Floor Statement by Senator Kent Conrad (D-ND) on Fiscal Condition of Country
October 20, 2005

I come to the floor today to talk about a recent report in the Washington Post about the fiscal condition of the country. This was an article that appeared Saturday in the Washington Post, reporting on the budget deficit. It had this very hopeful headline: "Federal Deficit Fell in Past Year." While that is true, I think it is largely misleading as to the financial condition of the country.

When I went into the article, I read this paragraph: The 2005 deficit was the third-largest ever. But it was not only markedly smaller than the record $412.85 billion [deficit] for 2004, it was also well below the forecasts for the year issued in February. As a proportion of the economy -- it equaled about 2.6 percent of gross domestic product -- the deficit was within bounds that most economists consider manageable, and far from the levels of the 1980s, when the deficit reached nearly 6 percent of GDP.

I think if the average person were to read that, they would think: Gee, things are headed in the right direction. The deficit is down. The deficit is, as a share of GDP, gross domestic product, well below where it was in the 1980s.

The problem with this report is, I think it is completely misleading to the American people as to our true fiscal condition. Why? Well, first, because the deficit calculation that is used so broadly by the press -- and I am not singling out the Washington Post here. I would also point the finger at almost all of the mainstream media that continually refer to the deficit and never talk about the debt.

Here is the difference. While it is true the deficit last year was $319 billion, that is not the amount by which the debt increased. This is a critically important difference people need to understand. The debt last year did not increase by $319 billion, the advertised deficit. The debt increased by $551 billion.

I find repeatedly, when I go around my home State of North Dakota, there is great confusion about the deficit and the debt. Most people believe the increase in the deficit matches the increase in the debt. But that is not the case. The debt is increasing by much more than the reported deficit.

Here is the biggest reason why: Social Security funds that are being used to pay for other things. In effect, the Social Security trust funds are being raided consistently, repeatedly, in order to pay other bills. If any private sector entity tried to do what is being done here, they would be on their way to a Federal institution, but it would not be the Congress. It would not be the White House. They would be on their way to a Federal penitentiary because it is a violation of Federal law to take the retirement funds of employees and use them to pay operating expenses. That is exactly what is going on here.

It happened last year to the tune of $173 billion. It is not included in the deficit calculation. Why not? Because that is borrowing of one Government entity from another

Government entity. So they don't include it in the deficit, but it is included in the increase in the debt. Every penny of this has to be paid back.

What is happening is, the general fund of the United States is, in effect, borrowing money from the Social Security trust fund. It is using that money to pay other bills -- not using it to pay down debt, not using it to prepay the liability, it is using it to pay other bills. It is adding to the debt. So last year the debt increased not by $319 billion, which we read in every press report. You didn't read in any press report that I can find, not one, that the debt increased by $551 billion last year.

When you then correct for what has been left out, instead of an operating deficit of 2.6 percent of GDP, which was reported in the story by the Washington Post on Saturday, which is, they say, within acceptable bounds of most economists -- most economists say about 2.5 percent of GDP is the danger point -- when you make an adjustment for what the debt increased by, what you see is an operating hole in the United States of 4.5 percent of GDP, far beyond what most economists say is acceptable. In fact, in the European Union, to become a member, you have to have an operating deficit of 3 percent of GDP or less. The United States wouldn't qualify under that standard because in truth our operating deficit is now well in excess of 4 percent of GDP.

The other thing that is important to understand, the article referenced the deficit as a share of GDP was higher back in the 1980s, not much higher, and in most years not higher when you put in the calculation of the money being taken from Social Security. Here is the pattern of Social Security surpluses that are being used. You can see back in the 1980s there was almost no money being used from the Social Security trust fund. Back in those days, you can see we were running very small surpluses. In fact, until 1983, we weren't running any surpluses in Social Security. Then they were very modest, but most of this time well below $50 billion. Look at where we are now. We are up here now, $170 billion a year. That is a profound difference in the calculation. Nobody seems to pay any attention to it. This gives you a very different look at the true fiscal condition of the country.

