

Transcript of Remarks
by Senate Budget Committee Chairman Kent Conrad (D-ND)
at Press Conference (with Rep. John Spratt, D-SC))
on the Congressional Budget Office Budget and Economic Update
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Last year we were told there would be nearly \$6 trillion of surpluses over the next decade. Now, CBO tells us today, when you adopt the President's policies -- and I'm using just the President's discretionary numbers now. I think John's (Congressman Spratt) numbers really are more realistic with respect to discretionary spending -- but let's just take the President's numbers. Let's just take his numbers. What he proposes in spending over the next decade. What he proposes in tax cuts, and what you see is the entire surplus is gone. Every penny. And in fact we're \$400 billion in the hole.

The President will tell you this is Democratic spending. No, there is not a dime of democratic spending in these calculations. This is the President's spending. This is the President's tax cut. This is the President's fiscal policy that has driven us right back into the swamp of deficits and debt as far as the eye can see. And his Office of Management and Budget tried to sugarcoat it in their report. CBO has come with an unvarnished look of what this President's policy is doing.

And make no mistake as John pointed out, the biggest single reason is the tax cuts. That is by far the biggest reason. There are certainly other factors, the economic slowdown, but it's much smaller than the tax cuts. The additional spending caused by the attack on this country is much smaller of an effect on the disappearance of the surplus than the tax cuts.

Those are facts. They are stubborn facts. And they have enormous implications for the future of this country because as John indicated there is not going to be, as the President promised, maximum pay down of the debt.

Instead, what there is going to be is maximum taking of Social Security money over the next decade. They're taking it all. They're taking all the Social Security surplus over the next decade and using it for other purpose, something they promised not to do, something they repeatedly said they would not do, and they are now doing it for every penny of the Social Security surplus.

The Republicans are going to take it all. And the amazing thing is, they don't seem to have any regret. There is no accountability. There is no responsibility, and there is no accountability. There is no fessing up to what they've done. They say it's just the war. They say it's just the economic slowdown. That's not true.

The Congressional Budget Office, which is nonpartisan, has given us a complete review, and what they're telling us today is very clear. All of those projected surpluses are gone for the next decade, and this administration plans to take every penny of Social Security surplus over the next decade and use it for other purposes.

The President, I noted, just the other day down in Crawford – the report says, “Weighing New Tax Cuts” – pledged Saturday to bring the federal budget back into balance. This is the quote from the President: “We cannot go down the path of soaring budget deficits.”

Well, the President is taking us down the path of soaring budget deficits and his only answer is to dig the hole deeper. He wants to make the tax cuts, which are the biggest culprit in the disappearance of the surplus, and make them permanent. That's another \$400 billion this decade. It's \$4 trillion the next decade, right at the time the baby boom generation starts to retire.

That is a disaster for America. It is a disastrous fiscal policy that the President has adopted. John said he has no plan. He certainly has no plan to right the ship. In fact, he's punching more holes in the hull as this ship goes down. That's his answer: Take this ship of state and sink it. That is a disastrous direction for this country.

The first job has to be to prevent digging the hole deeper. And what is truly stunning about the President's plan and the Republican plan is they want to dig this hole deeper and deeper. You have to ask yourselves, “How would we ever dig out if their policy was adopted?”

You can see, we're already under water – deep under water for the next decade. This is at the sweet spot in the fiscal cycle. This is when things are good. This is when we're running massive surpluses in the trust funds of Social Security and Medicare. What is going to happen when those trust fund surpluses turn to deficits? It will be an ocean of red ink for this country.

And as John said, this President has no plan. The Republican Party has no plan. Worse than that, the plan they have is to make it all worse. It simply has to be prevented.

And today I call on the American people to look at these stark facts and send a message to their representatives. They've got an obligation and a responsibility to begin to dig out of this massive, massive deficit and debt. If we do not, the implications for the country are clear and serious. It will mean in the future either massive cuts in benefits and massive tax increases or debt that is far beyond anything that is sustainable. That is the serious implication of the Republican fiscal policy that has been embarked upon by this President.

Question: CBO assumes that supplemental appropriations after 9/11 will be continued forward. That means that the rebuilding of New York and all the responses just after the terrorists attack will continue in the baseline. Do you think that that spending assumption is realistic?

