Transcript of Senate Floor Statement by Senator Kent Conrad (D-ND)
On New CBO Deficit Estimates
January 26, 2004

Mr. President, I rise to talk about the Congressional Budget Office report on the budget condition of the United States. They have indicated that the deficit for this year will be $477 billion. That is $100 billion more than the biggest deficit we ever had. That was last year's deficit. Now it is $100 billion more for 2004. Now the record of the President on the question of fiscal responsibility is becoming more and more clear.

In the last year of the Clinton administration, we had a $236 billion budget surplus. Now in the third year of this President, we have a $477 billion budget deficit, the biggest by far, a record.

This chart shows the long-term relationship of the deficit. We can see the $477 billion; last year it was $374 billion -- both of those much bigger than the previous record deficit of $290 billion back in 1992 when the President's father was President, Bush I, as they term it.

The President and some of his aides have said: Well, yes, in billion-dollar terms, they are record deficits, but as a percentage of gross domestic product, it is not so big.

If we exclude Social Security instead of lumping it in with everything else, what we see is, even as a percentage of gross domestic product, this deficit is the biggest since World War II, with the one exception of 1983. In 1983, there was virtually no Social Security surplus.

This year, not only is the deficit off the charts at $477 billion, that understates how much is being taken because under this President's plan he is also taking every penny of the Social Security surplus, over $150 billion. So on an operating basis, the deficit is over $620 billion, on a budget of about $2.2 trillion, approaching $2.3 trillion.

Some say it is not that big. What are they talking about? An operating deficit of over $600 billion on a budget of $2.2 trillion, and that is not big? What would convince them it is big? It is the biggest ever in dollar terms and one of the biggest ever, even if you look at it as a percentage of gross domestic product.

But the biggest worry is not the deficit this year. The biggest worry is where this is all headed. If you add to what the Congressional Budget Office has told us, the President's recommendations for additional tax cuts and the looming crisis in the alternative minimum tax, which will hit 40 million people in this country by 2013 if we fail to act, if we put just those two things in, no other additional spending, no more supplementals by the President, if we just take what the Congressional Budget Office has told us plus the tax cuts the President is recommending, plus fixing the alternative minimum tax, we can see there is no end to the red ink. In fact, it explodes as the baby boom generation starts to retire, and a deficit on an operating basis of more than $600 billion for this year will climb to $861 billion by the end of this forecast period.

This is a record of fiscal irresponsibility that is utterly reckless. That is the course the President has us on.

I hear the President say it is spending; spending is all the problem. Let us look at where the increases in spending have occurred. Ninety-two percent of the increase in discretionary spending has occurred in defense, homeland security, and a third category that is rebuilding New York, the airline bailout after September 11, and the increase in international affairs, a dramatic increase there, again, as a result of the attack of September 11. As you can see, the vast majority of the increase, 69 percent, is in defense alone. But 92 percent of the increase in discretionary spending is in just these three categories.

Interestingly enough, the President says he is now going to restrain growth in what he calls discretionary spending. But if you look at what has happened to the categories of discretionary spending, domestic spending has not been growing. Domestic spending is not the problem. Non-defense domestic spending, as the Administration defines it, excluding international affairs and homeland security, has grown in real terms in the last 2 years by just three-tenths of 1 percent. Now he is going to restrain the growth by 1 percent in this category.

Again, remember, he has a special definition of the discretionary spending that he is constraining. Most of us think of defense and homeland security as a part of discretionary spending that is growing. Indeed, that is where spending has grown. But on the discretionary spending that he has identified, excluding homeland security, excluding international affairs, excluding defense, there has been almost no real growth in spending in the last 2 years, three-tenths of 1 percent. Now he says he is only going to allow it to grow 1 percent this year. That is not going to do much. That is a very small part of Federal spending. In fact, that is only 17 percent of the Federal spending he is talking about restraining.

So he is going to do very little to cope with these mushrooming deficits. That is a fact. That is reality. If you look at the revenue side, it is very interesting. That is where the deficit has exploded. It is largely on the revenue side.

This year, according to CBO, revenue will be at 15.8 percent of gross domestic product. That is the lowest revenue as a percentage of gross domestic product since 1950. Remember, when we had high revenue as a percentage of GDP, the President said the answer was tax cuts. Now that we have revenue at the lowest it has been since 1950, the President's answer is more tax cuts. Dig the hole deeper. Make the deficits bigger.