In addition to that, back in the 1980s, you had time to get well because the baby boomers were not going to retire for over 20 years. Now there is no time to get well because the baby boomers are poised to retire. That is not a projection. The baby boomers are alive today. They have been born. They are living. They are going to retire. They are going to be eligible for Social Security and Medicare. We are headed for a train wreck.

What we get from the mainstream media are these happy talk reports that the deficit is down. No attention is paid to the increase in the debt. No attention is paid to where this is all headed. This is serious business.

This chart shows, going back to 1980, the relationship between spending and revenue. The red line is the spending line as a percent of GDP in the United States. The green line is the revenue line as a percent of GDP. Let's stop there and ask, Why do we use that calculation? Why aren't we showing in dollar terms the relationship between spending and revenue over a long period of time? The reason is very simple: Economists tell us, if you use gross domestic product, you then take out the effects of inflation and real growth, so you are comparing apples to apples. That is what we are trying to do here, get a sense of what is happening to our spending, what has happened to our revenue over an extended period of time.

This chart shows that the spending level of the United States, back in the 1980s and for much of the 1990s, was significantly higher than it is today. You can see the spending line back here. This goes back to 1980. Through the 1980s, the spending line -- and much of the 1990s -- was well above where it is today, even though in the 1990s spending came down each and every year as a share of gross domestic product. Now we have had this uptick in spending, quite a substantial increase as a share of gross domestic product, but still we are well below where spending was in the 1980s and for much of the 1990s.

91 percent of the increase in discretionary spending was from three factors: Defense, homeland security, and rebuilding New York. So the spending line has had a substantial increase but still well below where Federal spending was as a share of our national income going back to the 1980s and 1990s.

Look at the revenue line. The revenue line back in the 1980s was approaching 20 percent of GDP. Then there were the tax cuts, and it went down to just over 17 percent of GDP. Then it kind of jiggled and jagged around here. And then in the 1990s, as the spending line came down each and every year, the revenue line went up each and every year. So that in the year 2000, revenue was at a historic high, about 20.9 percent of GDP.

Look what has happened to the revenue line since 2000. The revenue line has collapsed. Revenue last year was the lowest as a share of gross domestic product since 1959. Anybody who is serious about doing something about the deficit has to address both the spending line and the revenue line. Very often our colleagues on the other side of the aisle only want to talk about the spending line. They vote for all the spending, but they don't want to address the revenue side of the equation. They don't want to cut the spending to meet the revenue line, and they don't want to raise the revenue to meet the spending line.

What we have here is a complete lack of responsibility. There are a lot of speeches about fiscal responsibility, but there is no reality of responsibility. Our Republican friends want to focus on the spending side, and indeed we need to focus on the spending side, although they voted for this increase in spending. These have not been Democratic budgets. These are not Democratic spending bills. Our Republican friends are in charge of the Senate and the House and the White House. They are responsible for every dollar of increase in spending. Every dollar they voted for. But they don't want to be responsible to match their spending with revenue. They don't want to cut the spending to match the revenue line, and they sure don't want to raise the revenue to match the spending line. They are happy passing it off to our kids, just tack it on to the debt. They say they are fiscally responsible. No. This is not fiscal responsibility.

What is most alarming is where all this heads. While it is true we have had an uptick in revenue in the last year -- very welcome -- we see that we are still way below the spending line. This is before the baby boomers retire.

Somebody may be listening and will say: Well, Senator Conrad is giving a passionate speech to raise taxes. No, don't misunderstand me. I am giving a speech about making this all add up. We either have to cut the spending down to the revenue line or we have to raise the revenue line to our spending appetite or some combination. That means we either have to cut spending down to the revenue that we are willing to levy or we have to be willing to raise the revenue line or some combination.

