Transcript of Statement by Senator Kent Conrad (D-ND)
at Senate Finance Committee Confirmation Hearing
for Treasury Secretary Designee John Snow
January 28, 2003

Opening Statement

Thank you Mr. Chairman. I want to add my words of congratulations to you Mr. Chairman and to thank you for your outreach to the committee, your coming by the office to take time to talk to each of us individually. I very much appreciate.

Mr. Snow, thank you for that same opportunity you gave us. I know you and I weren't able to hook up because at various times each of our schedules took us away from an appointment. But, I want to thank you for affording us the opportunity.

I also want to say I intend to support your confirmation. I think you come to this job with a wealth of experience and a reputation that is impeccable. And I appreciate very much your being willing to take on public service and this challenge. It's critically important.

First of all, we face an extraordinarily difficult circumstance. We had a $5.6 trillion surplus two years ago – that's what we were told we could expect. Now we know if we adopt the President's policies – the tax cuts and the spending included in his plan – we're in the hole by $1.5 trillion. That's a $7 trillion turn in just a year, and it leaves us in a circumstance that looking over 20 years of the budget policy of the country, going back to '92 we were in deep deficit. We were able to pull out for two years, not use Social Security trust funds for other purposes, but now this is where we are. We have plunged back into deficits and if we don't use Social Security to pay for tax cuts and other things we see we're in deficit the entire rest of this decade and by very, very large amounts.

That is especially worrisome because of where we're headed. And if there's one thing that strikes me is that we're in the sweet spot of the fiscal cycle now. Trust funds are running big surpluses. But that's going to change in the relatively near future. Social Security goes cash negative in 2017, and when it goes cash negative it does it in a very dramatic way. And that's why these deficits we're running now are I believe so damaging and so dangerous to the long-term fiscal health of the country. It's not just Social Security. But, the same is true in the Medicare trust fund. We're in the sweet spot of the cycle now, running surpluses, but those surpluses starting in the year 2016 of the Medicare Trust Fund go cash negative in a very dramatic way.

One of the reasons I count myself as an enthusiastic supporter, Mr. Snow, is that in the past you have been somebody who has been riveted on this question of whether or not deficits hurt us or not. There's some thinking now in Washington that deficits don't matter. I think that is truly a dangerous notion. And I was very pleased to see in the Richmond Times Dispatch your statement that, "A credible, sustained reduction in federal deficits, leading to a balanced budget, will bring major economic benefits." I believe that. "As the government spends less and borrows less from investors to cover declining deficits, more capital will be available for investment in the private sector of the economy. Inflationary pressure will ease and interest rates will respond by declining as much as 2 percentage points."

Mr. Secretary-to-be, I hope you still believe that deficits matter, and that they are a challenge to us, and that they must be dealt with. Again, I will enthusiastically support your confirmation.

Question Period

Thank you for your extraordinary patience here today. First, I'd like to set the record straight on something one of my colleagues said. Senator Kyl said Democrats last week voted for $500 billion of additional spending. That is not the case. There weren't $500 billion of amendments offered. There was about $25 billion of amendments offered. Some supported by Democrats. Some opposed by Democrats. Some supported by Republicans. Some opposed by Republicans. What they have done is take that as though it was 10 years of appropriations for those amendments. Those were not 10 years, those amendments were one year amendments, they were not 10 years.

Mr. Snow, I think you are a very fine man. Everything I have read about you is impressive to me. Your testimony here today is impressive to me. You are clearly an exceptional person.

The great thing about our democracy is that we can differ. And we profoundly differ on the wisdom of the package the President has proposed.

