

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Press Conference on CBO's Budget and Economic Outlook
January 25, 2005**

Opening Statement

The new CBO analysis has come out. And while some might suggest to you that this shows the situation is improving, clearly, it is not.

The deficit for last year, as you recall, was \$412 billion. CBO is forecasting \$368 billion for this next year. But that doesn't count the \$80 billion that we all know the administration is about to ask us for. So the deficit, year to year, is not improving.

And over the 10 years, the CBO estimates, which are required to just forecast current policy, they aren't forecasting what the President is proposing. It leaves out all of these expenses: the President's Social Security changes that would cost nearly \$2 trillion; the cost of making the tax cuts permanent, which the President advocates, \$1.6 trillion of costs there; the funding for ongoing war costs, over \$400 billion; the defense buildup the President continues to advocate, over \$200 billion of cost there; alternative minimum tax reform that costs over \$600 billion – we all know that we're going to have to deal with the alternative minimum tax, which is quickly becoming a middle-class tax trap; and debt service for all but the Social Security provisions, another almost \$600 billion. None of these things are in the CBO numbers.

If you put the things that have been left out back in and you look at the deficits going forward, the unified deficit, you see that there is no end to the red ink. The situation is not improving. And this is if the President gets his way on the policies that he has endorsed.

If you add to the unified deficit the borrowing costs, nearly \$2 trillion of borrowing costs over the next 10 years to float the President's Social Security boat, you see that makes the deficit situation even worse over the next 10 years. This is levels of deficit that we think are unsustainable.

If we look at the relationship between spending and revenue over a very extended period of time, going back to 1980 – the red line being the spending line, the green line being the revenue line – you can see that spending, which has had a tick up because of defense and homeland security, in fact, virtually all of this increase in spending is due to defense and homeland security. Ninety-one percent of the increase is from just those two areas. But still, spending is well below what we saw in the '80s and early '90s as a percentage of GDP. The green line is the revenue line, and you can see it's the revenue that just collapsed on us. Revenue last year was at its lowest level as a share of GDP since 1959. And although we're seeing some improvement now, the estimates are that we'll not get above about 17 percent of GDP – leaving a very substantial gap here, ongoing structural deficit, the difference between spending and revenue.

The revenue loss accounts for the bulk of the budget turnaround since 2000; 74 percent of the change in our fiscal condition is because of revenue loss; about half of it is tax cuts, about

half is other things.

If you look at the Social Security question, it's very interesting. We have got a shortfall, 75 year shortfall, of \$3.7 trillion. If you look at the cost of the President's tax cuts, both those that have already been passed and those he proposes, the cost of those over 75 years is \$11.6 trillion – about three times as much as the Social Security shortfall.

Here's what this means to families across America. By 2015, each family's share of the debt will be over \$85,000. Really quite stunning how the debt is increasing under the President's policies.

And for those who wonder, what difference does it make, this is the headline from the *Financial Times* of yesterday: "Central Banks Shun U.S. Assets." This is the great risk that is being run by the President's policies because so much of our debt is now being financed abroad.

In fact, let's just put up the final board that shows the increase in publicly held debt from January to November of 2004 was \$363 billion. The increase in federal holdings of publicly held debt during that same time was almost identical to the increase in publicly held debt.

What does that mean? That means we are more and more reliant on foreign central banks, on foreign investors holding our debt. If you look at debt holdings, you see we have now borrowed over \$700 billion from Japan; we've borrowed over \$170 billion from China.

If you look at the President's plan on Social Security, he says, "Well, I'm going to take \$2 trillion more from Social Security over the next 10 years." And then he says, "Gee, there's a real problem with Social Security," a problem that he has helped create by his financial plan, his financial plan, which is to take every penny of Social Security surplus over the next 10 years and use it for other things.

He then says, "Well, we've got to cut the benefits dramatically, and, to finance private accounts, we should borrow another \$2 trillion," much of it from China and Japan. You know, somewhere there's a disconnect here. He says on the one hand, take Social Security money, use it to fund other things over the next 10 years, more than \$2 trillion. Then he says, "Gee, there's a big shortage in Social Security" and the answer is dramatically cut the benefits and go borrow \$2 trillion more, much of it from foreign holders, especially China and Japan.

That does not strike me as a conservative plan. It is certainly not a plan, I think, that will enjoy wide public support when people fully understand what it involves.

