Transcript of Floor Statement by Senator Kent Conrad (D-ND) on Debt Limit
November 17, 2004

I rise to discuss the extension of the debt limit. First of all, I thank my colleague from Montana for his great courtesy in allowing me to go first, because we have a hearing in the Indian Affairs Committee, so I thank my colleague from Montana for this courtesy.

Before us is a proposal to extend the debt limit by $800 billion. I will oppose that expansion of the debt limit because there is no plan to reduce the deficits and the increase in the debt we are now facing. I think it is a mistake for this body to extend the debt limit by $800 billion without a plan to get the deficits under control, to get the debt under control.

Instead, what we are doing here is writing another blank check and saying to this administration: Go ahead, continue to run record budget deficits. Continue to increase the national debt. Do not worry about a plan to reduce this increasing dependency on foreign governments, on foreign citizens. Forget about fiscal responsibility.

An $800 billion increase in the debt. Now, make no mistake, we need to extend the debt limit. We have to pay the bills of the United States. So there is no question that we need to extend the debt limit. The question is, by how much. The question is, should we not only do it with a plan to reduce this dependency on borrowing.

I believe the answer to those questions is absolutely. We ought to insist that there is a plan to get the deficit under control. We ought to insist there is a plan to reduce the buildup of debt. We ought to insist that this administration and this Congress face up to the mounting challenges facing this Nation.

To review the dramatic change in our fiscal condition, in January of 2001, we were told we could expect over the next 10 years nearly $6 trillion in surpluses. Now we are told, just 3 years later, nearly 4 years later, instead of trillions of dollars of surpluses, we can expect trillions of dollars of deficits, over $3 trillion deficits. That is a change in our fiscal condition in 4 years of $9 trillion. If that does not cry out for a response, if that does not cry out for this Congress and this administration to come up with a plan to address these burgeoning deficits and debt, I do not know what would require a response.

If we look at the last 4 years, we can see that in 2001 the Federal Government ran a surplus of $127 billion. In 2002, that had turned to a $158 billion deficit. In 2003, that deficit had exploded to $377 billion -- the biggest deficit in dollar terms in our Nation's history -- and now in 2004, another record deficit, a deficit of $413 billion -- record red ink and no plan to address it.

The President has told us, told us repeatedly, that he has a plan to cut the deficit in half over the next 5 years. Do not believe it. Do not believe it any more than the claims the President made that there would be no deficit if we adopted his fiscal plan. The President told us -- in fact, the President assured us -- that we could count on a record paydown of the debt if we adopted his fiscal plan. Well, we did, and he was wrong because not only have we not had record paydown of the debt; what we have had is a dramatic increase in the debt.

As we look ahead, here is what we see the deficit looking like over the next 10 years. I do not see any cutting of the deficit in half. The only way the President gets to his claim that he is going to cut the deficit in half is he leaves out things. He leaves out war costs. He leaves out the need to address the alternative minimum tax. He leaves out the effect of his own tax proposals. If we take all of those into account -- making the tax cut permanent, which the President has recommended; his defense buildup; the alternative minimum tax reform; and ongoing war costs -- this is what we see, as the deficits going forward, in the amount that is actually going to get added to the debt every year. This is an ocean of red ink facing this country.

Part of the reason, as I have indicated, is that the President, I am afraid, hid from the American people the true effects of his policies. One way he has hidden it is he has changed from 10-year budgeting to 5-year budgeting. Here is why I believe he did that. This shows the cost of extending the tax cuts as the President has proposed. This dotted line on this chart shows the end of 5 years. But beyond the 5 years, the effect of the President's tax proposals explode in cost. That is the nature of the President's tax proposal. The cost explodes outside the 5-year budget window, just beyond the view of those who are responsible for making budgets for this country. The result is that the red ink the President has promised to reduce will explode right beyond the 5-year budget window.

It is not just with respect to the tax cut proposal, but we see the exact same pattern with the alternative minimum tax. The alternative minimum tax is the old millionaire's tax, which is now affecting 3 million taxpayers. In the next 10 years, it will affect 30 to 40 million taxpayers. It has to be dealt with. The President only provides funding to address this crisis for 1 year. But look at the pattern of cost. Again, right beyond the 5-year budget window, right beyond this dotted line, which represents the next 5 years, the cost of fixing the alternative minimum tax absolutely explodes, at a cost of over $600 billion. The President does not have that in his budget.

Nor does he have the true cost of the war effort. We have had $25 billion put in a contingent reserve for fiscal year 2005, but we know that is a fraction of the cost. The Congressional Budget Office tells us that the true ongoing cost of war is over $315 billion. None of it is in the budget, other than the $25 billion. None of this $315 billion, other than the $25 billion down payment, is reflected in these numbers in which the President assures us he is going to cut the deficit in half.

I am told the Pentagon is about to propose, the administration is about to propose an additional $70 to $75 billion in a war cost supplemental some time early next year. I think this hiding of the true financial condition of the country is wrong, and I think it is reckless.