Conrad Answer:

Let me just say this to you. I saw the Vice President's remarks on attacking Iraq. If that were to come to be, that would be a very substantial additional cost. So I think if you're looking long-term, CBO has given probably as realistic an outlook as one could have. And what it tells you very clearly is our fiscal condition has totally changed. We have gone from a projection of massive surpluses over the next 10 years to deficits. And the major reason is the tax cut. Falling far behind in impact are the economic slowdown and the attack on this country and the spending response which everyone is supporting.

Question: Can I ask about tax assumption? You ascribe the problem mostly to the tax cut, the Bush tax cuts. Yet CBO really ascribes it to a fall-off in revenue primarily, and to the economy, exclusive of the tax cuts. Can you explain how you arrived at that 40 percent figure?

Conrad Answer:

Well, that's John's figure. I'll let him go into that.

But if you just take the cost of the tax cut last year, plus the interest cost associated with it, which CBO does not count, but you've got to count it, you're at \$1.7 to \$1.8 trillion on a base of \$5.6 trillion. That's where you've got the enormous disappearance.

CBO also says that you've got an overestimation of revenues, which is really the next biggest culprit. But clearly, if you go through their analysis and take the tax cut plus the interest cost of the tax cut, it is by far the biggest. Next biggest are a decline in revenues from what was anticipated that are outside of the tax cut; that's the next biggest reason. Then the next biggest, of course, is the cost of the additional spending as a result of the attack on the country. The fourth biggest is the economic slowdown.

And I think that's counter-intuitive to a lot of people. I think a lot of people, if you ask them that, American people would say the biggest reason is the attack on the country and the economic slowdown. That those are the biggest reasons. And that's what the administration repeatedly says. That isn't what CBO shows. What CBO shows is the tax cut, when properly accounted for, plus the reduction in revenues from what was anticipated, are the two biggest culprits.

Question: But isn't that, sort of, a near-term/far-term question? I mean, in the near-term, wouldn't you say that the economy

Conrad Answer:

Yes, absolutely. It is a near-term/far-term. Look, these are 10-year numbers. The President had a 10-year budget. The President told us last year with his 10-year budget, you're going to have nearly \$6 trillion of surpluses. He said, based on that that you could afford the tax cut that he was proposing and pushed through Congress. All of that proved to be wrong. He said not only could you afford it, he said you could have maximum paydown of the national debt. There's not going to be any paydown of the national debt.

Question: There's one theory that the stumbling economy would be doing much worse except for people refinancing their mortgages and getting some benefit out of the tax cut that's already kicked in. Can you give the devil any due for these tax cuts? Have they done any good? Are they helping the economy now?

Conrad Answer:

Yes. Look, I think what seems to get forgotten is we proposed much larger tax cuts than the President did for last year. We did it because we saw the economy was weak and needed a boost.

It is the 10-year size of the President's tax cuts that put us into deep trouble. They were much larger than what we proposed – in fact, about \$800 billion larger than what we proposed. We proposed taking that money and using it as a hedge against what might occur and as a way of strengthening Social Security for the long-term. We would have been far better off had that budget been adopted, but that didn't happen.

Now you have to look going forward. Now we see the results of his fiscal plan and it's a complete disaster for the long-term fiscal health of the United States. And what does he propose but to make the tax cuts permanent? Not just to have a tax cut this year to give lift to the economy, but to make the tax cuts permanent, which would cost, in the second decade, \$4 trillion right at the time the baby boomers are starting to retire.

Hello! None of this adds up. We've got to wake up. None of this adds up. It doesn't come close to adding up. It is not just irresponsible, it is wildly irresponsible. Now, somehow, as a nation, we've got to get a grip on the reality of what is occurring.

Can tax cuts in the short term help? Absolutely. We proposed them, we supported them. But tax cuts of these levels, which drive us back into deficit and debt, will ultimately drive up interest rates and slow the economy and damage the economic strength of America. The record on that is abundantly clear from the '90s, when in the '93 plan we raised taxes, we cut spending, we balanced budgets, and it helped trigger the longest economic expansion in our country's history. It led to the lowest interest rate in 30 years, the lowest inflation in 30 years.

