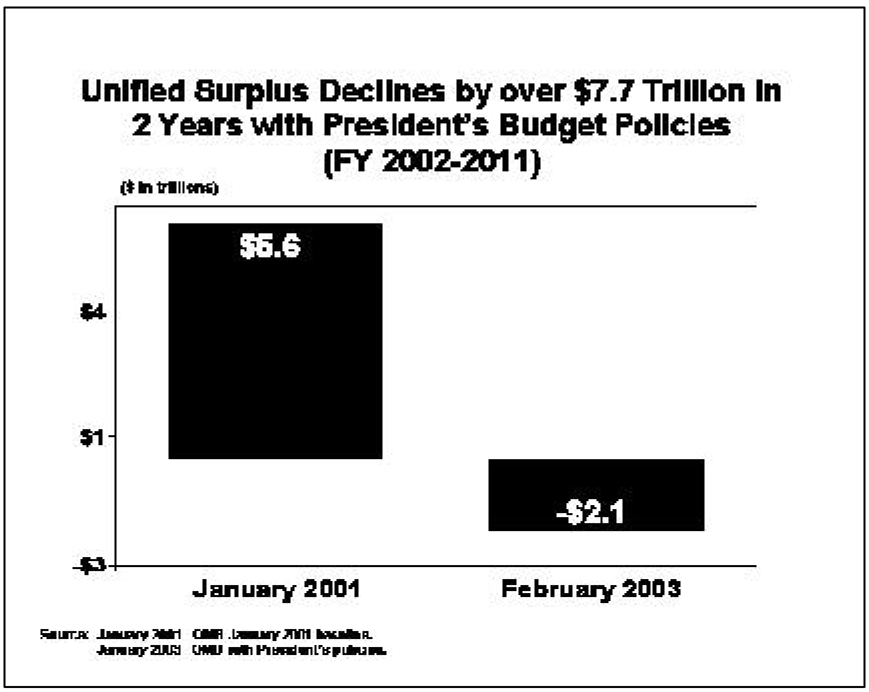

Chart 1

In last year's State of the Union address, the President clearly saw what his policies were doing – since he began to acknowledge that deficits had returned under his watch. He said:

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

But that prediction was wrong as well. It is now more clear than ever that the deficits will be neither small nor short-term. CBO's estimate of the cost of the President's budget plan shows that the deficit will total $338 billion in 2004, and $512 billion if we set aside Social Security (see Chart 2). And those deficits will continue through at least 2013. Excluding Social Security funds, the deficits will exceed $400 billion in every year of the decade.

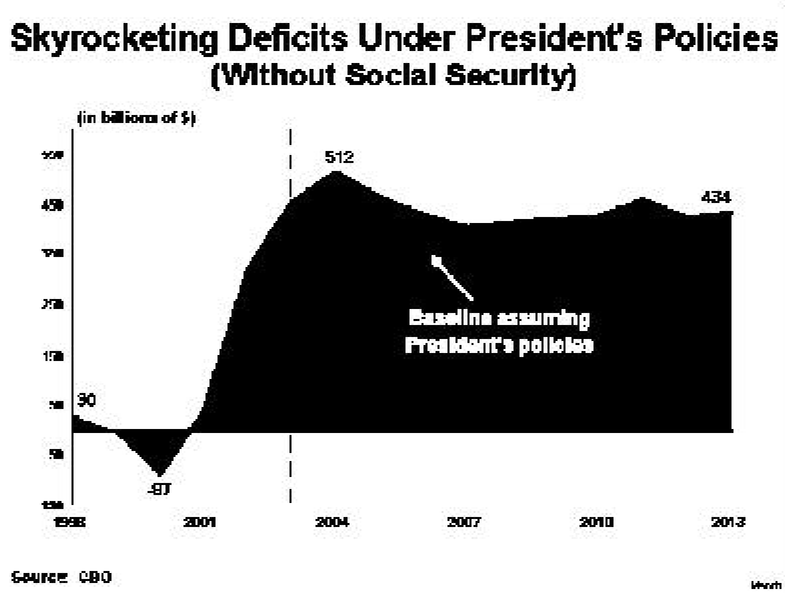

Chart 2

These deficits will lead to a pile of debt to be passed on to our children and grandchildren. I'm not the only one who thinks that is wrong. Look back to 2001 to see how President Bush promoted his budget then. In a March 2001 radio address to the nation, the President said:

