Transcript of Opening Statement by Senate Budget Committee Chairman Kent Conrad
Hearing on CBO's Budget and Economic Outlook
January 23, 2002

First, I want to thank Director Crippen for being here today. We certainly appreciate the extraordinary efforts that you and your staff have made given the shortness of time between when Congress left town and the need to reassess our fiscal condition. We appreciate very much the efforts that you have extended, as well as your excellent staff.

As I look at the numbers I am reminded of the phrase, "What a difference a year makes." It really is quite startling. Last year, as we convened, we were told that we could expect surpluses of $5.6 trillion over the period of 2002 through 2011. And now we see that has been dramatically reduced to $1.6 trillion - a $4 trillion deterioration in projected surpluses.

I want to be quick to point out that you warned us very clearly of the uncertainty of those forecasts. We talk about the fan chart that we discussed so many times last year which you prepared, which showed the dramatic uncertainty of any ten year forecast. And what we now see, the red line shows the new forecast in relationship to that fan forecast which showed the range of estimates, what might happen. And what we now see is for the next several years we are actually at the bottom of the range. There were some of my colleagues who told me that the $5.6 trillion of projected surpluses was understated. I remember many of my colleagues, some of them on this committee, who told me repeatedly, "Oh, don't worry, there's going to be actually more money – that these forecasts are understated." Well, unfortunately, history has proven them wrong.

Many of us repeated the warnings that you gave us last year. I remember showing that chart of uncertainty over and over in this committee and on the floor. But unfortunately, the President told us and told the American people that we could have it all. He told us we could have a massive tax cut that he proposed, that we could have a big defense buildup, that we could save every penny of the Social Security and Medicare Trust Funds and still be able to pay down the maximum amount of our debt. Unfortunately, he was wrong. And he was wrong by a country mile.

The consequences of those mistakes are enormous for the nation. So how did it happen? Well, the biggest reason for the disappearance of the some $4 trillion of projected surpluses was the tax cut. Our analysis of your numbers shows that some 42 percent of the reduction is from the tax cut; 23 percent are economic changes; 18 percent is other legislation, largely spending as a result of the attack on September 11th; and, 17 percent technical changes. So the biggest fact in the ten year change is the tax cut. That is the tax cut itself and, of course, the additional interest cost associated with the tax cut.

If we are to look at just this year, we see a dramatic reduction from $313 billion of projected surplus to a $21 billion deficit - a very dramatic change in our short-term circumstance. And when we look at the reasons for that reduction, it's different than the ten year analysis. The biggest reason for the reduction this year are the economic changes. They account for 44 percent of the change; 28 percent is because of technical changes, things like capital gains realizations, growth in Medicare and Medicaid spending; other legislation, largely spending associated with the attack of September 11 is15 percent; and the tax cut is 13 percent. So in the short-term, the recession is the biggest reason for the decline in our projected surpluses. In the long-term, the biggest reason is the tax cut.

I think it's further important to understand that without Social Security and Medicare Trust Fund monies, the surpluses would be non-existent. This chart shows last year we were looking at, without Social Security and Medicare, $2.7 trillion of surplus. Without Social Security and Medicare this year we would see that we would be $1.1 trillion in the hole.

The consequences of these fiscal mistakes are serious and unfortunately long lasting.

Last year, we were told that we would be debt free in 2008. Now we see that instead of being debt free, that we will actually be $2.8 trillion in debt. And, of course, consequences flow from those changes. The interest costs for the federal government increase by a trillion dollars over what we were told last year. Instead of $600 billion of interest cost over the forecast period, we now see interest cost to the federal government of over $1.6 trillion.

And despite the President's pledge, which was no doubt well intended, not to invade the Social Security Trust Fund, unfortunately we now see that the Social Security Trust Fund will be invaded by over $700 billion. And in addition to that, over $380 billion of Medicare trust funds will be used to pay for his tax cut and other expenses of the federal government. I believe that is a profound mistake when the first baby boomers start retiring in just 2008. It seems hard to believe but that soon baby boomers will start to retire and then our fiscal challenges really begin.

So, the question before us now is, "What do we do?"

I do not believe that raising taxes at a time of economic slowdown would be wise. I believe that would only deepen the downturn. Second, I believe we should pass a stimulus package this year to give lift to the economy. Third, for the longer term, we should restore the integrity of the trust funds of Social Security and Medicare, and we should do it as quickly as we can.

On a final note, I want to make clear that this debate about budget priorities was never a question of the President being for tax cuts, and Democrats being opposed. In fact, last year, we proposed in our budget plan a larger tax cut for last year than the President did in his budget proposal. We believed the tax cut of $60 billion was important to give lift to the economy, but we proposed substantially smaller tax reductions over the ten years, because we feared the President's proposal endangered Social Security and Medicare.

This last chart shows the difference between what we proposed, a $750 billion tax cut not counting the interest. The President's proposal was for $1.6 trillion of tax cut not counting the associated interest costs.

So, that's where we are. Obviously, this leaves us with a very substantial challenge. And I think we're up to that. We certainly have dealt with fiscal difficulties before and we've got somebody here as ranking member of this Committee who has deep experience and who we will be looking to for his wise advice as we proceed.

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