

**Statement of Senator Byron L. Dorgan**  
**Democratic Policy Committee Hearing on the Budget Deficit**

January 20, 2004

I called this hearing to examine a very timely question: do budget deficits matter?

At the outset, let me make it clear that I, for one, think that the massive budget deficits we are facing matter a great deal. They are going to be a long-term drag on the economy, resulting in higher interest rates, economic contraction, and further job losses. And the deficits represent an IOU that our children will have to repay. As both a policymaker and a father, I care about this deeply.

When President Bush delivered his State of the Union address at this time last year, he began on a note that I found hopeful:

This country has many challenges. We will not deny, we will not ignore, we will not pass along our problems to other Congresses, to other presidents, and other generations. We will confront them with focus and clarity and courage.

I stood up and applauded when I heard these words, because I thought they signaled a change in fiscal policy. After all, in its first two years, this Administration had turned record surpluses – projected to add up to \$5.6 trillion over 10 years -- into record deficits. We cannot sustain this. As I listened to the President last year, and heard him say that we would not pass on our problems to future generations, I thought he was calling for a return to fiscal responsibility.

But it was soon evident that this Administration was determined to follow the same policy of the previous two years: cut taxes, let the benefits go disproportionately to the wealthy, spend freely – and let the future take care of itself. We are now facing projected deficits of upwards of \$5 trillion over 10 years. This Administration has somehow managed a downward swing of over \$10 trillion in just a few years.

What does this mean for the economy? Former Treasury Secretary Rubin, one of the most thoughtful, measured, well-respected figures on Wall Street today, presented a paper this month that describes the potential consequences this way: Higher interest rates. Depreciation of the dollar. Loss of investor confidence. Disruption of financial markets. Rapid loss of asset values, including stock prices. A wave of bankruptcies. Reduction of investment. Contraction of the economy. And a loss of jobs.

So this is not just some ivory tower discussion of financial markets. This is a discussion that is going to affect every American's life, in profound ways.

The three million people who lost their jobs over the last couple of years already know how that feels.

President Bush will address the nation again this evening, and I wonder what he will say about our country's deficits. Do these deficits matter, after all? Can we go on piling debts on top of debts?

Most Americans know the answer to this instinctively. At dinner tables around this country, most working people know that they can't live beyond their means. Invariably, there comes a day of reckoning, and the more debt you've piled on, the more painful that day will be.

No one political party has a monopoly on good ideas, and we can all contribute to a debate on ways of reducing the budget deficit. But the first step is agreeing that the deficits are a problem. And there seems to be a school of thought in Washington that says that deficits aren't important, that it's just as well to let someone else deal with the problem down the road.

In recent days, former Treasury Secretary Paul O'Neill has recounted his frustrations in getting some of his colleagues in the Bush Administration to realize the dangers posed by the deficits.

Secretary O'Neill described a specific conversation with Vice President Cheney in late 2002, in which O'Neill argued against a second round of tax cuts. O'Neill said that after the attacks of September 11 and the war in Afghanistan, it was no time to be giving to be cutting taxes again. Instead, O'Neill said, the Administration should try to strengthen Social Security, among other priorities. But the Vice President reportedly told Secretary O'Neill not to worry, because "deficits don't matter."

The Vice President's moment of private candor certainly rings true of this Administration's philosophy: cut taxes as much as possible, increase spending, and let future Administrations deal with the mess.

At least, the Vice President's words certainly seem more honest than the insistence by the Administration's previous OMB director, Mitch Daniels, that this administration would deliver a balanced budget: "Despite simultaneous war, recession, and emergency, we are in a position to fund the requirements of victory, plus a stimulus package, and still be near balance." These words were spoken in February 2002, just months before Secretary O'Neill had his conversation with the Vice President.

I wonder whether even Mr. Daniels believed his own words at the time. It is now clear that, behind closed doors, the Administration had another mindset entirely: deficits don't matter.

I think most Americans believe that deficits do matter. A Gallup poll in November found that 75 percent of investors think the budget deficits are hurting the

investment climate in this country. Indeed, the poll found that investors see the deficits as a greater threat to the economy than potential terrorist attacks.

It is striking that the International Monetary Fund, which is supposed to be worrying about economies like Argentina's, is now sounding alarms about the American economy. In a report released this month, the IMF had this to say about the U.S. deficit: "Within only a few years, hard-won gains of the previous decade have been lost, and instead of budget surpluses, deficits are again projected as far as the eye can see." The IMF said that the deficits were large enough to pose "significant risks" for the stability of economies worldwide.

And for all this, there seems to be a sentiment in some influential parts of Washington that deficits don't matter.

As I said, I am sure that both political parties could offer good, specific ideas on ways to balance the budget. But we are not going to restore fiscal responsibility unless we all agree that deficits do, indeed, matter.

Today, we will hear a number of perspectives about the deficits, and whether they matter. I should note that we invited the current director of OMB, Mr. Josh Bolton, to share his views, and explain whether deficits matter. Mr. Bolton declined. But we have a good panel of witnesses to help draw out this debate, and I thank them for joining us today.