The President told us when we adopted his fiscal plan: I can fully protect Social Security. I won't be taking Social Security money and using it for other purposes. Wrong again. The President is taking every dime that is available to take from Social Security over the next decade -- $2.4 trillion -- and using it to pay for other things. Mr. President, $2.4 trillion, every dime of which has to be repaid, and the President has no plan to do so.

It is not just there that we see the problem. We also see that the President has a plan to privatize parts of Social Security. Most of the estimates are they would cost some $2 trillion in transition costs. Again, the President has no plan to pay for it other than to borrow the money to do it. More borrowing, more deficits, more debt: no plan to address the issue. These decisions have real consequences.

We can see all of this is happening at the worst possible time, right before the baby boomers start to retire. The baby boom generation is out there. It is not a projection. They have been born. They are alive today. They are going to retire. They are going to be eligible for Social Security and Medicare. This is what it looks like when you plot the increase on a graph of those who are going to be eligible for Federal benefits. Right now, we have around 40 million people who are eligible, but over these next years the number is going to double. This is the dramatic demographic timebomb that is out there with the baby boom generation.

When we look at the long-term implications -- this is not a projection by this Senator or a projection by the Democrats; this is a projection by the Congressional Budget Office -- the long-term budget outlook in terms of the effect on deficits, what they show is some improvement over the next couple of years but then an explosion of deficits and debt if the President's proposals are adopted. We have record deficits now, the biggest in dollar terms in our history, and they pale in comparison as to what is to come if the President's proposals are adopted. There is no response. There is no response from the Congress of the United States. There is no response by this administration to these growing deficits and debt. It is just more of the same, business as usual, steady as she goes. That is a risky course for this country.

We remember so well the President telling us there would be maximum paydown of the debt if we adopted his fiscal plan. Instead of maximum paydown of the debt, we see the debt exploding. The gross debt of the United States was less than $6 trillion when he took office. We now see, by 2014, that debt will approach $15 trillion -- a stunning reversal in the fiscal condition of the country.

In just these 3 years, there is an increase in the debt limit of $2.2 trillion under President Bush; an increase, in 2002, of the debt limit of $450 billion; in 2003, of $984 billion; and now another $800 billion. Mr. President, $2.2 trillion, after we had, from 1998 to 2001, no increase in the debt limit, none.

Now, the President describes these policies as compassionate conservatism. I do not know where the conservatism comes in. I do not know what is conservative about exploding the debt of the Nation. I do not know what is conservative about running up record deficits -- and not just at a time of economic slowdown but even now, as the economy is recovering, deficits as far as the eye can see.

The result of these policies, the result of this increase in deficit and debt is soaring Federal interest costs. From the estimate in January of 2001 that the interest cost over the next 10 years would be some $600 billion, now estimates are that the interest cost to the Federal

Government over that same period will be $2.4 trillion, from an interest cost projection of $600 billion to $2.4 trillion. That interest does not build a bridge, does not construct a highway, does not finance an aircraft carrier or a tank. That is money just to service the debt.

These massive increases in deficits have enormous implications, not only for our finances but for our economic strength. Deficits and debt will ultimately slow economic growth. This is a quote from the CBO Director, Douglas Holtz-Eakin, before the Senate Budget Committee last year. Mr. Holtz-Eakin is an appointee of the Republican majority in the Congress. He came from the President's own economic advisory staff. He said this: “To the extent that going forward we run large sustained deficits in the face of full employment, it will in fact crowd out capital accumulation and otherwise slow economic growth.”

That is why these decisions matter. This is not just numbers on a page. This isn't just graphs. This is not just pictures on a chartboard. These decisions have a real impact on the economic health of this Nation, on the creation of jobs, on the development of economic opportunity, on the future economic prospects of our Nation and, fundamentally, of the economic strength of America. I don't believe we can be militarily strong if we are financially weak. This President has us on a course to financial weakness.

Make no mistake about it, these higher interest rates will burden families. For the typical American family, a 1-percent increase in interest rates will raise the payment on a 30-year home mortgage of $150,000 by $1,200 per year. When the Federal Government has to borrow more money, that puts it in competition with the private sector for borrowed funds. When that happens, that forces up the cost of borrowing. The more demand for money, the more interest costs have to go up. That is true especially at a time of economic recovery.

These decisions have real consequences in the lives of real people. I believe paying down debt is also a moral values issue. The President said himself in 2001: “Future generations shouldn't be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren.”

On this issue, the President was right. We should not pass on these debts to future generations. But that is now precisely what the President is doing -- again, not at a time just of economic slowdown; we have now got a resumption of economic growth. Yet the President proposes more and more deficit, more and more debt. I think it is a mistake. I think it is a mistake for this body to extend the debt limit in an almost unlimited way, by $800 billion, without any requirement for a plan to address these burgeoning deficits and debt.

The deficits we are running are not just budget deficits, they are also trade deficits -- approaching over $650 billion in the most recent year. Not only are we running a budget deficit of over $400 billion, we are also running a trade deficit of over $650 billion, or in that range.

