**Transcript of Opening Statement by Senator Kent Conrad (D-ND)**
**at Senate Budget Committee Hearing on CBO Budget and Economic Outlook**
**February 2, 2006**

Thank you Mr. Chairman. Thank you again for your courtesy and discussing the agenda of the Committee for the year, and the many courtesies extended by you and your staff to me and to my staff. We continue to appreciate the extraordinary professionalism that you and your staff bring to this task.

And welcome to Mr. Marron. I think this is the first time that you have had an opportunity to present before the Committee, and we welcome you and look forward to a good working relationship with you as well. We had a very good meeting the other day in my office talking about some of these same concerns that the Chairman has raised. Obviously, we do have a different perspective. My great concern is the explosion of deficits and debt. That is a combination of spending and revenue, and I believe we are going to have to work on both sides of the equation in order to achieve a result. And, hopefully, somewhere there is a principled compromise on which both sides could agree to avert this explosion of debt.

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Let me just try to outline what I see as the significant concerns we face. This is the history over the last five years of what has happened to the budget deficit, and these are the largest budget deficits in dollar terms we've ever experienced. Last year there was a bit of an improvement, but then the outlook for this year, especially when you add back omitted costs, looks like we're headed back in the wrong direction.

My greatest concern is that the growth of the debt is far greater than the deficits, and I find that people are confused by this. I go around my state as many people assume that the amount of the deficit is the amount by which the debt increases. And of course, Mr. Marron, you know that is not the case. We're projecting now a deficit for 2006 of $364 billion, but we now estimate the debt will increase by $637 billion. Of course, the biggest difference between the two is Social Security money that is in surplus at the moment -- but which will be all needed for the future -- which is being used to pay for other things.

This is a slide that I wish we could just imprint on members of the Committee and our colleagues in the Congress. This goes back to 1980, and it shows the relationship between spending and revenue. The red line is the spending line. The green line is the revenue line. You can see back in the '80s we were spending about 22 percent – some years even more than that – of gross domestic product in the federal government. During the '90s each and every year the spending came down as a share of gross domestic product. And now, since the Bush administration came in, we have had a substantial move up. But I think it is important for people to know that 90 percent of the increase in discretionary spending is defense, homeland security and rebuilding New York – spending priorities we all agreed were necessary.

Look what happened at the revenue side of the equation. Revenue, when the President came in, was at a record high. He was quite correct in pointing out at the time that revenue was at a record high in terms of a share of our national income. But, look what has happened since. The revenue side of the equation fell dramatically. Some of our friends will say well if you cut taxes you get more revenue. It didn't work here. We cut taxes in a major way three times, and revenue kept falling. Now we have had an uptick, but we're still well short of where we were in the '80s and '90s. And the difference between what CBO and OMB are projecting in terms of spending and revenue is this gap, and it's a big gap. And it's a gap that is occurring at the worst possible time before the baby boomers retire.

There have been so many assertions that if you cut taxes you get more revenue. Let's just have a historical review here. The federal government in 2000 received $2 trillion in revenue, just a little over $2 trillion. In 2001 right at $2 trillion. At that point, we enacted substantial tax reductions. The next year revenue fell to $1.85 trillion. We enacted more tax cuts. The next year revenue fell to $1.78 trillion. In 2004 we had a bit of an uptick, but still well short of where we were back in 2001. In 2005, a healthy increase, only now getting back to where we were in revenue way back in 2000.

As we look at the CBO numbers, it is very important for people listening to understand the Congressional Budget Office is only able to tell us what they project deficits to be absent policy changes. But we know policy changes are being recommended. For example, the President is saying make the tax cuts permanent. That costs $2 trillion. Alternative minimum tax reform, the old millionaire's tax that is now becoming a middle class tax trap, costs $864 billion to fix. These are all over ten years. The President's defense buildup costs about $300 billion. The funding for ongoing war cost, almost $400 billion. Then we adjust for things that are one-time that should be removed. For example, we have taken out the effect of supplementals because we hope those are one-time events. That takes out $827 billion. And the reconciliation conference report just passed in the House and previously passed in the Senate – that should save over 10 years $105 billion. You add the debt service as a result of these additions, and you have $3 trillion of added debt.

That's where we're headed with the policy changes that have been proposed. That gives us a very different long-term budget outlook than what the President is talking about. The President is talking about cutting the deficit in half, but he only gets there by leaving out things. When we add them back, here's what we see as the deficit outlook, and the President only has a five year budget horizon. The cost of his tax cuts absolutely explode right beyond the five-year budget horizon.

The President has said back in 2001, "...[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."

Then he made a statement that I strongly agree with: "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."

That's what the President said. Here's what's happened. When he made that statement the debt of the country was $3 trillion less than it is now. It was below the bottom of this chart. Just in these five years, the debt has gone up by $3 trillion to $8.5 trillion, and every year of this budget proposal that has just been heralded here by my colleague the debt is going to increase by $600 or $700 billion each and every year. This is before the baby boomers retire.

This to me is utterly unsustainable, and it does require our prompt action. I agree absolutely with the Senator – entitlements on the spending side are the big enchilada. That's where the money is. But I think in fairness, and in truth, we're also going to have to do deal with the revenue side of this equation. And lest somebody conclude that my first reaction is to increase taxes, let me assure my colleagues that is not my first reaction. My first reaction is to attack aggressively the tax gap, the difference between what is owed and what is being paid. That difference, the revenue service tells us, is over $300 billion a year. We have got to do better than that.

I thank the Chairman for his patience, and I thank the witness for his presence.