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Question: Senator Conrad, at the end of your written statement you say a bipartisan solution to this problem is within reach. What do you have in mind?

Conrad Answer:

First thing that has to be done is acknowledge how serious the situation is. Second thing that needs to be done is quit digging the hole deeper. Third thing that needs to be done is I believe not just deal with Social Security, but look at the broad long range challenge to the country. As you can see from these numbers we are faced with an ocean of red ink right before the baby boomers retire.

We need to deal not just with Social Security. We need to deal with Medicare, which is far more serious than Social Security in terms of its fiscal demands long term. I really think this calls for a sit down in which we deal with what we all know is the real long term threats to the economic strength of America. We have got to deal with the baby boom phenomena. We have got to deal with the revenue crisis that we have. We have got to deal with Medicare and Social Security long term.

We also have as Chairman Thomas indicated , I think quite rightly, look at the other retirement security issues because just focusing on Social Security is not going to deal with the problem that confronts the nation. We got a much bigger problem. In fact, Social Security is probably the easiest to deal with. Medicare is far more difficult. And these underlying structural deficits are an enormous challenge given the fact the baby boomers are just about to begin retiring.

Question:Do you expect Senate Democrats to put forward a specific and more bold deficit reduction plan than you expect from the Republicans?

Conrad Answer:

Let me just give you a somewhat different take on last year. We did propose, through a series of amendments, a fundamentally different outcome than the Republican budget. They rejected it. Look, we know who is in control. The White House is in the control of the Republicans. The Senate is in the control of the Republicans. The House is in the control of the Republicans. Our plan will not pass. Now, we've proposed alternative plans every single year since this President was elected. In fact, if you go back to 2001, you will recall instead of giving all the money back in tax cuts, I proposed setting aside \$900 billion to strengthen Social Security, prepay the liability, to pay down the debt. Our Republican friends rejected that.

We're ready right now. I am ready today to begin discussing with this administration or our Republican colleagues a far reaching bold program to get the fiscal condition of the country back on track. It is going to take us working together to achieve a result. I am ready to start today.

Question:Will (rolling back the tax cuts for wealthiest Americans) continue to be the cornerstone of Democratic opposition policy or do you fear that just doesn't have any legs?

Conrad Answer:

I can't speak for all Democrats. I certainly would support that as one part of a plan. But, let's face it, we need much more than that long term. That's why I think it is time for us to have

a meeting at which all sides come with their long term plans and negotiate a way to face up to the long term challenge, not only of Social Security but of Medicare and these intractable budget deficits.

And we need some new thinking, we need some thinking outside the box. One of the things we need to do I think on the revenue side is to go after the tax gap, which as you know the revenue service has estimated for one year was over \$300 billion. My goodness. Three hundred billion dollars in one year, money that is owed, but not being paid. The vast majority of people and companies pay what they owe, but we have got some that are not. We ought to go after them.

Question: Senator Conrad, you said you wanted to have a sit down or a budget summit. One of the characteristics of ...(past) summits is a shared sacrifice, there were revenue increases, there were spending cuts. President Bush has taken revenues off the table and he's focusing his spending cuts on a narrow portion of the discretionary budget and maybe on Medicaid. Are those the conditions for a successful budget summit?

Conrad Answer:

I think the conditions for a successful budget summit is that we have no limitations when we sit down. And I don't use the word, 'budget summit.' I think the problem with that is that immediately conjures up resistance in some circles, so let's not get hung up on a word. Let's sit down. Let's have everybody bring to the table their best ideas and try to seriously address these long term challenges facing the country.

Question: But if revenues are not part of the picture, will Democrats agree to a budget agreement, or solution that would be focused chiefly on cutting spending?

Conrad Answer:

I think if you look at these numbers, it just jumps out at you. You have got to deal with the revenue side of the equation as well as the spending side of the equation. These problems are so big going forward that you have to deal with both. And when you look here, this is what has happened to revenue. The revenue side of the equation has absolutely fallen out. I don't know how you can begin to solve this without dealing with both sides of the equation.

Question: So to just repeat my question, if revenues are not part of the administration's solution, will you participate in trying to address the problem?

Conrad Answer:

Let me answer the way I have answered two times. Everything should be open to consideration. Everybody should be able to bring their best ideas and we should work at dealing, not just with the Social Security challenge, but with the Medicare challenge, the budget deficit challenge, and the reason it is important is because we are now borrowing more and more money from countries all over the world. More money from Japan, more money from China, more

money from the Caribbean Banking Centers. We have even borrowed over \$65 billion from South Korea. Now, the President's proposal is suppose to go out and borrow some more money. That's not a plan.

