Transcript of Floor Statement by Senator Kent Conrad (D-ND)
on Budget and Economy
September 22, 2004

Mr. CONRAD. Yesterday we heard a number of my colleagues talk about their view of the economy and their view of the fiscal affairs of the country and their view that things are on a positive track. Today, I would like to respectfully offer the other side of the story and what I view as a very dangerous course the Nation is pursuing under the leadership of President Bush.

Earlier this year, on August 30, the President was on the NBC "Today" show and the host asked him this question: “Let me ask you about deficits. This year, $445 billion. Ballpark, do you think that's pretty good?” President Bush: “Yes. I do, I do.”

That is an odd sense of accomplishment because that is the biggest deficit in the history of the United States. The deficit that is now estimated to be some $422 billion we know is going to be larger because we are funding some of next year's defense money this year because of mounting costs in Iraq. But even at the $422 billion figure, that is the largest deficit in the Nation's history, and by a big margin.

Last year, under President Bush's fiscal plan, we had what was then a record deficit of $375 billion. Now it has increased to $422 billion. But frankly, that understates how serious the situation is. By contrast, if you go back to the Clinton years, each and every year of the Clinton administration the deficits were reduced and held for a 3-year period. We actually ran budget surpluses. This President has punched us back into deficit, and by a country mile.

The Bush administration now claims that the deficits are coming down. This is the budget director, OMB, chosen by President Bush. He says: “We continue to have deficits, even though they are coming down dramatically.” I don't know what his notion of coming down is, but here is the record. The deficits are not coming down. The deficits are getting bigger.

The last year of the Clinton administration, the first year of the Bush administration, which is a budget that the President inherited, the budget was in surplus by $127 billion. The next year, 2002, it went to $158 billion of deficit. That was the first year under the Bush administration. The next year, $375 billion of deficits, then the largest dollar deficit in our history. This year, it is $422 billion, and the President's budget director says the deficits are going down dramatically. What is he talking about? The deficits are not going down. The deficits are going up.

The truth is the official deficit, what is called the deficit by the press, what is called the deficit by this administration, badly understates how serious the fiscal condition is of the United States. The debt of our country is not going to increase by the advertised deficit of $422 billion. This may come as a great surprise and shock to many to find that the debt is going to increase by much more than the deficit. But the truth is the debt of the country is going to increase by over $633 billion this year.

The reason for the difference is they are not counting the $150 billion -- roughly $150 billion -- they are borrowing from Social Security, every penny of which they have to pay back. It does not get counted in the deficit calculation. If you add in the money they are borrowing from Social Security, which they have to pay back, the money they are borrowing from Medicare, which they have to pay back, the money they are borrowing from every other trust fund, which they have to pay back, the debt of the United States is going to increase this year by over $630 billion. That is a staggering sum.

The Bush administration promised that deficits will be reduced in the future. President Bush in Annandale, VA, on August 9 of this year said: "So I can say to you that the deficit will be cut in half over the next 5 years." This is the same President who said, by the way, in his first year there would be no deficits. In his second year, reporting to Congress, he said the deficits would be small and short term. Both of those statements were wrong and wrong by a country mile. Then he said they would be small by historical standards. Wrong again; biggest deficits we have ever had. Now he says don't worry, I am going to cut the deficit in half over the next 5 years; wrong again. Don't believe it because it is not going happen.

The only way the President comes up with the claim that he is going to cut the deficit in half over the next 5 years is he leaves out whole areas of spending. He leaves out finance costs for the war. In his previous budget, he left out any war costs past September 30 of this year. He didn't put money in his budget; none. Does anybody believe there is no war cost past September 30 of this year? That is what the President said in the budget he sent up here.

He said there is no money needed to fix the alternative minimum tax past this year. Yet we know the alternative minimum tax, that affects 3 million people now and will affect 30 million people by 2010. That is the old millionaire's tax that has now become a middle-class tax. My friends, we all know Congress is not going to allow the alternative minimum tax to affect 30 million taxpayers. Yet the President provides nothing in his budget past next year, nothing.

In fact, if you go back and you put back the items the President has left out -- the money he is borrowing from Social Security that he has to pay back; it is not in his budget; if you put in the money needed to fix the alternative minimum tax or the money for the ongoing war costs -- this is what emerges as a realistic analysis of what is going to get added to the debt and what the deficits are going to look like over the next decade. Actually, this is conservative because we have left out a lot of things that are also being done by this administration that will add to the debt. So this, too, understates how serious the situation will become. But even with this look, on just a limited number of items -- the President's request for additional tax cuts, the President's need for additional funding for defense, the President leaving out the cost of the alternative minimum tax -- you can see we are not going to see a reduction in the deficit in the coming years under the President's plan. No. The amount being added to the debt is going to increase, and increase, and increase. What we see is an ocean of red ink over the next decade.