By the way, the first thing we ought to do on revenue is not a tax increase on anybody. The first thing we ought to do is focus on the tax gap. That is the difference between what is owed and what is being paid. That tax gap now is over $350 billion a year. The fact is, the vast majority of Americans pay what they owe. But increasingly, individuals and companies aren't paying what they owe. The Revenue Service says that has now reached $350 billion a year, money that is owed that is not being paid. There has been precious little being done about it.

The hard reality, what is so different from the 1980s and now, is this demographic tsunami that is coming at us. This is a representation of the increase of people eligible for Social Security and Medicare. We are under 40 million now eligible for Social Security and Medicare. We are headed for 81 million. It profoundly changes everything. The President's budget that claims it is going to reduce the deficit over the next 5 years misses the point. The only way he gets to cutting the deficit in half is he leaves out some items -- war costs past September 30, the cost to fix the alternative minimum tax. A 5-year budget hides the larger truth. The larger truth is the President's long-term plan makes this whole situation much worse. Why? Because the President's tax cuts absolutely explode right beyond the 5-year budget window.

We used to do 10-year budgets. Then the President changed to a 5-year budget. I believe the key reason for that change was he knows what these numbers show, just as I do. He and his people know exactly what is going to happen beyond the 5-year budget window. The cost of his tax cuts explode. This is going to happen. The 10-year cost of the President's tax cuts are $1.8 trillion. Here is what happens right beyond -- the dotted line is the end of the 5-year budget window. Here is what happens to the President's tax cut proposal right beyond the 5 years. It explodes. It is not just that cost that explodes; it is also the cost to fix the alternative minimum tax which, by the way, there is not a penny in the President's budget to deal with. The alternative minimum tax, the old millionaire's tax, now is becoming very rapidly a middle class tax trap. Three million people were affected last year. It is going to be 30 million people affected 10 years from now, if we don't do something.

It costs $774 billion to fix, and not a penny of it is in the President's budget. Again, the same pattern, right beyond the 5-year budget window, this dotted line, the cost of fixing the alternative minimum tax skyrockets.

What is the answer that we get on the budget? We get what is called reconciliation, and we are told this is a deficit reduction plan. No, it is not. There is no deficit reduction in this plan. This increases the deficit. Why? Because while it is true it has $35 billion of spending cuts, it also has $70 billion of tax cuts. And so the combined effect is to actually increase the deficit. What sense does this make when we have a debt crisis looming? The debt increased $551 billion last year. The forecasters are telling us it is going to increase $600 billion this year

-- or more. And the answer is a reconciliation package cloaked as deficit reduction that actually increases the deficit. I don't know how anybody can, with a straight face, claim this is what the country needs.

This is the increase in the debt over the next 5 years of the President's budget plan. You take the President's budget plan. You adjust it for the war costs he has left out -- not Kent Conrad's projection of the war costs, the projection of the Congressional Budget Office -- you put in the cost to fix the alternative minimum tax and the President's budget policy, the debt of the country is going to go up $3.4 trillion over the next 5 years. And our colleagues are out here talking about cutting spending $35 billion. It is farcical. It is farcical.

They talk about fiscal responsibility. They are sending off a plan to increase the debt $3 trillion, and they run out here with a plan to cut $35 billion of spending. And by the way, that is not deficit reduction because they are also going to cut taxes $70 billion, so they are actually going to make the deficit worse, in the face of $3 trillion of additional debt before the baby boomers retire. Come on.

This is what is happening to the debt under this plan -- this budget plan that was passed in the Senate before Katrina. This is what it is going to do to the debt. These are not Kent Conrad's numbers. This is what's going to happen to the debt. It is going to go up $600 billion a year each and every year for the next 5 years -- more than $600 billion. It went up $550 billion last year. You talk about building a wall of debt -- and all at the worst possible time before the baby boomers retire.

