

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Spending Reconciliation Mark-Up
October 26, 2005**

With respect to the specifics of the budget and the reconciliation, we have heard the Chairman's assessment. Let me just say I completely disagree.

I have never felt that a budget going through the Congress of the United States is more disconnected from reality than this budget, and the language being used to describe this budget to me is completely disconnected from reality. All of the talk that I heard is about deficit reduction. But, there is precious little deficit reduction here.

The fact is that reconciliation has three chapters to it. Chapter one is this little package, \$39 billion over five years. It sounds like a lot of money. In that period of time, the federal government is going to spend over \$14 trillion. We're talking about less than three one-hundredths of this spending during that period. So this thing doesn't touch the growth of deficits.

Far more ominous, far more serious for the country, this does not touch the growth of debt, because chapter two is tax cuts of \$70 billion. Now, when I went to Roosevelt grade school in Bismarck, North Dakota, if you reduced spending by \$39 and you reduced your income by \$70, you were deeper in the hole. That's what this budget does. This budget cuts the spending over five years by \$39 billion, but cuts the income by \$70 billion. Guess what? You've added to the deficit. You haven't reduced it.

All this talk about reducing the deficit is just talk. You're not reducing the deficit with this series of moves that are called reconciliation – they're increasing it.

And so guess what chapter three is? Chapter three is to increase the debt of the United States by \$781 billion. Now, that's real money, and that's the better reflection of what's really occurring here, which is to explode the debt of the country, explode the deficits. There is no deficit reduction going on here. This is a program to increase deficits, to increase debt.

Now, the Chairman said that last year the deficit only increased by \$318 or \$319 billion. But, do you know what happened to the debt? The debt of the country went up by \$551 billion. Do you know what's going to happen this next year to the debt of the country? It's going to go up over \$600 billion. With all this talk of deficit reduction, they don't want to talk about the debt. The debt is exploding and that's what got to be paid back.

The biggest reason for the difference between the deficit calculation and the debt calculation is Social Security. In this last year alone, \$173 billion of Social Security money was taken and used to pay for other things. That adds to the debt, but it is not included in the deficit calculation. Nobody wants to talk about the debt anymore, but that is what is going to swamp us. That is what is pushing us closer and closer to the train wreck of the fiscal policy that this administration has sold to the country, and sold to the Congress that is leading us deeper and deeper into a swamp of red ink.

This is what the President said back on March 27, 2001: “[W]e can proceed with tax relief without fear of budget deficits, even if the economy softens.”

Let’s go to the next slide and see what actually happened here because it is very interesting. We can now go back and look at what the President said would happen, what he predicted would happen, and what has actually happened. This chart was done by the Congressional Budget Office, and the gray area showed the range of possible outcomes. Starting back in 2001, the range of possible outcomes they told us at the time -- they picked the mid-line of this range of possible outcomes and based on that told us we had an anticipation of surpluses of almost \$6 trillion over the next 10 years.

Now, many of my Republican friends told me when I said I don’t think we should be betting the farm on these 10-year projections, many of them told me, “Kent, don’t you understand. We’re going to put in place these tax cuts. These tax cuts will generate even more revenue. Don’t you understand that the mid-line of the possible outcomes is overly-conservative. And that when we cut taxes as is included in the President’s plan, we’ll have much more money.”

Now, we can go back and check that prediction. Do you know what we find? This is when reality, reality actually comes up against ideology. Reality is the red line. The deficits are far worse than the worst case projection that was made back in 2001. All this talk that if we just cut taxes that we would get much more revenue and the deficits would melt away, and that the debt would be paid down prove to be wrong. Not just a little bit wrong, but a lot wrong. Now, this is not projections anymore. This is what happened in the real world. And instead of that range of possible outcomes – and they adopted the midpoint of the range – what really happened in the real world is that red line. And the result is massive deficits, and massive debt, and all this talk about how it is all going to add up, and we can just cut taxes some more, and keep on spending the money, and it will all work out because we’ll magically get more money was wrong. It’s not a matter of debate. It’s a matter of fact.

The President told us at the time, “[M]y budget pays down a record amount of national debt. We will pay off \$2 trillion of debt 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 that we have borrowed. We owe this kind of responsibility to our children and grandchildren.”

What happened? Did debt get paid down as the President told us it would? Are we going to have maximum pay down of debt? No. Wrong again. There’s no pay down of debt. There’s no maximum pay down of debt. The debt has exploded, and under the budget approved earlier this year by the Congress, the debt is going to continue to increase at roughly \$600 billion a year each and every year for the next five years.

And they call this a program of deficit reduction? Have words completely lost their meaning in this town? Does none of it have to relate to the reality? The reality is this. What happened last year? What happened last year was that the debt of this country increased by \$551 billion. That’s a fact.

Now, we’re told, ‘Don’t worry. Everything is going in the right direction. The deficit is

coming down. The deficit came down a lot last year.' Well, the deficit came down because a lot of things weren't counted. They didn't count the \$173 billion they took from Social Security. The fact is that the debt went up \$551 billion. The debt this next year is going to go up over \$600 billion in the midst of all this 'deficit reduction.' And, when you put back the things that have been left out what you see in the long-term outlook here is just an ocean of red ink, and at the worst possible time before the baby boomers start to retire.

