

**Floor Statement by Senator Kent Conrad (D-ND) on
Budget Outlook and Impact of Hurricane Katrina
September 14, 2005**

We know the country has been hit by the catastrophe of Katrina. We know hundreds of lives have been lost. We know tens of billions of dollars of property damage has been done. We know there are thousands of people who have been displaced, who are without their homes. We know there is widespread devastation across an entire region of the country. We know the insurance losses to the country apparently approach \$100 billion. We also know enormous damage has been done to our budget situation with the Federal Government.

I thought this was perhaps an appropriate time to come to the floor to talk about the changes in our budget situation and the implications for the future and how important it is that we begin to focus on the damage that has been done to our fiscal condition and to begin the process of thinking through what our response will be. Are we going to stay with the same plan that was in place before, or are we going to recognize a new reality and move to a different plan and hopefully steer the country back to some fiscal course that has better long-term prospects?

We know, putting in perspective before Katrina, where things stood; that we faced in this country very large deficits in historical terms. We go back to 2001, when we actually enjoyed a surplus of \$128 billion, and each year since that time, the deficits have grown to record proportion. In 2004, the deficit reached a record level of \$412 billion. The estimates for 2005, before Katrina, were \$331 billion, still an enormous deficit, and in many ways it understates the seriousness of our fiscal condition because, as the occupant of the chair knows very well, the budget deficit is a more conservative look at how serious our situation is in the sense that it understates what is actually happening because the amount of the increase in the debt of our country is far greater than the reported deficit.

I find there is a lot of confusion on that as I go around my State. People think the amount of the deficit is what gets added to the debt, but that is not the case. What is added to the debt is much greater. In fact, we anticipate now that the debt will increase in 2005, not by \$331 billion, but now with Katrina, well over \$600 billion.

We now know Katrina has absorbed already \$62.3 billion of additional spending. We were last told that the Federal Government was spending about \$2 billion a day in response to Katrina, truly a stunning amount of money. That is over and above all other Federal expenditures. And this \$62.3 billion is just a downpayment.

There was a report in the *Wall Street Journal* that the first estimates on Katrina costs for Washington hit \$200 billion. This is in a story that just appeared on September 7. The lead says: "The Federal Government could spend as much as \$150 billion to \$200 billion caring for the victims of Hurricane Katrina and rebuilding from its devastation, according to early congressional estimates -- a total bill that would far surpass the initial costs of recovering from the 9/11 terror attacks and could put Katrina on track to become the most expensive natural disaster in American history."

None of us begrudge spending this money to help the victims. We all understand that is a Federal obligation, a tragedy of such sweeping dimension that it requires a full Federal response. But we need to evaluate these enormous expenditures in light of the very deep deficit ditch we are already in in this country, a deficit ditch that is only exceeded by the debt ditch that is being dug by the policies that are being pursued in Washington.

I think all of us who have been engaged in these debates know how serious the long-term outlook is. To evaluate what has happened in the past so that we better understand our future, I wanted to go back to 2001. After the 2000 elections, the 2001 Congressional Budget Office, looking ahead, told us this was the range of possible outcomes for the budget going forward. This would be a projection on what the surpluses might look like going forward. They picked this midrange going forward. They were projecting surpluses. That was the long-term outlook. The Congressional Budget Office, the Office of Management and Budget, told us we could expect something like \$6 trillion in surpluses over the next 10 years at that time.

I remember many of my colleagues told me repeatedly, when I urged them not to be betting on this 10-year forecast: Kent, you are being much too conservative. Do you not understand that when we have these tax cuts, we will get much more revenue? We will not be at the midline of this range of possible outcomes. Instead, we will be significantly above it because if you cut taxes, the theory was there is going to be more money.

Well, we can go back now and look at what actually occurred, not what some ideological slogan predicted, but what actually occurred in the real world. In the real world what happened with deficits is this red line. It is far below the bottom of the projections that were made by the Congressional Budget Office. Not only did we not achieve the midpoint of the range, nor anywhere close to that, we were not even at the bottom of the range of possible outcomes. We are far below the bottom. So the theory that if we cut taxes, we get more revenue and this would all work out has not worked very well in the real world.

