

**Transcript of Remarks by Senate Budget Committee Ranking Member
Kent Conrad (D-ND) at Press Conference on CBO's Summer 2004 Budget Update
September 7, 2004**

Welcome. President Bush, in response to the size of these deficits which are record deficits, the biggest we've ever had, said in an interview in response to this question: "Let me ask you about deficits. This year, \$445 billion, ballpark. Do you think that's pretty good?" The President: "Yes, I do. I do." It is an odd sense of accomplishment when you have got the largest deficits in the history of the United States and you think that's pretty good.

The comparison to the last three Presidents are contained in this chart. You can see that these are by far the largest deficits that we've had under any of the last three Presidents, and of course, the deficit under his father, President Bush 41, was the largest deficit in the history of the United States to that time. This President Bush has now passed that mark twice with last year's deficit and with this year's deficit.

We've put up the chart that shows the record on deficits under this administration. He inherited a surplus and promptly turned it into a deficit. A deficit that has mushroomed dramatically to \$422 billion – almost \$50 billion worse than last year.

Goldman-Sachs said this on OMB's previous deficit estimates: "The Office of Management and Budget has perfected the art of underpromising and outperforming in terms of its near-term budget deficit forecasts. For example, in its semiannual review, the OMB lowered its deficit forecast for fiscal 2004 to \$445 billion from \$521 billion. This creates the impression that the deficit is narrowing when, in fact, it will be up sharply from the \$375-billion imbalance of a year earlier. This process is likely to continue in October, when the fiscal 2004 deficit turns out to be lower than the current OMB forecast."

Now look, this is a shell-game. The President and his crew overestimated the deficit so that they could assert progress is being made. When in fact if you compare this year's deficit to last year you see it is the biggest ever, a record budget deficit by almost any terms.

I think the thing that is most alarming is a look at the difference between the deficit as it is described by the administration and what the addition to the debt will be for this year. I think many people think that whatever the deficit amount is how much the debt will increase. Unfortunately, that is not the case as you can see here. The debt is not going to increase by \$422 billion this year. The debt is going to increase by over \$630 billion. Why the difference? Well, there's almost \$150 billion of Social Security money that is being borrowed by this administration with no plan to pay it back, and of course that gets added on to the debt. Same is true of Medicare. Money is being borrowed from Medicare. All of which has to be paid back. This administration has no plan to do it.

And if one looks longer-term what is really striking is that there is an ocean of red ink to come. The President talks happily across the country that he is going to reduce the deficit, cut it in half in the next five years. The only way he gets there is he leaves out things. He leaves out

war cost. He leaves out the money to fix the alternative minimum tax. He leaves out the money he's taking from Social Security. If one looks at I think a more accurate assessment of where we're headed, this is what one sees. Deficits as far as the eye can see and deficits that will be approaching \$790 billion by 2014.

This is absolutely an unsustainable course for the country. And the President has outlined absolutely no plan to change anything in this presidential campaign. He keeps calling for more money for defense, more money for homeland security, and less revenue. That can only dig the deficit ditch deeper, and fundamentally threaten the economic security of this country.

Let me just go to a final item. It was in the *Washington Post* this morning. "Navy Plans to Buy Fewer Ships." Now, at some point people are going to have to begin to connect the dots. You cannot be strong military if you are weak financially. And make no mistake this country is becoming weaker and weaker financially as this President drives us deeper and deeper into debt. What's it going to mean? Well, you can already see what it is going to mean for the United States Navy. It is going to mean fewer ships.

And this is going to be the kind of story that you will read with increasing frequency in the future as more and more things have to be jettisoned that this country needs, whether it's things that the Navy needs or the United States Air Force needs or the Army needs. There is simply not going to be the wallet to pay for it because this President has put us on a course of deficits and debt and ultimately decline.

There is no great power that has been able to sustain itself on borrowed money. There is no country that has been able to become stronger by borrowing its way to financial health. That doesn't work and what this country needs, and what this President owes to the American people is an honest assessment of our fiscal condition.