Let me give you quickly my reasons why I think it is a mistake. First of all, it strikes me as ineffective in terms of providing lift to the economy now. I believe that because such a small portion of it is effective now. We calculate the total cost as over $900 billion. We add in the associated interest cost. And yet we only see $36 billion effective in this fiscal year. Now there's been a difference on the committee. Is it $36 billion or $58 billion or $102 billion? Now the differences are this is a fiscal year benefit, $58 billion is a calendar year benefit, the $102 billion Senator Nickles talks about is liabilities arising from the changes this year, but much of that won't be felt until 2004. So first of all, as a stimulus it strikes me as ineffective. We ought to beef up the lift we're giving to the economy now.

Second part of this is the question of fairness and there are many ways to look at it. I've chosen just one. Somebody getting an income of over $1 million a year gets an $88,000 tax reduction, according to the Brookings Institution and the Center for Tax Policy. Those who are in the middle of the income scale in our country, that is they divide us up into equal one-fifth groups, 20 percent in each category by income. Those who are in the middle category, an individual taxpayer earning $21,000 to $38,000 gets on average a benefit of $265. The averages you were alluding to include higher income individuals who get much more. But those who are in the middle of the income distribution get $265. That does not strike me as fair, nor does it strike me as the wisest way to stimulate the economy because those at the top end – I have nothing against millionaires, I hope everyone in America becomes a millionaire, it would be a great thing – but in terms of the fairness in distributing money, it doesn't strike me as fair. And not very effective as stimulus because when people at the high end get money they're much less likely to spend it to stimulate the economy than those at the bottom end.

Third, it strikes me as irresponsible because of a chart I put up earlier. Here's where we're headed. You know we've taken the plunge back into deficits and in 2004 we're talking about a deficit of almost $500 billion. Now, Mr. Secretary, you make the point that this is a relatively small percentage of the GDP. My counter to that would be this: This is the sweet spot of the economic cycle. We shouldn't be running deficits here at all because of what's to come. And this is what I must say worries me greatly about the future fiscal strength of our nation.

We're in the period now where the trust funds are running big surpluses that are being used to pay for other things instead of being used to prepay the liability, instead of being used to pay down debt, which is what the President told us in 2001 would occur. He said we would have maximum pay down of the debt. Instead, what we now see is maximum taking of money from the Social Security trust fund to pay for these tax cuts and other expenses. This to me is the greatest threat looming over us and you've referred to it in previous times.

Let me also just cite Chairman Thomas, the Republican chairman of the Ways and Means Committee, today said that he raised questions about the plan to slash taxes on investment dividends, cautioning that the proposal could have dramatic, unforeseen consequences on the economy, corporate management and financial markets. He went on to say the dividend plan does not actually end the double taxation of dividends echoing criticism in the business community that it would leave some dividends taxed while favoring others. He said he also worries about the plan's impact on investor behavior in corporate management.

Let me just conclude by raising what is to me the greatest concern: whether this really is a growth package. We had a hearing the other day in the DPC, the policy committee of the Democratic Party, and we had renowned economists there who said they don't think this is going to encourage growth, they think it will inhibit growth. And their rationale was that the dead weight of deficits and debt will overwhelm the lift to the economy of tax reduction. Their bottom line point was to me in a question that I asked, if you were cutting taxes but in this circumstance they were paid for by spending cuts or they were paid for by offsetting revenue, that would give lift to the economy. But the President's not proposing spending cuts to pay for this. He is proposing to take it from the Social Security trust fund, and in that context their conclusion was – and they have done very sophisticated econometric modeling – that says this is actually a package that will on balance at the margins reduce growth. Could you respond to their concern?

Concluding Statement

If I could just say in conclusion. The problem with all of this is that these numbers in many ways are a best case scenario because they have in them relatively strong economic growth going forward. Number two, they have no cost for the potential war. Number three, they have no cost for fixing the alternative minimum tax. The alternative minimum tax which now effects less than two million taxpayers is going to effect 30 or 40 million taxpayers and the cost to fix it is $600 billion – that's a 10 year cost, not a dime of that is in here. So, I'd say to you I wish this were a worst case scenario, I really believe it's probably a best case scenario. And digging the hole deeper before we start filling it in I think will have adverse economic consequences.