That can be seen if we look at the revenue line in historical perspective. This is the revenue line going back to 1959 as a percentage of our gross domestic product. The economists say that is the best way to look at it because that takes out the effects of inflation year to year. Look what we see. Revenue was almost 21 percent of GDP in 2000. The President at the time said revenue is very high historically, and he was exactly right, revenue was high historically. His answer was to cut taxes. But look at what has happened. Revenue in 2004 was 16.3 percent of GDP, the lowest it has been since 1959. So once again, the notion that if we cut taxes we are going to get more revenue did not work. We cut taxes repeatedly and revenue has collapsed. The result is the gap between spending and revenue has once again opened up and is producing massive budget deficits.

If we look ahead, it is all too predictable where we are headed. The administration earlier said they are going to cut the deficit in half over 5 years, but they got that result by leaving things out. They left out the full effect of war costs. They left out the cost of fixing the alternative minimum tax, which costs \$700 billion to fix. The alternative minimum tax is the old millionaires' tax. It is now a middle-class tax trap. The alternative minimum tax affected 3 million people this year. Ten years from now it is going to affect 30 million people if we do not

respond. So, of course, we are going to respond. We must respond. But it costs money and the money is not in the budget, just as war costs passed September 30 are not in the budget.

When these things are put back in, what one sees is a much different outlook going forward, and this is before Katrina. I want to emphasize this is before Katrina. What we see is a deficit picture that gets much worse, especially after this 5-year budget window. The budget the President submitted was for 5 years. Previously we had been doing 10-year budgets. I think one reason the President changed to 5 years is because we see the deterioration that is going to occur if the President's budget proposals are adopted, because the President is saying, spend more money but cut the revenue base as well. In fact, he is proposing over \$1.5 trillion of additional tax cuts.

If we do a reality test, I think we have to ask ourselves the question, where is this all headed? We cannot pay our bills now. We are running near-record deficits. Spending is exploding. Sixty billion dollars has been appropriated to Katrina alone in the last few days. The President says, cut the revenue base by \$1.5 trillion. Most of that cut will occur beyond the 5-year budget window, and this is before the baby boomers retire. What possible sense does this policy make?

We have before us a budget plan that makes the situation worse. The budget itself will increase the debt \$600 billion a year every year for the next 5 years, and I will discuss that in the next chart. In addition to the budget plan, there is a plan called reconciliation, a process of fast-tracking legislation that was supposed to be used to reduce the deficit. In passing their budget this year, our colleagues decided to use that fast-track process to actually increase the deficit. Why? Because they have \$35 billion of spending cuts over the life of the budget but they have \$70 billion of revenue cuts. The result is the deficit is increased. The debt is increased -- not reduced, but increased.

When one looks at the budget that was passed in the Senate and ultimately passed in the House and then passed both Chambers, what one sees is the debt of the country going up dramatically before Katrina. The debt was going to go up over \$600 billion a year each and every year of the budget that was passed. I know it is hard to believe, but these are the numbers in the budget document itself. In the budget document itself, their prediction of what will happen to the debt of the country shows that the debt will go up \$683 billion this year. That is not the deficit, it is the increase in the debt of the country. Very often I find people are confused between the deficit and the debt. I think we should be focusing at this moment on the debt because that captures the money that is being taken from Social Security and all the other trust funds, money that has to be paid back, but there is no plan to pay it back. The debt is going to increase under the plan of the budget that is before us, before Katrina, \$683 billion this year; \$639 billion the next year; \$606 billion the third year; \$610 billion the fourth year; \$605 billion the fifth year.

There has been some improvement in this year, more than \$50 billion of improvement from when this budget resolution was drafted. But, again, that is before Katrina. That improvement this year has been wiped out next year by the two legislative acts we have passed so far to deal with Katrina, over \$60 billion in those two, with much more to come. So we are

right back in this neighborhood of increasing the debt by these massive amounts.