The President's plan doesn't add up. It doesn't come close to adding up. It fundamentally threatens our economic security long-term. We can go back and check the President's record on what he has told us and what happened.

In 2001, he told us: “We can proceed with tax relief without fear of budget deficits.” He was wrong. In 2002, he told us: “Our budget will run a deficit that will be small and short-term. He was wrong. In 2003, he told us: “Our current deficit is not large by historical standards and is manageable.” It is hard to top a record. Not large by historical standards? It is the biggest it has ever been by a huge margin -- $100 billion bigger than last year, and last year was a record. He was wrong again. He said: "The deficit will be cut in half over the next 5 years." Will he be wrong again? His track record is pretty clear; he has been wrong consistently. Does it matter?

There is a story in the *Washington Post* this morning about the dollar and how the dollar has gone down dramatically. What they said in this article was: Currency traders who are fretting over that dependency -- They are referring to the need to borrow money from abroad for our trade deficit, borrow money from abroad for our budget deficit, and also borrow money internally for our budget deficit.

Currency traders who are fretting over that dependency have been selling dollars fast and buying euros furiously. The fear is that foreigners will tire of financing America's appetites. Foreign investors will dump U.S. assets, especially stocks and bonds, sending financial markets plummeting. Interest rates will shoot up to entice them back. Heavily indebted Americans will not be able to keep up with rising interest payments. Inflation, bankruptcies, and economic malaise will follow.

That is the risk this President is running by conducting a fiscal policy that is absolutely irresponsible. I want to make clear that I am less concerned about the deficit this year than I am about the long-term implications of this fiscal policy. That is what these economists are warning us about. But it is not just them. We have the Comptroller General of the United States, a Republican, warning us that we are on an unsustainable course. We have the International Monetary Fund warning us that the buildup of deficits and debt in this country doesn't just threaten our own economic security, it fundamentally threatens the economic security of the globe.

We have already seen the effect on the dollar from these policies. The dollar has plummeted. It is down nearly 30 percent against the euro in just 2 years. In the short term, that can be helpful to U.S. manufacturers. But in the longer term, it is fundamentally threatening to our economic security.

If you think about it, if you were holding dollar-denominated investments, and you are a foreign investor, how would you feel if the underlying value of that currency plummeted? Does that make sense to continue holding dollar-denominated investments? Warren Buffet, one of the most successful investors in America, is quoted in the article as indicating he started to diversify his investments away from dollar-denominated investments. He is not alone.

It is time for us to think carefully and clearly about our response to this growing fiscal crisis. Record budget deficits -- some say they don't matter. I think any sober person knows that deficits do matter. Deficits of this magnitude are simply stunning.

We are running deficits under this President this year of $900,000 a minute -- $900,000 a minute. Every minute that goes by, under this President's budget plan, we are spending $900,000 more than we take in. That is a course that is not sustainable. It must be changed. The President says he has a plan -- it appears to be a secret plan at this point -- to cut the deficit in half over the next 5 years. But that avoids the much larger issue because we know from all of the work that has been done that the deficit will recede from these record levels. Cutting it in half is not much of an accomplishment when you are running an operating deficit of over $600 billion a year. And what is of deepest concern is that the President's budget plan, which, if he is good to his word, will reduce the deficit somewhat over the next few years, puts us on course for the deficit absolutely to explode as his tax cuts become permanent and as the baby boomers retire. That is the much greater threat to the economic security of this country.

When the federal government runs massive deficits, that puts upward pressure on interest rates. When interest rates go up, that slows economic growth and economic activity. That is a reality. This is a reckless course the President has taken us on, and not just in the short term. In the short term, we can afford deficits to give lift to the economy. The President is proposing massive deficits even at a time when he projects strong economic growth. CBO is telling us the economy will grow at 3 1/2 percent a year over the next 5 years. Well, 3 1/2 percent growth is considered relatively strong in an advanced economy. Yet we see no end to the budget deficits under the President's plan. In fact, once we get past this 5-year period and the baby boomers start to retire, the deficits absolutely explode. That is a reality.

It is time for the President and this Congress to address that very deep challenge to America's economic future.

I yield the floor and suggest the absence of a quorum.