Transcript of Opening Statement by Senator Kent Conrad (D-ND)
at Responsible Wealth Press Conference Opposing Repeal of Estate Tax
January 13, 2003

I am Senator Kent Conrad – represent the state of North Dakota in the United States Senate – and serve on the Budget Committee and on the Finance Committee where I have a responsibility for trying to solve the fiscal crisis now facing the country. And I think crisis is the appropriate term when we look at where we are and where we are headed.

The first chart that I put up shows what we thought we'd face just two years ago when we were told by the President and we were told by the Congressional Budget Office that we could anticipate $5.6 trillion of surpluses over the next decade. What a difference a year makes. Now in 2003 we see that if the President's proposals are adopted – for that same period – instead of nearly $6 trillion of surpluses, we're nearly $2 trillion in the red. That is a swing of over $7 trillion in the space of about 18 months. That is the most dramatic swing in the fiscal fortunes of this nation in our history. And it has significant implications.

This next chart shows two possible scenarios. One is looking ahead and adopting just what has occurred so far in terms of budget changes – the tax cuts already enacted, the spending changes already enacted to respond to September 11th, that is the increased spending for defense and homeland security – that is the top dotted line showing that almost through the rest of the decade we are going to be in the red. That is if you don't use Social Security to pay for other things – we don't use Social Security to cover the costs of the tax cut, we don't use Social Security funds to cover other spending – you can see that we are in deficit almost the entire rest of the decade. And the second dotted line, the bottom dotted line, shows what happens if we adopt the additional tax proposals put forward by the President – make permanent the tax cuts already enacted and number two, adopt the stimulus package that he has proposed. You can see if that policy is followed, we will never escape from a deficit position the entire rest of the decade.

Why is that significant and important? It is critically important because this is an unusual decade. This is a decade unlike any we have ever seen before because of the baby boom generation. The baby boom generation changes everything because they are poised to retire starting at the end of this decade, and this will create a dynamic unlike anything we have ever seen before. I think this is a critically important point to make and to have understood. Always before, we had time to get well. This time there is no time to get well. This is not a matter of projection. The baby boomers are born. They're living today. They are eligible for Medicare and Social Security, and they are going to change everything.

In this third chart, you can see right now we are in the sweet spot of the cycle, that is, these trust funds of Social Security and Medicare are right now running substantial surpluses, very large surpluses that are currently being used under the President's plan to pay for his tax cuts and the defense build-up, and the increased spending for homeland security. But in 2016, you can see the Medicare Trust Fund goes cash negative, and in 2017, the Social Security Trust Fund goes cash negative, and when they do, they do it in a very precipitous way. In other words, they start with mild cash negative balances, but they grow very quickly and very dramatically in a negative direction. This is what we must prepare for. This is why it is so critically important that are citizens understand, and our colleagues understand, the choices that are before us now because these are choices that are going to make a profound difference in the years ahead.

Let me go to the next slide which quotes the current director of the Congressional Budget Office in testimony before the Senate Budget Committee when he said in response to a question that I directed to him, “Put more starkly, Mr. Chairman, the extremes of what will be required to address our retirement are these: We’ll have to increase borrowing by very large, likely unsustainable amounts; raise taxes to 30 percent of GDP, obviously unprecedented in our history; or eliminate most of the rest of the government as we know it. That’s the dilemma that faces us in the long run, Mr. Chairman, and these next 10 years will only be the beginning.”

And the reason he said it’s only the beginning was because of the previous chart which shows you we’re in the sweet spot of the cycle now. And instead of getting ready for what’s to come, we’re frittering the opportunity. We’re frittering it away. We, instead of using these surpluses to prepare for what’s to come, are spending it, spending it for tax cuts, spending it for other expenses of government.

Now in the midst of this harsh reality the President says to us we ought to make the tax cuts permanent – we ought to even add to them with a stimulus package which has a very substantial ten year cost – and part of making the tax cuts previously passed permanent is to eliminate the estate tax. You can see the cost in this decade is close to $100 billion, but the cost in the next decade, right at the time the baby boom generation is retiring and the costs as I’ve shown you in previous charts is escalating and the deficits exploding, so does the drain of federal revenue as a result of elimination of the estate tax. The cost as I’ve indicated this decade is nearly $100 billion; but in the next decade, the cost is $740 billion, and right at the time the baby boom generation retires.