It's like this crowd in the White House learned nothing from the '90s, and instead want to

repeat the mistakes of the '80s. And the difference between the 80s and now is this time there is no time to get well. If we go down the path the President has outlined, there is no time to recover, because the baby boomers are going to retire, and the leading edge is going to start retiring in a decade, and there is no time to get well. That's why this decade is so critically important and why we believe the President is squandering this opportunity.

Question: ... you can draw a straight line between the President's tax cuts and this looming fiscal disaster, isn't it incumbent on Democrats to stand up and say, ``We need to stop this from happening by rolling back the tax cut?"

Conrad Answer:

What's incumbent upon us, and we've got to recognize what freight train's coming at us as a country. The freight train that's coming at us right now is a proposal to make those tax cuts permanent – to dig the hole deeper. We've stood up clearly, as clearly as anyone can and said, "Don't do this, it will be ruinous for the fiscal health of the United States."

Question: Another way to solve this would be to cut government spending, and when the Congress comes back after Labor Day, the appropriation season will be upon us in earnest. Any possibility that Congress could relieve the situation by spending less money?

Conrad Answer:

Look, we've got this problem, under the President's spending proposals. Let me repeat that. This disappearance of the surplus doesn't have a dime of Democrat spending – not a dime. This occurs under the President's proposals for spending over the next decade. Now, there's going to have to be spending restraint. We proposed it in our budget. We proposed, in fact, a reduction in real terms in domestic discretionary spending; less money is in our budget. The increase in spending occurs solely because of the increases in defense and homeland security. So we have signed up to spending restraint in the budget proposal that we have made. The only real increases in the budget that we have proposed are for defense and homeland security.

Question: In order to make the tax cut the largest piece of the pie, you're splitting the technical changes and the economic changes. I mean, the technical changes are – you know, looking back, the tax revenues are not going like we expected, so we're going to make adjustments. Why do you say that the technical changes are somehow different from the economic changes in CBO's outlook?

Conrad Answer:

I'll tell you this is how we traditionally look at changes over time. You've got a circumstance in which there is an economic slowdown. People want to know the effect of that economic slowdown. So we've indicated what the effect is. People want to know the effect of the increased spending because of the attack on the country. We've segregated that. Then you've got the technical changes, the technical changes because revenue is substantially less than what was previously anticipated. But the biggest factor here clearly is the tax cut and the interest loss associated with that tax cut. Second biggest is the technical changes, because revenue is below what was previously anticipated.

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Conrad:

Can I just add one thing? I just want to add one thing, if I could. I mentioned in my opening that OMB had tried to sugarcoat this situation in their re-estimate. I think that's very clear if you look at CBO's numbers and you talk to objective third parties. OMB has now started to slip over into Enron kind of accounting to tell people things are better than they are.

What CBO is saying, what we said last week in our estimates, which, by the way, have come out very, very close to CBO's estimates, is that OMB's not telling you the way it is. They aren't fessing up to how serious this situation is. That's what CBO is telling you today: OMB is not playing straight with the American people; this administration is not playing straight with the American people about how serious this circumstance is.

Question: When the OMB mid-session review came out, I think Democrats – possibly one or both of you – came to a lectern somewhere and said that they were using rosy scenarios and numbers that were not realistic in order to paint the better picture than you said actually exists. Now that we have the CBO for comparison and there is this \$1 trillion to \$1.2-or-so trillion difference between them on an apples to apples comparison, you said much of that is revenue, some of it's spending, some of it's debt service. Is any of the difference due to the rosy scenarios you complained about back in – do you have a number of how much in their rosier growth forecasts than CBO's is attributable to the rosy scenarios you complained about last month?

Conrad Answer:

Well, I say rosy scenario is when you got a \$1.2 trillion difference. That's a rosy scenario difference. Look, there are a dozen ways to spin. I think what CBO is telling us very clearly is the situation is far more serious, by over \$1 trillion more serious than what OMB admitted to.

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Conrad:

Can I just add one thing? If there are additional questions, more technical in nature that I always know come to people when they leave here, please don't hesitate to call our respective staffs. We're putting out some fact sheets that are available for you. But we welcome your calls. Later on in the day, as you're writing these stories and you have questions, please don't hesitate to contact our people. I know these are complex matters, even for all of us who work with this every day. So we know that there will be additional questions. And we invite your calls.

Thank you very much.