Let me show you some of the things the President has left out as he has structured his budget. As I have indicated, on the tax cut, he only shows now in his budget the first 5 years of the effect of the tax cut. Before he submitted 10-year budgets; this year, just a 5-year budget. Why? Because he did not want to disclose to the American people what all of us know is the pattern of his tax cuts. Past the 5-year budget window, the cost of these tax cuts explode. The

President is hiding that from the American people with a 5-year budget.

He is doing the same thing with the alternative minimum tax, the same pattern. The cost of fixing the alternative minimum tax explodes. He only provided for 1 year of addressing the alternative minimum tax in his budget.

The war cost, it is the same pattern. The President has $25 billion he supported in a reserve fund for next year, money, by the way, he is not waiting to spend for next year. He is spending it now. He is spending next year's money this year. Even that dramatically understates what the Congressional Budget Office says the cost of the ongoing wars will be. He has $25 billion reserved in his budget. It was not in his budget, by the way. The budget he sent up had nothing in it. But when Congress said that is not realistic, he supported Congress' move to put in a $25 billion reserve fund. But look what the Congressional Budget Office says the real cost is going to be: over $300 billion. It is not in the President's budget.

Of course, the President has left out the money he is borrowing from Social Security. Mr. President, $2.4 trillion is being borrowed from Social Security over the next 10 years, every penny of which has to be paid back. He has no plan to do so. In fact, he has a plan to add even more costs by having a privatization of Social Security, or at least a partial privatization that would cost trillions of dollars more. From where is the money coming, Mr. President? From where is the money coming from? It is all being borrowed.

Is anybody paying attention to what this administration is doing to the fiscal policy of this country? Is anybody paying attention to what this means to our economic future? Is anybody paying attention to what it means to our future military strength? You cannot be strong militarily if you are weak financially. This administration is digging a deeper and deeper hole for this country on the financial front.

You remember, when the President unveiled his tax cuts, 3 years ago, he said he was going to have maximum paydown of the Federal debt. Do you remember that? He said he was going to pay off all of the Federal debt that was available to pay off. But look what has really happened. The debt is not being paid off. The debt is exploding. The debt that was $5.8 trillion in 2001 we now anticipate will approach $15 trillion by 2014, and, of course, all of this is happening at the worst possible time, right before the baby boomers retire.

Not only is the President borrowing every penny available to be borrowed from Social Security -- and, by the way, he is doing the same thing with Medicare -- he is also now borrowing from countries all over the world. It may surprise people to find out that, under this administration, the borrowing from Japan has risen to almost $700 billion. We borrowed $167 billion from China; $130 billion from the United Kingdom. We have even borrowed over $90 billion from the Caribbean banking centers. The Caribbean banking centers, we are in hock to them for over $90 billion. South Korea -- who would have believed it, who would have believed we have borrowed over $60 billion from South Korea? That is the reality. That is the hole that this President is digging.

Just in the last 3 years, this is the increase in foreign holdings of our debt. When the

President came in in January of 2001, we owed $1 trillion abroad. Now we are up over $1.8 trillion in indebtedness to foreign countries, an 80-percent increase in our foreign indebtedness in just 3 years.

If it was just what has happened so far I would not be so concerned, but it is the direction this President is taking us that has to be of foremost concern because the President's plan for the future is more of the same and a whole lot more -- a whole lot more debt, a whole lot more in deficits. This fundamentally threatens the economic security of the country.

This chart I show you is not a chart made by me or my staff; this is from the Congressional Budget Office. It is their analysis, assuming an extension of the President's tax cuts, the need for alternative minimum tax reform, maintaining current spending policies. Look where we are headed. This is what CBO says will happen to the deficits and the debt of the country if, roughly, the President's budget policy is pursued.

In fact, this is just the deficit. I misspoke when I said debt. The debt chart would be much worse than this chart. This is just the deficit. This leaves out the money being borrowed from Social Security, this leaves out the money being borrowed from Medicare -- trillions of dollars that are not in the President's calculations at all. This is a course that makes no sense.

This is what the CBO Director said, because some around this town say we will just grow out of this problem. This is what the Director of the Congressional Budget Office says. By the way, this man came from the Bush administration. He came directly from the President's Council of Economic Advisers. This is what he said: “[T]his is a fiscal situation in which we cannot rely on economic growth to cause deficits to disappear.” He is telling the truth.

