

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
During Press Conference Call Reacting to OMB Preview of Mid-Session Review
July 12, 2002**

My own reaction is that they have now adopted the practices of part of corporate America in hiding deficits and debt. My own reaction when I saw these reports is that they have now wandered off to fantasy land and are seriously understating the deficits and build-up in debt that we are facing.

And unfortunately, this is a continuation of a pattern. Last year, they told us we were going to have \$5.6 trillion of surpluses over the next decade and now it's virtually all gone. The biggest reason over the 10 years is because of the tax cut. The next biggest reasons are the economic slowdown and the increased costs associated with the attack on the country and the smallest part of the disappearance of the surpluses is underestimations of the cost of Medicare and Medicaid. But by far the biggest culprit is the tax cut and they try to distract people's attention from that hard reality and attempt to understate the seriousness of what we confront.

I just say that the markets are voting every day on the credibility of this economic team and they're giving a thumbs down to this economic plan.

And a final comment I would make is that they're claiming balance in 2005 only by raiding the Social Security Trust Fund, something that they clearly pledged not to do. But now they're claiming balance in 2005 by taking it all. It's really disappointing.

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The results that they are forecasting here are far more optimistic than even the Republicans on the Senate Budget Committee have advised their colleagues here will be the likely outcomes. Senator Domenici and his staff advised their colleagues about a week ago the deficit for fiscal year 2003 would be almost double what Mr. Daniels reported today. I think that raises a real credibility question about the numbers that he's putting out.

Question: Is that Senate Budget Committee estimate based on administration proposals or CBO type numbers which is a straight baseline with no change in policy?

Conrad Answer:

There are differences there, but I think most people will look at the number and they will see that Mr. Daniels is putting out a policy that is \$109 billion. As I've said, the Republicans on the Budget Committee have said the deficit in fiscal year 2003 is likely to approach \$200 billion.

Let me just conclude by saying I think this is highly misleading to put out numbers like this that badly understates how seriously the fiscal policy they have pursued, how badly it is failing.

Question: Are their numbers skewed the other way because they assume additional tax cuts of

hundreds of billions of dollars that probably will not take place?

Conrad Answer:

I think that tells you even how much more flawed their underlying analysis is. They have truly adopted rosy scenario and the biggest place we see it is in the translation between what various economic growth figures are and what that translates into in terms of revenue. We think they have really gone off into rosy scenario here.

Question: Do you quarrel with their assertion that the 02 number is driven in large part by a shortfall in capital gains and other receipts associated with the stock market? And what is more generally your analysis of how the stock market situation will likely affect the budget in the outyears?

Conrad Answer:

Well first of all the shortfall in the near term is caused primarily by the attack on the country, the economic slowdown and the tax cut. Those are the three big culprits. Over the ten years, the biggest reason is the tax cut, followed by the economic slowdown and the response to the attack on the country. That is our analysis and the numbers are really clear with respect to that.

Question: But the numbers do show in this fiscal year there is a very sharp falloff in non withheld receipts which suggests there is a market based problem here.

Conrad Answer:

Absolutely, no question about it. In the short-term, your capital gains realizations are down dramatically and that's had a very adverse effect on revenues. When I say rosy scenario, I don't think they have accurately accounted for the damage that is being done there going forward. In other words, if you look at the kinds of recovery they're predicting in the revenue base, it seems quite unlikely given what has occurred in this year's shortfall from what they previously anticipated. In other words, I think they're acknowledging a deficit in fiscal year 2002 that is very much in line with what the rest of us are predicting. But they really are out of line in 2003 and beyond. We see them into Social Security throughout the next decade, and that's just not our opinion, that's also Senate Republicans on the Budget Committee – they gave exactly that same report to our colleagues.

Question: Can you elaborate on your comment that the White House is adopting practices of corporate America? Are you referring to dynamic scoring?

Conrad Answer:

I don't know what they might call the scoring they've used. What I meant specifically is that they're hiding deficits and debt. That's exactly what we saw get parts of corporate America into trouble, and it's getting our country into trouble. It is the same pattern and practice. You can't go to make believe in telling people the financial condition of the country without real consequences. Last year, they said repeatedly we were going to have \$5.6 trillion of surpluses over the next decade. That's evaporated. We've warned repeatedly, repeatedly, that there was enormous risk in counting on a ten year forecast. Their answer to us publicly and privately was there was going to be even more money because they said the tax cut would generate even greater revenues. Now, you know it's time to do a reality check. They were wrong, and they weren't just a little bit wrong. They were completely wrong.

Question: After 9/11 there was a memorable briefing when all four budget chiefs stood up and said you were on the same page, Republicans and Democrats have the same projections for the budget. Where is that now? Are you still on the same page?

Conrad Answer:

Yes. Senator Domenici and I have made independent estimates and they're almost identical. We have both briefed our caucuses, and again we didn't collaborate on our work. We each independently did an analysis and the analysis that he did and his staff did and the analysis that I did with my staff are almost identical. Much deeper deficits than are being talked about here, and we see under the administration's game plan that they'll be taking money from Social Security throughout the entire next decade.

Question: What will the Congressional response going to be to this between estimates on this side and the White House?

Conrad Answer:

I think what they should be a very cautious approach to fiscal policy going forward. We shouldn't have more tax cuts that aren't paid for. We have to be very careful on the spending side. I hope that's the response of Congress on both sides of the Capitol and both parties.

Question: Right now one of the stimulative factors in the economy is this government spending. There's broad agreement among economists that is where the stimulus is coming from right now. To play devil's advocate, if you start paring down this deficit, if you went on a different course in fiscal policy wouldn't you not risk tipping the economy down?

Conrad Answer:

It's a question of timing. You don't do that in the midst of an economic downturn. You don't start deficit reduction until you've got the economy back on track. That's why we've proposed policies along those lines. But you do have to over time get the books to add up. And

that's especially important given the fact the baby boom generation starts to retire. We should not be digging the hole deeper.

Question: The Republicans have consistently said in recent weeks that you on the Democratic side are not very credible as fiscal critics because the Democratic led Senate has failed to produce a budget. Can you respond to that criticism?

Conrad Answer:

First of all, the Republicans by and large are the ones that blocked us from getting a budget for the next two years. We had 59 votes a week before last for a budget for the next two years. And in our 59, we had the ranking Republican on the Budget Committee, the ranking Republican on the Appropriations Committee, Senator McCain who was the prominent Republicans Presidential candidate, all of them supporting that budget for the next two years. And yet the majority of Republicans blocked it so that's a case of the pot calling the kettle black.

But beyond that I think the credibility of us on fiscal matters goes back much further. If you just go back and look at the record for last year and it's spread out in great detail the difference between what we proposed and what they proposed. It's spread out in great detail our consistent, continuous warnings that they were heading us back into deficits and debt. It is spread across the record our warnings in the committee, on the floor of the Senate, in our caucuses, in public meetings with the media that they were taking us down a path that did not add up, and that would create massive deficits and massive debt. And unfortunately that is all coming true. So the credibility is in the record just as clearly as it could be stated.