> "*My budget pays down a record amount of national debt. We will pay off $2 trillion over the next decade. That will be the largest debt reduction of any country, ever. Future generations shouldn't be forced to pay back money we have borrowed. We owe this kind of responsibility to our children and grandchildren.*"

The President's rhetoric just doesn't match what he is doing. Before the President's first tax cut, it was estimated that we would pay off virtually all of our publicly held debt by 2008 (see Chart 3). Now, if we adopt the President's policies, it is projected that we will face $5.1 trillion of publicly held debt in 2008.

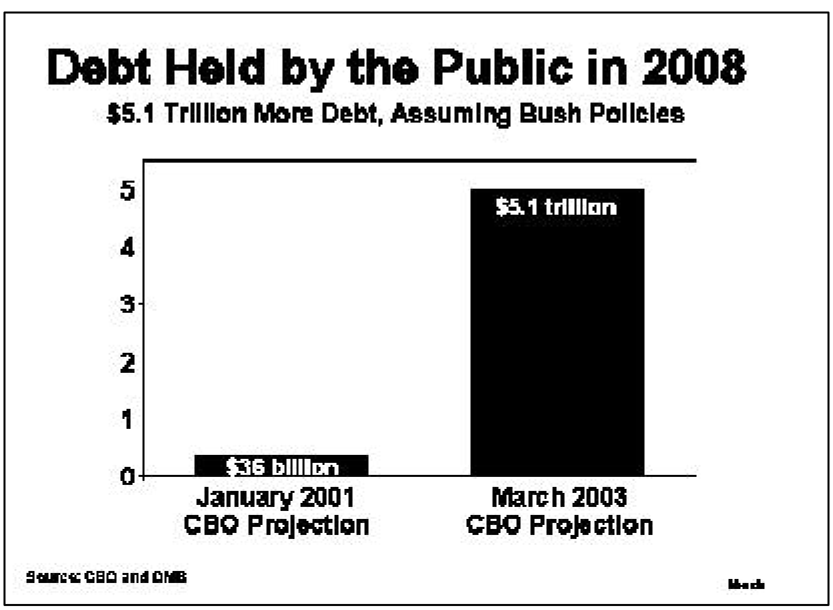

Chart 3

And with that debt comes huge additional interest payments. Under the President's policies, we will increase federal interest costs by $1.7 trillion over the 2002 to 2011 period (see Chart 4).

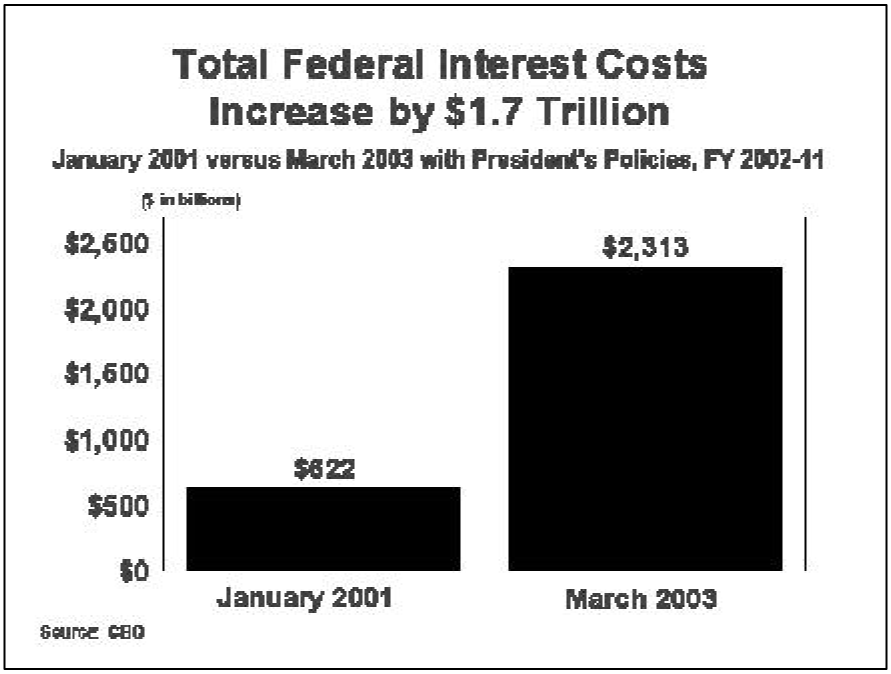

Chart 4

Gross federal debt will also skyrocket under the President's plan. In fact, we can see that gross federal debt will reach $12 trillion by 2013 if we adopt the President's policies, including his tax cuts (see Chart 5).