Question: In light of everything that you have said, what can be done with the rest of the legislative session that you have this year, and even assuming you came back and did a lame duck session, what can be done on any of this, anything? And what do you expect to get done before you leave for the new year?

Conrad answer:

I think it is hard to predict what will happen in this truncated legislative session. But what can be done with respect to the deficit is first of all for people to be aware of how serious this situation is. This is the worst budget deficit in the history of the United States, and the President is proposing making it even worse. And he does it at the worst possible time right before the baby boomers retire. Look, there has got to be an understanding that we're on a course that is utterly unsustainable, and the consequences to our nation are enormous in a failure to address this issue. It is going to mean a weaker economy in the future. It is going to mean higher interest rates. It is going to be a United States that continues to go around the world with a tin cup asking other countries to loan us money. We've borrowed over \$600 billion from

Japan. We've borrowed over \$150 billion from China. We've borrowed tens of billions of dollars from South Korea. This is an unsustainable course. As the story said in the *Washington Post* this morning, here we are, the Navy is talking, because of budgetary constraints, of having to sharply reduce the number of ships that it buys. Already the Navy is down sharply in terms of the number of ships from where it was. That's just the beginning. That's just a warning shot at where this is all headed.

You see Chairman Greenspan saying you're going to have to cut Social Security and Medicare. Why are you going to have to cut them? You are going to have to cut them because of the reckless course this President has put us on. You know the shortfall in Social Security is one-third the cost of the President's tax cuts over the same period. So you don't have to cut Social Security because it just has to be done. He's putting us in a position -- this President by his choices, by the direction he's taking this country -- of having to cut Social Security in the future, of having to cut Medicare in the future. This is a reckless course this President is on.

You know this President is like the captain of a great ship. And the ship is sinking and this President is saying, 'Not to worry.' It's good news because it's not sinking as fast as he said it was going to. This is not a course that can be sustained.

Question: Maybe you can clarify some comments you made in your opening statement that I am confused about. On the one hand you put up the chart from Goldman-Sachs and said it's a shell-game that they overestimated the size of the deficit so that they could make it appear they made progress, that it's smaller than they first. Then almost in the next breath, you said no, they're leaving stuff out it's really bigger than. Then Congressman Spratt had a list of all the things they left out and you alluded to it too. So which one is it? Are they ballooning it up to make it look better or are they underplaying the deficit because they're leaving all this stuff out? Those things seem to be in conflict.

Conrad answer:

No I don't think they are in conflict at all, and here's why. They earlier said the deficit for this year -- you've got to get straight on our times here. The deficit for this year was going to be larger than it has proved to be. I said at the time I believe they were overestimating the deficit so that later this year, right before the election, they would be able to claim credit. In terms of things being left out, what we're talking about is in the future. We're talking about war costs being left out. The President has now said he needs an additional \$25 billion. CBO says no, he's going to need much more next year -- that's not this year, that's next year. Alternative minimum tax -- in the President's budget he only has the funding to fix it in this year's budget. He has no funding in future years. In terms of Social Security and what it's adding to the debt, as you know over the next 10 years the President's plan takes \$2.4 trillion of Social Security money, borrows it with no plan to pay it back. So the difference here is between when you are just talking about this year. They have overestimated the deficit to begin with so they could claim progress later in the year. For multiple years, they have badly understated the seriousness of the fiscal condition of the country.

...I think for this year he initially overstated the amount of the deficit so that later this year he could claim credit. But for future years I believe he has badly understated the true deficit by leaving things out. And that's a pattern of this President. He has not been telling the American people, not informing them in an accurate way, or I believe in an honest way, the fiscal condition of the country.

Question: Today's numbers are \$50 billion lower than CBO itself forecast back in March. So I assume you are not accusing them of a shell-game too. Will you concede there is some improvement out there, at least on the revenue side, at least on the short-term?