Where is the money coming from in these massive deficits? Well, we are borrowing the money, as I indicated, from the Social Security trust fund -- some $2.4 trillion over the next 10 years. We are also borrowing from countries all around the world. We have borrowed over $700 billion from Japan. We have borrowed over $170 billion from China. We have borrowed

$100 billion from the so-called Caribbean banking centers. I think many in America would wonder what is going on here. We are borrowing money from Caribbean banking centers? We have borrowed over $60 billion from South Korea. Who would have believed it? Growing up in North Dakota, I would never have believed we would be out with a tin cup borrowing money from countries such as South Korea.

Here is what has happened under this President in terms of foreign holdings of our debt. They have increased by 83 percent in just less than 4 years of this administration. Prior to this administration, total foreign holdings of U.S. debt were just over a trillion dollars. In less than 4 years, that has now increased by over 80 percent. We are now approaching $2 trillion of foreign-held debt.

Mr. President, who cares? What difference does it make? I have had a chance to go and teach classes in my home State at the universities and colleges. I have asked them what difference does it make if we are deeper and deeper in debt to other countries? Well, the response of those students has been overwhelming and clear. They have said: Of course, it makes a difference. How does it change any relationship if you are borrowing money from people? It makes you dependent on those people. It means you are less able to challenge them on unfair trade practices. It means you are less able to confront them if we are faced with a military confrontation.

I noticed with great interest a New York Times article of Tuesday, October 19, headlined, “Private Investors Abroad Cut Their Investments in the U.S.” It indicated that “Asian central banks bail out America, a nation of spenders rather than savers.” The U.S. economy is now increasingly dependent on a handful of foreign central banks for our economic stability and security. This is a vulnerability for our country. To more and more owe money to foreign nations and foreign central banks puts them in a stronger position with respect to America's economic future and puts us in a weaker position.

In that article, it indicated: “New data accentuated how dependent the United States has become on purchases of dollar securities by the Chinese and other Asian governments with links to the dollar. ‘Foreign central banks saved the dollar from disaster,’ said Akhraf Laidi, chief currency analyst of the MG financial group. He said, ‘The stability of the bond market is at the mercy of the Asian purchases of U.S. treasuries.’” We are at the mercy of foreign central banks, of Asian central banks. I don't think that is where we want to be. I don't think that is where we want to be as a nation, dependent on foreign central banks.

In that same article, the New York Times indicated that a large amount of foreign-held debt could lead to economic turmoil. Here is what it said: “A disorderly situation would occur if foreign money dried up suddenly when the United States still needed it.” Let's think about where we are headed here. “Then, the adjustment in the American savings might happen involuntarily. Interest rates would rise sharply, and the dollar could fall abruptly. This could induce a sharp economic contraction, even stagnation.” What are we doing here? There is absolutely no response from this Congress or this administration to this gathering financial threat. No response. The only response is: Let's go borrow more money. Let's increase the debt more.

This article appeared in the Wall Street Journal on November 8, headlined, “Dollar Lacks Backers as Deficit Worries Dominate.” This article asks the question: “What is going to prop up the sliding dollar?” It went on to say: “Despite unexpectedly strong job creation and another jump in the stock market, the dollar dropped against key currencies...breaking through the record low against the euro set nine months ago. Currency strategists say the dollar's inability to capitalize on news of 337,000 jobs created in October reveals the market's skepticism about whether a second term for President Bush will reverse deficit spending and a report current-account deficit” -- That is our trade deficit -- “the broadest gauge of the nation's balance of payments.” We are here, steady as she goes, headed right for a potential fiscal crisis, and there is no response.

Here is what happened to the value of the dollar against the Euro since 2002: The dollar has dropped 30 percent against the Euro in that time. This is a warning. This is a warning, I say to my friends. People are losing confidence in the fiscal policy of the United States. This has potentially ominous consequences that I think we all understand.

The CBO Director believes deficits can no longer be blamed on just a weak economy. He said: “Policy choices will determine where we go. We will not grow our way out of this. It is no longer the case that we can blame everything on the economy.”

I talked about the budget deficit. Here is the U.S. trade deficit. Same pattern: explosive growth in our deficits, both budget and trade, requiring more and more foreign borrowing, making us more and more dependent on the decisions of foreigners as to our economic stability and strength.

Today in the Washington Post, Robert Samuelson, an economist, wrote an article headlined, “The Dangerous Dollar.” He points out the risks to our country of what could happen if there was continuing flight from the dollar and a collapse in its value. He points out the risk to this country and says: “No one knows what will happen. The massive U.S. payments deficits could continue for years, with foreigners investing surplus dollars in American stocks and bonds. Gradual shifts in currency values might reduce the world's addiction to exporting to the United States. Or something might cause a dollar crash tomorrow. In that case, massive intervention by government central banks...might avert a calamity. Or it might not. We're in uncharted waters. If we hit a shoal, it will be bad for everyone.”

The warning is clear. The risks are there. The question is: Do we just stay on this current course, or do we respond to this growing threat? I think it is inappropriate to extend the debt of the United States by $800 billion without a plan to reduce this dependency on foreign capital. I thank the Chair and yield the floor.