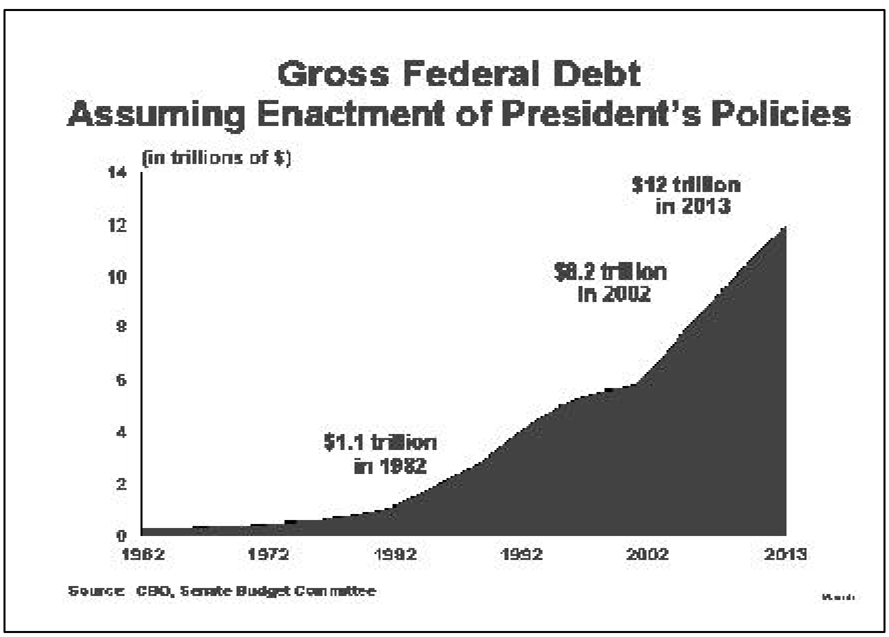

Chart 5

We need to remember that this is the worst possible time for us to be accumulating such a mountain of debt. This is precisely the time we should be freeing up resources to meet our Social Security and Medicare commitments to the baby boom generation, who are on the verge of retirement.

When we look at the next two decades, we can see that the President’s tax cut explodes in cost at exactly the same time that the Social Security and Medicare cash surpluses disappear. Chart 6 shows the cash deficits coming to the Social Security and Medicare trust funds and adds the cost associated with the President’s tax cut proposals.