Conrad answer:

Yes. There is no question. I think CBO has been pretty straight. And yes, their forecast is somewhat improved over an earlier forecast. I never accused them of overstating in order to claim progress. I do believe the administration did that. I said it at the time. You'll recall when the administration first came out with their deficit estimates I said in a meeting here in this room that I believe they were putting out a deficit that was inflated for the purpose of being able to claim credit later on. And I think that is what they have done.

Question: What is the significance of the improvement of CBO's numbers?

Conrad answer:

Not much because you are still left with the biggest deficit in the history of the country. You are still left with a circumstance that if you put all of the things in looking forward, that is the money that is being taken from Social Security, the money to fix the alternative minimum tax, the war cost that has been dramatically understated by this administration, we have a situation that is utterly unsustainable. I don't know what could be more clear. We're headed in a direction that will weaken this country, that will hurt future economic performance, that is absolutely reckless and leads to what Chairman Greenspan has called for, a cutting of Social Security and Medicare. That is the course this President is taking us down. And it is I believe a profound mistake for this country.

Question: You were both home the last six weeks. Did you detect any sense among the people you talked to at home a concern about this issue, or is it the notion that we're going through tough economic times and war and so forth. Is that making people more forgiving about large deficits?

Conrad answer:

I found in my state – it is a fiscally responsible state – great concern about this. In fact, in every part of my state people have a hard time understanding why more attention is not being paid to this. I had people all across North Dakota – farmers, ranchers, business people – saying

to me they are very concerned about these burgeoning deficits and where this is all headed. And I can tell you that lots of people are alarmed. Our offices were flooded with phone calls when Chairman Greenspan said that the course that we're on is going to require cuts in Social Security and Medicare. Our phones were swamped with people calling when he made that statement.

Question: There's an argument out there that says because of the AMT and the growing number of baby boomers that are going to retire that if we switch to a consumption tax, that may make all of our troubles go away. Would you agree with that statement?

Conrad answer:

No, I certainly wouldn't because if we switched to a consumption tax that would dramatically raise taxes on the middle class. I think about the last thing that should be done here is raise taxes on the middle class, and that's precisely what a consumption tax would do. If you converted all the taxes we had now to consumption taxes that would mean a dramatic increase in taxes on the middle class to raise the same amount of money.

Question: Have staffs of either of your budget committees done a calculation yet about if John Kerry were elected and all of the proposals he's made to date on the campaign were enacted included the tax changes – rolling back the tax cuts for the upper and closing loopholes, some specified and perhaps some not – and all the programs that he wants to fund what would be the net impact on the deficit? Would the deficit go down, the deficit go up, do you have any calculation like that?

Conrad answer:

We've made no such calculation. I'd say this to you. John Kerry's record on deficit reduction is a clear and strong one going back a long ways in the United States Senate to the time of Gramm Rudman. He was one of the few who crossed the aisle to support that because he was so concerned about deficits. He was there in '93 when we enacted a plan without a single Republican vote – it was the single most successful deficit reduction plan in the history of the country. In '97 when we had a bipartisan plan he was there once again. So I think John Kerry's record on deficit reduction and on recognizing the importance and threat of deficits to the long-term economic security of the country is very clear.

Question: Let me rephrase. Do you think that all his proposals if enacted would lead to a net increase or decrease in the deficit?

Conrad answer:

I've just not done the calculation. What I know about John Kerry is I know his record here in the United States Senate and I know that he has been somebody who has been involved in every deficit reduction plan that we've had.

Question: Have you been given any indication how quickly you can expect negotiations on the ETI repeal conference to begin or if that is going to be a priority before the election this year?

Conrad answer:

I'm a conferee and as you know we're just back in session. We don't have first votes until this evening. I would anticipate we'd get that word this evening or tomorrow. Same is true of the highway bill. I'm a conferee on the highway bill and I anticipate that we'll hear more about that either tonight or tomorrow.