What is most alarming is this increase in debt is occurring in the sweet spot of the budget cycle, before the baby boomers retire. When the baby boomers retire, then we see the real challenge begin. To look visually at what is happening to the debt, I prepared this chart because I think it communicates about as well as I can how we are building a wall of debt. The gross debt of the United States at the end of this year is estimated to be \$7.9 trillion. One can see, with the course we are on, that debt is going to be jumping by \$600 billion, some of these years more than \$600 billion, each and every year for the next 5 years; massive increases in debt. At a time the President told us if we adopted his plan back in 2001, one will recall he said there is going to be maximum paydown of the debt. Do we see any paydown of the debt occurring? No paydown of the debt. The debt is skyrocketing.

There is not much interest in this town, or perhaps elsewhere, about this problem. But there will be. I predict there will be because, one, the markets cannot be fooled; reality cannot be fooled. The reality is, we are going deeper and deeper into hock.

Who are we going into hock to? Well, increasingly we are going into debt with other countries around the world. We owe Japan over \$680 billion. We owe China over \$240 billion. We owe the United Kingdom over \$140 billion. My favorite is the Caribbean banking centers. We owe the Caribbean banking centers over \$100 billion. I like to ask audiences back home if anyone is doing business with the Caribbean banking centers. I have never had a hand go up. I do not know where the Caribbean banking centers get their money, but we owe them \$108 billion.

The debt is skyrocketing at the worst possible time, before the baby boomers start to retire. Because this debt is skyrocketing, we owe more and more countries around the world. In the last 4 years alone, foreign holdings of our debt have increased more than 100 percent. Think about that. Other countries' holding of debt has gone up more than 100 percent in 4 years. That is utterly unsustainable. It has taken us over 200 years to build up a debt around the world and we have doubled it in the last 4. That is not a sustainable circumstance.

Couple that with the trade deficit -- the trade deficit running over \$600 billion a year -- it seems to me it is very clear that as a country we are living beyond our means. There are real consequences to doing so.

Here is the pattern of Social Security beneficiaries. Of course, the same chart would apply to Medicare. We are just below 40 million people now eligible. By 2050, there are going to be 81 million. This is the demographic tsunami that is headed our way, and it is going to swamp a lot of boats. Our country has to get ready. We have to respond.

The biggest long-term problem we have is not with Social Security. Social Security's 75-year shortfall is estimated at \$4 trillion. I personally do not believe that. I think that overstates the shortfall in Social Security. Why? Because this is based on an assumption. The shortfall in Social Security is based on an assumption that the economy is only going to grow 1.9 percent a year every year for the next 75 years. In the past 75 years, the economy has grown at 3.4 percent a year. If the economy were to grow in the future as it has in the past, 80 percent of this shortfall

would disappear.

Does that mean we do not have a problem? No. I wish it did, but we have a big problem. The problem we have, as I diagnose it, is first of all those very large budget deficits we are running now, coupled with the shortfall in Medicare, which is seven times the projected shortfall in Social Security. This is the real 800-pound gorilla: Medicare -- a shortfall of almost \$30 trillion estimated over the next 75 years. This shortfall, I believe, is much more likely to come true than the projected shortfall in Social Security because it is based not only on an aging population but medical inflation that is running far ahead of the underlying rate of inflation.

If you put it all together, we have massive budget deficits made much more severe by the war in Iraq and Afghanistan that is adding \$6 to \$8 billion a month; coupled with Katrina, who knows what the ultimate cost will be? It is at least \$60 billion and counting. And then we have these massive long-term shortfalls, especially in Medicare.

Then I look at the President's plan. The President says: Steady as she goes. Spend the money, but on top of it add massive additional tax cuts, tax cuts that are represented by these red bars, tax cuts that explode at the very time the Social Security and Medicare trust funds go cash negative. There can only be one possible result, and that is massive red ink, massive deficits, massive debt -- a completely unsustainable situation.