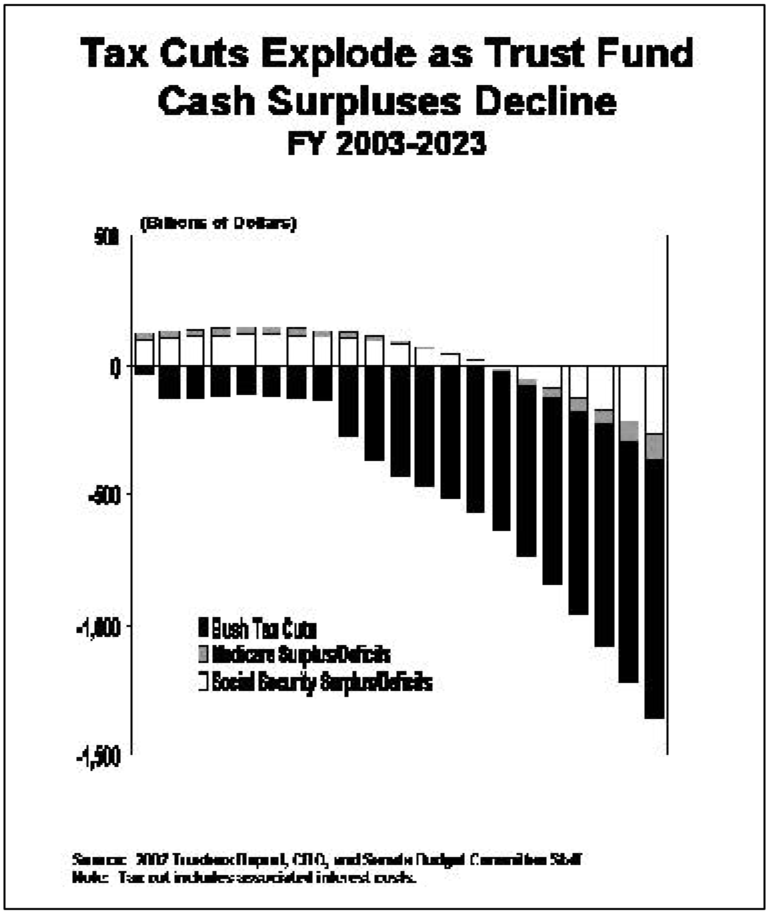

Chart 6

In his State of the Union address this year, President Bush said that we should not pass on our problems to future generations. He said that:

> *“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.”*

Those were noble words that spoke to the true spirit of America. Yet, as we have seen, his policies would do just the opposite. By insisting on new tax cuts for the wealthiest that we simply cannot afford, the President would explode federal deficits and debt for years to come.

It is interesting to look at the situation the President’s policies would put us in over the long-term. Chart 7 comes directly out of the President’s budget – from page 43 of the *Analytical Perspectives* volume of the budget. I regard this as the “smoking gun” in the case against the President’s budget. It extends the President’s policies out for the next 50 years and shows that we are in the sweet spot of our fiscal outlook right now, and that deficits will explode under the President’s policies as the baby boom generation begins to retire.

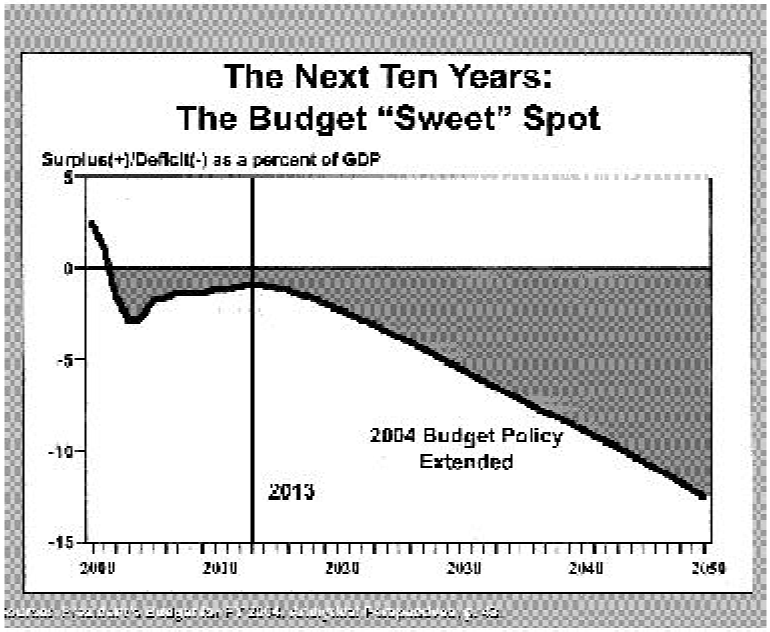

Chart 7

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Since the Senate Republicans seem intent on pushing forward with the President's tax cut plans, it is worth examining what his fiscal policies have done for us to this point. Since January 2001, when the President's first tax cut plan was proposed, we have lost 2.5 million private sector jobs. We recently learned that the nation lost more than 300,000 jobs in February alone.

You would think that these disturbing job loss numbers would prompt the administration to change course. Instead, it is pushing more of the same, massive back-loaded tax cuts for the wealthiest.

Chart 8 shows just how poorly structured the President's plan really is. Instead of providing real stimulus for the economy now, when it is needed, the President's plan includes only $41 billion of stimulus this year – 4 percent of its total $994 billion ten-year cost.