Let's go to the next slide. This is the place where the Chairman and I completely agree. We have got a huge problem coming at us. It is a demographic tsunami of the baby boom generation. And, in very short order, the number of people eligible for Medicare and Social Security are going to double. And so we are on an utterly unsustainable course of massive deficits and growth of debt before they start retiring. And, that's not a projection because the baby boomers have been born. They're alive today. They're going to retire. They're going to be eligible for Social Security and Medicare. But instead of getting ready for that day. Instead of paying down debt, or pre-paying the liability, instead we're exploding debt.

Then we have this package that comes before us. Yes, this is the first chapter, and this has spending cuts of \$39 billion. Sounds like a huge number, \$39 billion over five years. That averages about \$8 billion a year when the budget for this next year is \$2.6 trillion. This is less than three one-hundredths of what is going to be spent. That's not serious. This is not a serious approach to dealing with the problem that confronts us. It really doesn't pass the laugh test. It doesn't pass the laugh test.

This is when you take chapter one and chapter two together. That is, first chapter is this spending package, and you couple it with the tax package to come, instead of reducing the deficit, it increases the deficit. This is a time when we have massive deficits. The debt has gone up \$551 billion last year. It is going to go up \$600 billion this year. And, what's the answer here? Add to the red ink. Now, that's an interesting answer. That is an interesting answer. I honestly don't know how anybody can seriously propose it, because remember chapter three.

Chapter three, they're going to increase the debt of the United States \$781 billion. That's because they know all this talk about 'deficit reduction' has no credibility. There is no deficit reduction going on. No, they're exploding the debt, they're exploding the deficits, and all at the worst possible time before the baby boomers retire.

Just pictorially, the increase in the debt over this same period of the package that we're discussing here – the increase in the debt alone we estimate at \$3.4 trillion. And, here's a package of \$39 billion. It's not serious. And, when you couple it with chapter two where they reduce the revenue \$70 billion. They're just digging the debt hole deeper.

The result of this is that foreign holdings of our debt are exploding as well. In the last four years, foreign holdings of our debt have gone up 104 percent. It took this nation over 200 years to run up a trillion dollars of external debt. With this fiscal policy of this administration which they said would provide maximum pay down of debt they have managed to double the external debt of the United States in only four years – 104 percent increase in the external debt, foreign holdings of our debt, in just four years. That is an utterly unsustainable course, and

what's the package before us do? Make it worse, when you take chapter one and chapter two together, and unfortunately, because of the rules, they have to be taken together.

What's the bottom line of all this? The bottom line is we owe more countries more money than we ever have in our history, and it's jumping every day. We now owe Japan over \$680 billion, we owe China over \$240 billion. My favorite is the Caribbean Banking Centers. We now owe the Caribbean Banking Centers over a hundred billion dollars. This is not the road to a stronger America. This is a road to a weaker, more vulnerable America. And, this package that is being considered in chapters one and two just makes it worse.

Now, we hear that the tax cut has really managed to increase revenue. No, it hasn't. No, no, no. No, let's deal with facts here. In 2001, we had big tax cuts and we've had three tax cut packages and that's what happened to revenue as a share of gross domestic product. Why do I use as a share of gross domestic product? Because that's what every economist tells you is the fair way to compare year-to-year. It takes out the effect of inflation. That's what happened to the revenue line of the United States. It collapsed. Last year, we had the lowest revenue as a share of GDP since 1959.

Let's go to the next chart that shows spending and revenue because it is the mismatch between spending and revenue that has exploded these deficits and exploded this debt. The red line is the spending line, and we have had an increase during this administration of spending. Absolutely, 91 percent of the increase in discretionary spending has been for defense, homeland security and rebuilding New York. Still, the spending is well below the line of the 1980s and 1990s. Look at the revenue line – it is the green line. In 2000, the President said revenue was high as a share of gross domestic product. He was exactly right. We did need some tax cuts. I even proposed tax cuts at the time. But, the problem was we went too far. Just as we went too far on the spending side of the equation, and that combination of too much spending and too little revenue has absolutely exploded the deficits and debt of the country. Now, that's the truth. That's the truth.

And, there's virtually nothing being done about it. This package certainly does nothing about it. It cuts the revenue more than it cuts the spending. It just makes the situation worse. When are we going to get serious here? When are we going to face up to the growing vulnerability of our country?

Some have said, well this revenue increase is just going to keep going. Here's what Goldman Sachs said: "...[A]dditional cyclical improvement is apt to be quite limited. The tax bonanza is due mainly to last year's strength in stock prices and profit growth, both of which are now cooling."

What we have here is more tax cuts financed how? By borrowing. By borrowing from whom? By borrowing increasingly from foreign countries. That is the prospect we have here. More and more borrowing, increasingly borrowing from abroad, and now we have the extraordinary prospect of borrowing from Japan and China to finance tax cuts that largely go to the wealthiest among us.

Some now are saying in Washington “deficits don’t matter.” The director of the Congressional Budget Office tells us deficits do matter. Here’s what he said: “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.”

So, I would just conclude that, as I began, I have never seen this city, this capital, more disconnected from reality than we are now. In the face of massive growth of debt and deficits, we are about to pass a package, chapters one and two that will simply make it worse, and not begin to get us on a path to fiscal responsibility.

I thank the Chair.