It is not enough to curse the darkness. We also have to talk about what can be done here to begin to dig out. I believe on the revenue side of the equation, before we talk about any tax increase for anybody, we ought to talk about this tax gap. That is the difference between what is owed and what is being paid. It is estimated now conservatively at over \$350 billion a year.

The vast majority of us pay what we owe; companies do, individuals do. But increasingly there are people and companies that do not. They now estimate that amounts to \$350 billion a year of lost revenue. That is utterly unfair to the rest of us who are paying what we owe, and we ought to insist that everybody pay what they owe. If we could do that, we would close this yawning chasm by some significant amount -- nobody knows quite how much. On the revenue side of the equation, I believe that ought to be our first order of business.

On the spending side of the equation, the first order of business ought to be to focus on Medicare and the 5 percent of beneficiaries who use 50 percent of the money. Five percent of the people use 50 percent of the money. They are the chronically ill. What can we do about it? What we can do is focus like a laser on those who are the chronically ill and better coordinate their care.

A pilot problem was done with 22,000 patients like that; assign nurse-practitioners to every one of those cases to better coordinate their care. The first thing they did was lay out the prescription drugs the patients were taking, and they found in many of the cases they were taking 16 prescription drugs, and they found in many cases half of them they should not be taking or didn't need to take.

I did this with my own father-in-law. I went into his home when he was ill. Sure

enough, he was taking 16 prescription drugs. I got on the phone to the doctor and I went down the list. About the third drug I listed, the doctor said to me: He should not be taking that. He should not have been taking that for the last 3 years. I went further down the list. About two other drugs, the doctor said to me: He should never be taking those two together. They work against each other.

By the time we were done, we had eliminated 8 of the 16 prescription drugs he was taking. I said to the doctor: How does this happen? The doctor said to me: You know, it happens all the time. He said: I am the family practice doctor. He has a heart doctor, he has a lung doctor, he has an orthopedic doctor. He is getting prescription drugs at the hospital clinic, the corner clinic, the clinic down at the beach, and he is getting them mail order. He is sick and confused. His wife is sick and confused. The result is chaos.

All too often, that is what is happening. When we put nurse practitioners on the 22,000 chronically ill cases that were studied, they reduced hospitalization 40 percent, they reduced costs 20 percent, and they got better health care outcomes because they got people to stop taking drugs they should not be taking. They got them to stop having duplicate medical tests that didn't have any value but to put them through more stressful procedures. We ought to take that study on 22,000 and we ought to ramp it up to a quarter of a million or something like that and see if we could get those same results on a much bigger universe and see if we could continue to save money and get better health care outcomes.

Those are just two ideas, closing the tax gap and dealing with the tremendous explosion in costs in Medicare where, again, 5 percent of the people are using half of the entire budget. We ought to focus like a laser on that half of the expenditure, and we ought to do it quickly. The sooner we act on these problems and challenges, the better off we are. The longer we stay with our heads in the sand, the more Draconian will have to be the solution.

Katrina was a disaster of unparalleled dimension. All of us weep for those who have lost family members and friends. We are saddened by the other losses that have occurred as well. But we should not compound the problem by sticking with a fiscal plan that puts this country deeper and deeper into the deficit and debt ditch. That would add to the calamity. That would compound the disaster.

We ought to take this opportunity to begin to plan how we dig out. It is imperative that we act sooner rather than later. It is imperative that the Congress and the President begin a plan to put us back on a more sound fiscal footing. It would truly be ironic if this disaster were allowed to spread to an even deeper fiscal disaster, one that could cause the harm of Katrina to spread outside the gulf region to every part of our country.

I am very hopeful that the President will provide leadership and that Congress will respond. If the President does not provide leadership, the Congress should demonstrate leadership and take this bull by the horns and recognize we need a new fiscal blueprint for this country. We need to start digging out of this deficit ditch and prepare a brighter and better future for our country.