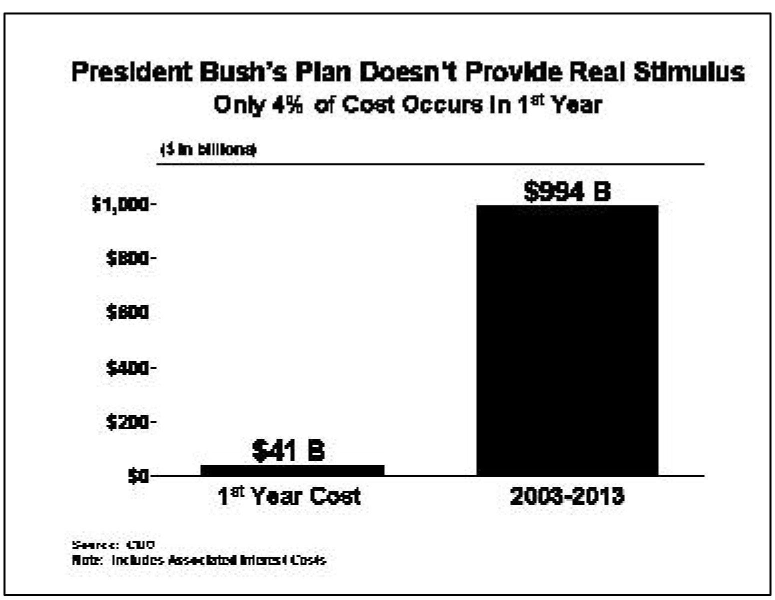

Chart 8

That's just bad economics. The President's plan is actually anti-growth, because the huge out-year cost of his plan will explode the deficit, drive up interest costs, and slow long-term economic growth.

The findings of one prominent economist, Mark Zandi of Economy.com, are illustrated in Chart 9. Zandi has calculated that the President's tax cut plans would reduce economic growth by 0.1 percent over the next ten years. Zandi knows that the huge deficits and debt created by the Bush tax cuts will weigh down the economy and slow long-term growth. Zandi also concludes that the Democratic stimulus proposals, which provide more benefit up-front and cost much less over the ten-year period, would provide at least twice the level of economic growth produced by the President's plan this year and next.

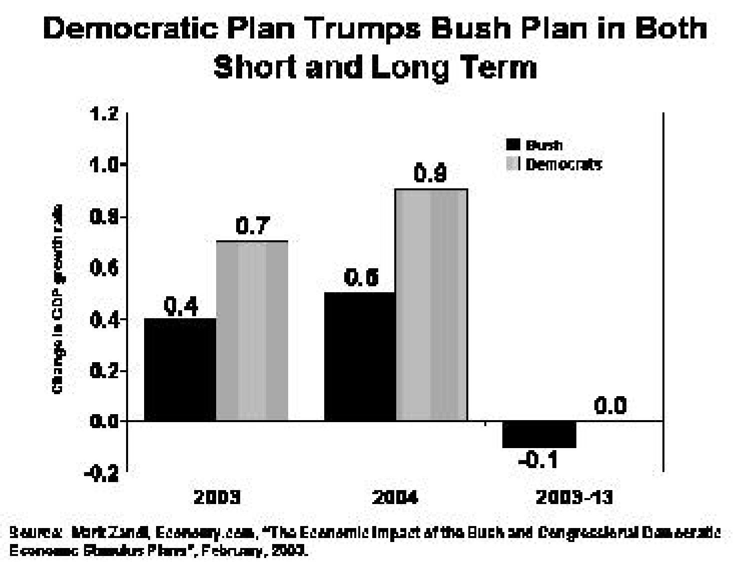

Chart 9

And Zandi is not the only one to reach this conclusion. In recent weeks, yet another group, the Committee for Economic Development (CED), stepped forward to criticize the President's tax cut plan. The CED is a non-partisan and non-political group of 250 leading businessmen and academics. This is a group composed of fiscally conservative business leaders and academics, including executives from the Bank of America, Bell South, Allied Signal, PricewaterhouseCoopers, Deloitte & Touche, the Ford Motor company, and American Management Systems, to name just a few.

This prestigious group issued a report opposing the President's tax cut plan and noting that it would explode deficits and debt right in the face of the retirement of the baby boom generation. Notably, CED's report included the following "findings:"

Current budget projections seriously understate the problem.
CED notes that this is because the projections leave out the costs of a war in Iraq, reform of the Alternative Minimum Tax, additional tax cuts, and other measures.