This is what the Federal Reserve Chairman said, Chairman Greenspan, who opposes deficit-financed tax cuts. Everybody knows Chairman Greenspan is a big fan of tax cuts but not deficit-financed tax cuts. This is what he says: “If you're going to lower taxes, you shouldn't be borrowing essentially the tax cut. And that over the long run is not a stable fiscal situation.” But that is exactly what this President is advocating, not just for this year, for every year for the next 10 years.

What is the outcome of this set of policies? I think the Chairman of the Federal Reserve is warning us of where this is all headed. Back in February, he urged a cut in Social Security. Future benefits must be curtailed. Now he has said, not only cut Social Security but cut Medicare, too. I hope people are listening. I hope people are paying attention because that is exactly where the Bush fiscal plan is leading. It is leading to cuts -- dramatic cuts -- in Social Security and Medicare. That is where this is all headed.

Why? In part, it is because the tax cuts the President has gotten passed overwhelmingly go to the wealthiest among us; 68.7 percent of the benefits went to the top 20 percent. What is most startling is over a third of the benefits -- right at a third, 33.1 percent of the benefits -- went to the top 1 percent, or the people earning over $337,000 a year. The people in the bottom 20 percent got virtually nothing. Those in the middle class got pretty modest relief. Those in the middle 20 percent got 10 percent of the benefits. The top 20 percent got 68 percent of the benefits. The top 1 percent, over 33 percent of the benefits.

When our colleagues say everything is going well in the economy, they are living in a different economy than the one I am watching because look at the difference on this chart. This is what has happened in the last nine recessions. The dotted red line is what has happened to job growth as an average of the last nine recessions since World War II. This black line is what is happening this time. Do you notice the difference? Something dramatically different is occurring between recoveries in the last nine recessions and this one. At this stage of the recovery, we would expect to have, based on what has happened in the nine previous recoveries since World War II, 5.5 million more private sector jobs than we have this time.   Something is wrong.

We have already seen 1.6 million jobs lost since January 2001. These are the job loss numbers. We are still 1.6 million jobs below where we were in 2001.

The Chairman of the President’s Council of Economic Advisers said: “we expect, sort of on average jobs in 2004 to be 2.6 million more than jobs in 2003.” For that to happen, we would have to have monthly job growth of 1.725 million. But what we are getting is 141,000. That is a jobs gap of enormous proportion.

The hard reality is that the President's record on jobs shows a loss of private sector jobs for the first time since back to the administration of Herbert Hoover. The President hates that comparison. In some ways, it is unfair because Hoover presided over the Great Depression. That is certainly not the case now. We are not in a depression. We are not in a recession. But the fact is that every administration since Hoover has seen private sector job growth -- every single administration, except this one.

The President's record on jobs, the President's record on the economy, the President's record on deficits and debt is the worst record of any President we have had, certainly in my memory, because he has taken a reckless fiscal course.

We all know the story on manufacturing jobs: 2.1 million manufacturing jobs were lost since January of 2001. Now we get an economic report of the President in February of this year saying they ought to consider changing the definition of manufacturing jobs. The way out of this is not to create more manufacturing jobs, it is to change the definition of what is a manufacturing job. Here is what the President's economic report said: “The definition of a manufactured product is not straightforward. When a fast food restaurant sells a hamburger, for example, is it providing a service or is it combining inputs to manufacture a product?” Now, there are all kinds of ways to deal with a bad jobs record, but to try to redefine manufacturing as McDonald's manufacturing hamburgers is not going to sell.

Mr. DODD. Will my colleague yield for a question?

Mr. CONRAD. Yes.

Mr. DODD. Mr. President, I don't want to interrupt the flow. The Senator is going through a lot of numbers and statistics, and we owe a debt of gratitude to Senator Conrad for this analysis. I would like to come back to this deficit picture. I think these other numbers on jobs and so forth are in direct relation to our fiscal policies. There is a correlation because of our inability -- and I am posing a question to the Senator -- or unwillingness to make the kind of important investments that any period of economic growth requires, which are obviously being adversely affected by the amount of debt we are accumulating.

I don't know if my colleague from North Dakota saw the same article I did yesterday, which was the lead story in the World Business section of the New York Times in which the IMF chief sees potential hazard in U.S. fiscal policies. I quote: “We believe that such a large imbalance” – talking about debt and deficit – “is a risk not only to the United States economy, but for the world economy as well.”