Now, the Comptroller General of the United States has come to us and said, You have an utterly unsustainable situation on your hands. You are running these massive deficits, huge explosion of debt before the baby boomers retire and guess what. You have a shortfall in Medicare alone of $29.6 trillion. You have a Social Security shortfall that is projected at $4 trillion. In those two alone, that is $33 trillion of unfunded liabilities.

Is anybody paying attention? Does anybody understand where this is all headed? This is a train wreck. That is where we are headed -- a train wreck. And what is the answer? To come out here with a package that increases the deficit some more? They have got to be kidding. They have got to be kidding.

Mr. President, I do not believe this $4 trillion of shortfall in Social Security. I think that is a very bad estimate. I think the shortfall in Social Security is much less. Why? Because the assumption behind this projection is that the economy is only going to grow 1.9 percent a year for the next 75 years. Over the previous 75 years, the economy grew at 3.4 percent a year. If the economy were to grow in the future as it has in the past, 80 percent of the Social Security shortfall would disappear. Eighty percent would disappear. If the economy grows in the future as it has in the past, 80 percent of the Social Security projected shortfall would disappear. So I think it is a very pessimistic forecast.

On the other hand, the shortfall in Medicare that is seven times, more than seven times the projected shortfall in Social Security, I think that is, unfortunately, realistic because it is based on two basic assumptions. No. 1, the retirement of the baby boom generation. And that is no projection. They have been born. They are alive today. They are going to retire. They are going to be eligible. And No. 2, medical inflation is running well ahead of the underlying rate of inflation, and all of us know that is true. So the Medicare shortfall is much more likely to come true than the Social Security shortfall. And the hard reality is we already can't pay our bills. The hard reality is we are already mushrooming the debt in a way that is utterly unsustainable.

Senator, when you say the increase in the debt is unsustainable, what do you mean? Here is what I mean. Foreign holdings of our debt have gone up 104 percent in the last 4 years. It took over 200 years of American history to run up an external debt of $1 trillion. In the last 4 years, we have managed to more than double it.

Is anybody listening? Is anybody paying attention? Is there anybody who is writing these news columns who is connecting the dots? Is anybody paying attention to what is going on here with the fiscal condition of the country? Does anybody care? And what do we get from the mainstream media? Happy talk; the deficit went down. Debt went up, the deficit went down.

Yes, it went down to the third biggest ever. And the size of the deficit completely masks the true seriousness of our fiscal condition because it misses how much the debt increased. The debt increased by $551 billion. The result is -- here it is -- we are borrowing more and more from abroad -- more than a 100-percent increase in the foreign holdings of our debt in 4 years.

Does anybody believe that is a sustainable course? I do not. And here it is. Here is the result. We owe Japan $684 billion. We owe China almost $250 billion. We owe the United Kingdom over $170 billion. And here is my favorite, the Caribbean Banking Centers -- the Caribbean Banking Centers. We owe them over $100 billion. Where do they get their money? We owe them over $100 billion. We owe South Korea almost $60 billion.

Mr. President, it is an utterly unsustainable course. The Comptroller General of the United States has told us it is unsustainable. The head of the Congressional Budget Office has told us it is unsustainable. Alan Greenspan, chairman of the Federal Reserve, has told us it is unsustainable. We are building up massive debt before the baby boomers retire, and the mainstream media run their stories saying the deficits have improved.

There is no attention to what has happened to debt, no attention to the train wreck that is coming. It is really a disconnection from reality that does not serve our country well. The American people deserve better. The American people deserve to be told honestly how deep this ditch is and how much it is going to take to fill it in because we cannot continue to run around the world with a tin cup asking more and more countries to loan us more and more money. To have foreign countries increase their holdings of our debt by over 100 percent in 4 years is utterly unsustainable. It is reckless and it is wrong. It has to be stopped. To have our colleagues come out on this floor with a reconciliation package that makes it all worse is profoundly irresponsible, profoundly.