<u>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.</u>
CED rejects the administration's claim that the deficits aren't their fault, noting that most of the long-term deterioration comes from policies it chose.

<u>Deficits do matter.</u>
CED argues that deficits will reduce future economic growth and our standard of living.

<u>The aging of our population compounds the problem.</u>
CED emphasizes that their concern about our fiscal situation is magnified by the approaching retirement of the baby boom generation.

These findings are absolutely on the mark and help to put our fiscal situation in the proper perspective. I hope that my colleagues will carefully consider them as we move forward with this budget resolution.

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It is worth particularly highlighting the first point made by the CED – that our current budget projections seriously understate the problem, in part, because they exclude the cost of a likely expensive war in Iraq and its aftermath. This point alone truly underscores the irresponsibility of pursuing such a large tax cut at this time.

First of all, how can we call on our troops to be willing to make the ultimate sacrifice, but ask for no sacrifice from those of us at home? It seems particularly inappropriate to be considering a huge tax break for the most well-off at such a time.

Past Presidents and Congresses have almost always called on the American people at home to help share the burden of conflict by buying government bonds, foregoing tax cuts, or even paying higher taxes when needed. The American people proudly carried this burden and recognized it as their responsibility and a small price to pay for the privilege of living in the greatest country in the world. They surely didn't consider tax cuts for the wealthiest when their fellow countrymen were in battle.

Let's consider just how much this war could cost. Officially, the Bush administration has still refused to provide Congress with a cost estimate for the war. But press reports have cited administration officials acknowledging that they could request a supplemental appropriation of $60 billion to $95 billion to cover war costs in 2003. Chart 10 shows how much the administration has put in its budget for these war costs. Zero. Nothing at all.

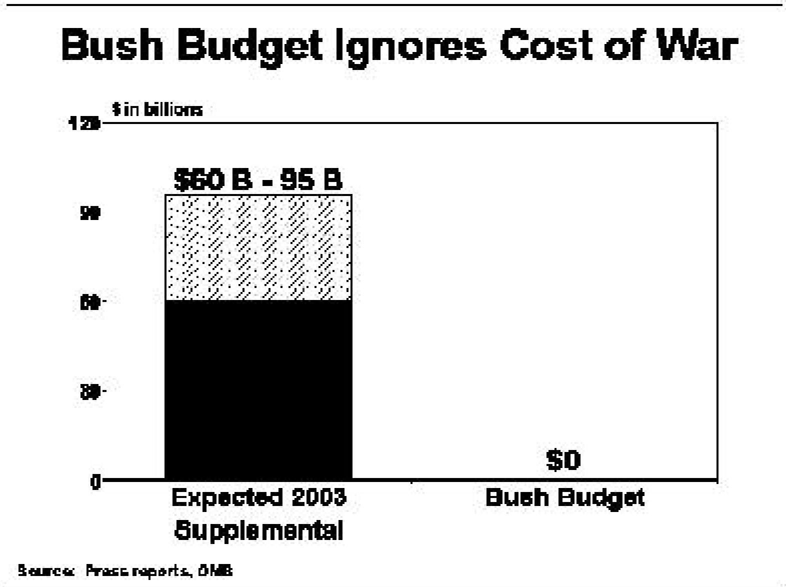

Chart 10

And nowhere has the administration accounted for the possibly huge post-war costs, such as the cost of occupation, humanitarian assistance, and reconstruction of Iraq – not to mention any indirect costs to the U.S., such as an extended spike in oil prices. How can we consider cutting revenues by another $1.6 trillion, or more than $1.9 trillion including interest, as the President has proposed, given the possibility of such huge expenses for this war?

That is why it is so important that Congress be provided with a war cost estimate from the administration before we proceed with large tax cuts or spending changes. Congress needs to have this information before we make these huge long-term legislative decisions.

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For all these reasons, I have concluded that the Republican plan is the wrong answer to the problems facing this country, it recklessly endangers our nation's fiscal future, and it should be rejected. I look forward to working with colleagues on both sides of the aisle to improve the resolution. There is too much at stake for us to do otherwise.

- March 14, 2003