Question: CBO is estimating Medicare will grow nine percent a year, and Medicaid will grow seven percent a year. Do those sound like reasonable numbers, and what do you do to solve growth?

Conrad Answer:

I think on Medicare, for example, the first thing you ought to do is go take away the slush fund – almost \$10 billion – that is provided to the Secretary to make private plans more competitive. I think we ought to take away the overage to private plans that is estimated at 20 percent, that's a \$50 billion cost. These are costs we just can't afford, and that ought to be part of any long term negotiations.

Question: In light of the deficit picture, what do you think are the prospects for permanent fix to the AMT this session of Congress?

Conrad Answer:

I think, given the President's plan, he's got nothing in his budget except funding for alternative minimum tax last year. You know, we've got three million people affected by the alternative minimum tax. Ten years from now, the estimate is it will be 40 million people. It's the old millionaire's tax. It is rapidly becoming a middle class tax trap. The President has got no money in his budget for this year or the next or the next year. It costs \$600 billion to fix.

You know, when the President came last year and said he had a plan to cut the deficit in half for the next five years, I said to his people, "Why don't you just leave out some more things and claim you balance the budget?" The only way he got to cutting the deficit in half is he just left out things. He left out the war cost. He left out the money to fix the alternative minimum tax. He left out his additional tax cut proposals. If you put everything in, it is very clear he is not cutting the deficit in half. Certainly, the long term situation is deteriorating as the CBO report makes clear.

Question: The White House just put out a forecast for 2005 budget deficit which was \$427 billion. Does that seem more realistic to you than CBO's number?

Conrad Answer:

Yes. But, in fairness to CBO, they are restricted by the estimates that they make to current policy. They can't take into account what the President is proposing. They can't take into account the \$80 billion that he is about to ask for that we all know about because of the rules they operate under. So in fairness to them, I am not being critical of them here. I am just pointing out what is left out of their estimates which we all know are costs that are out there – the war cost, the President's proposal to make the tax cuts permanent, the President's proposal to

privatize Social Security. If you put all those known costs that they are precluded from estimating into the mix, and what you see is a deficit that we have said for years is not going to get better, it's going to get worse, and that is what we are seeing.

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If you look on page one, they say very clearly the budget situation is deteriorating when you take into account all the things they have to leave out.

Question: Senator, could you comment on the administration's decision to continue to fund war operations in supplementals and not put it into their regular budget, and secondly, do you see anything suspicious in their timing of the release and size of the supplemental...does that send a message that the deficit CBO is projecting is cost largely by war costs and not by the fiscal policies that you are describing?

Conrad Answer:

I guess I am a long way past expressing suspicion about timing. You know, in this town there are so many suspicious things that happen, aren't there?

Look, the fundamental fact is just so clear. It jumps out at you. The fiscal condition of the country is very serious, and it is at the worst possible time, right before the baby boomers retire.

I have said for a number of years, I predicted the President would be coming up here asking at some point for cuts in Social Security. Well, a lot of skeptics, a lot of people said, "Well Senator, he's never going to do that." Well, here we are. He's not come forward with his plan formally, but we all know in this town that the word is that the plan he is endorsing, or at least for the moment, is a plan that would cut over time Social Security benefits 40 percent, and bet on the stock market to make up for it. And it will also require \$2 trillion of additional borrowing, much of it from foreign countries.

Boy, you know, I read these stories and I wonder, I know it is hard to connect the dots. But how difficult is it to look and see what the President has proposed ever since 2001? He said he wouldn't do it when he was campaigning. He said he wouldn't take Social Security money and use it for other purposes. That is exactly what he is doing. Over the next ten years, he is going to take \$2 trillion of Social Security money and use it to pay for other things. Then he says, "Hey, there is a Social Security crisis." Well, I don't know if it is a crisis or not because the roof doesn't come in immediately, but what does he expect when you take the money that was intended to be for Social Security? You raise taxes back in the '80s on the belief that that was going to shore up the long term imbalance in Social Security. It was suppose to run surpluses now to either prepay the liability or pay down the debt. But, the President made other choices. The President chose to use the money for income tax cuts that go primarily to the wealthiest among us, the vast majority of the income tax cuts have gone to the wealthiest among us.