The argument has been advanced that the estate tax is really immoral because these revenues, these assets have already been taxed once, and so it constitutes double taxation. In a study done by Mr. Poterba of MIT and Mr. Weisbenner of the University of Illinois – both doing work for the Brookings Institution – they point out that that is simply a myth. On estates of over $10 million, fully 56 percent of those assets have never been taxed, because they’re unrealized capital gains that have never been subjected to taxation. So this notion that this is all double taxation is largely a myth. Certainly, some part of these assets have been previously subjected to taxation, but that is true throughout our tax system. We tax payroll taxes, that applies to the same income as is applied to income tax. And of course we have sales taxes after people have paid income taxes on received income. So double taxation, if that were to be eliminated in our society throughout the tax structure, we would have deficits that were totally unsustainable.

Let me go to the next point, which is we are currently on course to dramatically reduce the number of estates subject to taxation. As many of you know, currently only two percent of estates pay any estate tax. The notion that there is a death tax is simply a misnomer. There is no death tax. We have no levy that applies to everyone at death. We have an estate tax that applies to estates currently for an individual over $1 million. So if you have less than $1 million in assets, or if you are a couple less than $2 million of assets, you pay no tax – zero. There’s no death tax. There is an estate tax that attaches to larger accumulations of wealth, and we’re currently on course to increase that amount to three and-a-half million dollars by 2009. And that's for an individual, that would be $7 million for a couple. That will mean 99.7 percent of estates are not subject to any taxation at all.

The point has been made that many of us support reform over repeal. That's because we see this as a question of choices. In a perfect world, we wouldn't have any taxes. That would be a state I think we would all enjoy. But we understand there are trade-offs. There are things that are needed: certainly we have to provide for our common defense; we have to improve homeland security; we need to improve the education of our children; expand health care coverage; provide a prescription drug benefit; protect and preserve Social Security and Medicare. Those things cost money. What is abundantly clear is that we do not have the resources under the current tax structure to do those things. And in fact we are headed for a crisis in Social Security and Medicare. In Social Security we're only going to be able to cover 75 percent of the future cost, so there is a giant chasm between what has been promised the American people and what can be delivered to the American people and the question is how are you going to fill in that gap. The President and those who advocate the elimination of the estate tax are digging the hole deeper.

Some of us say yes, there needs to be reform. We should increase the amount that is exempt from an estate tax. I proposed last year an immediate increase from $1 million of exemption for an individual to $3 million for a couple, that would mean $6 million completely exempt. And the cost is as this chart shows is dramatically less than an elimination of the estate tax. Instead of a ten year cost of nearly $100 billion, that reform could cost $12.6 billion and leave more money available to protect Social Security, to preserve Medicare, to improve education, to expand health care, and to strengthen our national defense and improve our homeland security. At the bottom, that is what this issue is all about. It is a question of choices.

And the American people and my colleagues – their representatives – are going to have to make these difficult choices. I think it is critically important that we understand the context within which we make them. The reality has changed. Two years ago, we thought we had massive surpluses for the rest of the decade. Now what we see instead of surpluses is deficits. And at the same time we see an increase need for spending on defense and homeland security. The President and many of us advocate additional cost for a prescription drug benefit and there are other costs as well that we will have to face. The question is how we do it.

Some of us would suggest that a tax on wealth is one reasonable way to meet part of these needs. It's going to take much more than that to solve these problems. And if instead we choose the course of eliminating the estate tax, helping just those who are at the very top, what that means is all the rest of us are going to have to pay more. This is not really the question of eliminating the inheritance tax. Those who advocate repeal are in effect creating a whole new tax burden, because this debt will have to be serviced. And if part of it is not taken by those with great accumulation of wealth, many of whose assets have never been taxed, that means the rest of us are going to have to pay more. More in income tax, more in payroll tax, more in perhaps some other form of estate tax, more in every other kind of levy, because the real inheritance will be an inheritance of debt – debt passed on to our children that we were unwilling to bear ourselves even though it was our generation that ran up the debt.

Reform yes, repeal no. It is simply not affordable in the reality of today. The reality created after September 11th by a sneak attack on this country that has dramatically increased defense costs, increased homeland security costs, and coupled with the President's tax cuts, plunged us deep into deficits and debt. Deficits and debt that are growing at such a rate that they are clearly unsustainable. So my conclusion is reform yes, repeal no.