Statement of Senator Frank Lautenberg
Democratic Policy Committee Hearing on the Budget Deficit

January 20, 2004

Mr. Chairman:

Thank you for holding this hearing on federal budget deficits.

Back in 1997, I was the Ranking Member of the Senate Budget Committee and I helped to negotiate the Balanced Budget Agreement that put our government on the path to fiscal solvency after years of deficit spending.

It was one of my proudest accomplishments.

I left the Senate in 2000 thinking that the Federal Government would be in good shape, fiscally speaking, for years to come. It was crucial to "get our house in order" because the first cohort of Baby Boomers was due to start retiring within a decade.

When President Bush took office in January 2001, the Congressional Budget Office (CBO) was projecting a ten-year cumulative <u>surplus</u> totaling <u>5.6 trillion dollars</u>.

That surplus could have been used to: (1) pay down the national debt by 2008; (2) extend the solvency of Social Security and Medicare; (3) increase federal investments in transportation and other infrastructure, education, biomedical research, and environmental protection; and (4) provide some tax relief to working-class Americans.

Now, using CBO data, three highly regarded groups – the Center on Budget and Policy Priorities (CBPP), the Committee for Economic Development (CED), and the Concord Coalition – project that we will run a cumulative <u>deficit</u> between Fiscal Years 2002 and 2011 totaling <u>3.4 trillion dollars</u>.

In other words, we have suffered a <u>9 trillion dollar</u> "reversal of fortune" in a little less than three years!

The President and his allies in and out of Congress are quick to blame the recession and the terrorist attacks on 9-11 as the chief culprits. That's part of the problem. But three rounds of tax cuts have had the biggest impact on the federal budget.

According to the three groups I just mentioned, more than one-third of the 9 trillion dollar "reversal of fortune" can be attributed to the reckless tax cuts the Administration and its allies have rammed through Congress.

One-third can be attributed to increased spending, almost all which has been for defense, homeland security, and countercyclical programs like Unemployment Insurance that "kick in" automatically when the economy falters.

Finally, a little bit less than one-third can be attributed to the recession that started on this President's watch (in March 2001) and to slower than anticipated economic growth since the recession officially "ended" in November 2001.

So we have gone from projections of a 5.6 trillion dollar <u>surplus</u> over ten years to a 3.4 trillion dollar <u>deficit</u> – all within a matter of months.

I say that you can't foul things up this badly by <u>accident</u>. It has to be by <u>design</u>.

The design is something Republicans call "Starving the Beast." They have pushed the tax cuts through in large part to create budget deficits that will force Congress to cut spending.

Republican activist Grover Norquist, president of Americans for Tax Reform, has said, "I simply want to reduce it (meaning the government) to the size where I can drag it into the bathroom and drown it in the bathtub." Conservative economist Milton Friedman had an op-ed in the *Wall*

Street Journal last January stating that budget deficits serve the “useful” purpose of “disciplining” Congress.

The cynicism and recklessness of this policy cannot be overstated. And the timing of it – with the first Baby Boomers on the verge of retiring – is catastrophic. So much so that the International Monetary Fund recently warned us that this policy threatens Social Security and Medicare and that our voracious appetite for the credit necessary to sustain these huge budget deficits could precipitate a currency crisis and snuff out economic recovery not just here in the United States, but around the world.

Future generations are going to look back at what is happening now with bewilderment and rage.

Some might say that I’m exaggerating. I don’t think so, and I look forward to hearing from our witnesses about whether they agree with my assessment.

Thank you, Mr. Chairman.