It is very interesting. I asked my staff, "Do a calculation. How much does the President's plan take from Social Security payroll taxes over the next ten years?" The answer was \$2.4 trillion – this was a calculation made last year. I asked them, "Calculate how much do the President's income tax cuts cost over the same period of time." Two-point-five trillion dollars. So what we have here is a circumstance in which payroll taxes were diverted and used to pay for other things. In one sense, one could say there was a direct comparison between the income tax cuts given to those of us who were among the highest income earners and taken from payroll tax revenue from people who are the most modest income tax earners. And as soon as you do that, obviously, you create long term problems in Social Security. And then the President says, "Ah, the answer is let's cut the benefits of Social Security." Hope the stock market makes up for it, but to replace the revenue let's go borrow another \$2 trillion. And we know if you have a bond auction today, it is not just Americans showing up to buy U.S. bonds. It's the Chinese, the Japanese, the Koreans, the Caribbean Banking Centers. We're going more and more into hock with countries all over the world. Is that really the direction we want to take this country? Does that strengthen America or does it weaken America?

Question: Senator Conrad, Judd Gregg is interested in entitlement reform...are the votes there to do that...?

Conrad Answer:

I don't know. What seems so clearly lacking to me is a long-term plan that actually delivers on the promise of getting us back to fiscal balance. If we were running a private organization, something in the private sector, and we had this kind of problem on our hands, I think you would get the people together who are responsible for the organization and you would say let's come up with a solution, something that deals with all these problems, not just what focuses on a small part of it.

To say he's going to freeze domestic discretionary spending, non-defense, non-homeland security, gets you down to a very small part of the budget. It just won't come anywhere close to doing much about the problem. It's a good talking point, but it has almost nothing to do with solving the larger problem.

I think if you gather the members of Congress who are most responsible for dealing with budget and finance issues and spending, and say okay, we have a serious 10-year problem and 20-year problem. What could we do? I think very quickly you would say we have to deal with the revenue side of the equation, you have to deal with the spending side of the equation. You have to do some thinking outside the box.

You got to face up to this tax gap, which is an enormous revenue leakage because while a vast majority of Americans pay what they owe, and companies pay what they owe, we have a significant number who don't. And before we ask for a tax increase from anybody, we ought to go to those who are evading and avoiding what they pay. It is not an insignificant amount of money, \$300 billion a year, over ten years, we're talking in the range of \$3 trillion. It's an amount that's increasing and increasing very rapidly as more and more people get into these tax schemes. That's something worth talking about. Can't we do better?

Question: Getting back to Medicare and Medicaid, what do you expect the administration to propose this year, and in addition, what would you propose?

Conrad Answer:

I just don't know what they will propose.

Question: What would you propose to control Medicaid costs?

Conrad Answer:

We're not here to lay out a budget plan. Today is an opportunity to respond to what CBO is telling us. I think what we ought to be alerting the American public today about is how serious this report is. This report says on the first page our budget situation is deteriorating. That ought to be a warning signal to everybody.

Question: Given that the administration seems locked into their talking point that their way to solve this problem is to have pro-growth economic policies, freeze that small one-seventh of the budget, clearly they are not going to move off that talking point. Is there any way you can get some movement up here to just start talking with Republicans to see if you can propose something with Republican colleagues that might get them to budget a little bit?

Conrad Answer:

Hopefully, today is part of that process. I can tell you when Chairman Thomas came out with his remarks, I called him immediately, and I told him I think you are going in the right direction. We need to elevate this discussion. We need to talk about much more than the Social Security problem, although that is important. We have got even bigger challenges facing the country – these incredible budget deficits, the challenge of Medicare, all of these things need to be part of the plan, tax reform.

And there is an over-reliance on payroll taxes in this country. I'll say to you what I said to him. I think because we are using payroll taxes to not only finance Social Security and Medicare, but much of the rest of what the government is doing as well, we have payroll taxes that are too high, and that is a disincentive for hiring American workers. Is that really what we want to be doing in this country? Do we really want to create a disincentive for American employers to hire American workers? I don't think it makes a lot of sense. We have got payroll taxes that are too high because we are leaning on them not only to fund the retirement programs, but we're leaning on them to fund much of the rest of government as well. We need a much broader discussion about how we strengthen the economy for the long term.