There are implications of allowing this fiscal situation to get so out of hand so quickly. As I recall it, in January 2001, we were looking at 10 years of surplus of 5.6 trillion. We are told now that the projections for that same 10 years of deficits is somewhere around $3.5 trillion.

My question is what are the implications for the younger generation? We have heard debate about death taxes. What about a birth tax here? What are the obligations of the children being born who are accumulating the debt that is occurring here? I wonder if he might comment on the IMF story and what it means for a child born in the 21st century with this kind of debt, what sort of price tag have they been saddled with as a result of the mismanagement of our fiscal economy?

Mr. CONRAD. It is interesting. This is the second warning the IMF has issued this year about the U.S. deficits and debt. This is the second time the International Monetary Fund has warned us and warned the world that growing U.S. deficits and debt threaten not only our own economic security but the world's economic security. Why? Because as the United States accumulates more and more debt, at some point those dollars that we are sending -- that are being borrowed by us, money that is coming from China and Japan and, amazingly enough, South Korea -- can you imagine that we have borrowed $60 billion from South Korea. At some point, that money has to be repaid. How is it repaid? How can it be repaid? Well, we have to reduce our standard of living in order to produce the funds to pay back the rest of the world.

Mr. DODD. Mr. President, I was stunned by those numbers. As I recall, I think you said that we have borrowed around $600 billion from Japan, about $150 billion from China, and billions more from other countries. To make the picture clear, that is like a bank holding a mortgage on your home. They hold the paper on America. They can call due those notes at any time, I presume, or within a reasonable time, and could insist upon us paying back those obligations. So, in other words, our economic well-being is in no small measure tied to the desires of nations that may not have the same goals as we do, either in economic or foreign policy. They hold the mortgage, in a sense, on our future; is that correct?

Mr. CONRAD. That is exactly correct. The foreign debt of the United States under this administration has gone from $1 trillion to $1.8 trillion, an 80-percent increase in our foreign indebtedness.

. . .

Mr. CONRAD. In 42 months. I was teaching back home in North Dakota at one of the universities, and I asked the students there: Does it make a difference, should you care, does it matter to you that we owe Japan almost $700 billion? Does it matter we owe China over $160 billion? Does it matter that we have borrowed over $60 billion from South Korea? They said it matters. I said: How do you think it matters? They said: If there is a military confrontation of some kind, maybe that affects our ability to do things we might think is in the national interest because we owe them so much money. On trade, can we really call their hand when they are treating us unfairly in trade relationships when we owe them hundreds of billions of dollars? And what are the consequences here if all of a sudden we do return to economic growth and we have borrowed all this money and we have to start paying it back, what is the effect on interest rates here?

That is what frightens the International Monetary Fund. That is what concerns people such as Chairman Greenspan. That as we see rising interest rates because of this enormous indebtedness, and we have to start paying more interest to keep getting people to loan us money, that all of a sudden, the cost of servicing this debt will go up dramatically, it makes it much worse, and, more importantly, for the economy -- because we have millions of people who have variable interest rates on their homes, on their cars, on their student loans -- these interest rates will start going up dramatically because countries are less willing to continue to loan us money, and all of a sudden the economic strength of America is weakened.

Mr. DODD. Mr. President, if I may further add, that is just the exact point I wanted to raise with my colleague from North Dakota. We talk about rising interest rates, and we are talking about some tax cuts. As I understand it, when we begin to talk about an interest rate hike, which we invariably are going to see, the actual cost of a college loan, a home mortgage, a car payment, or any other obligation which most middle-income families have to borrow to meet these obligations -- we have watched higher education costs go up more than 30 percent; we have watched health care premiums go up 45 percent; we have watched the price of gasoline go up 20 percent; all under this President's watch. To make those payments, it will actually exceed whatever tax cut we may be providing to that middle-income family because of our inability or the unwillingness of this administration to actually be more responsible in managing the fiscal picture of this country, and average consumers are going to see interest rate hikes that are going to dwarf any tax cut they may get; isn't that correct?

Mr. CONRAD. None of us can predict with clarity what is going to happen with interest rates, although we know under this fiscal condition, interest rates are going to go up. Clearly, that is going to offset, if not completely eliminate, the advantage of some of the tax reductions we get.

...

Mr. CONRAD. I am going to go right to the end of my charts. Real median household income has gone down under this President. That is a serious problem for this country, a serious problem for the middle class, and wages are falling behind inflation. This is something which should concern all of us because we see wage increases falling behind inflation. That is why people feel squeezed, and we have not seen anything yet if the fiscal policies of the country are not altered, if we do not begin to get back to fiscal balance to reduce the threat to the long-term economic security of our country.