Opening Floor Statement by Senate Budget Committee Chairman Kent Conrad (D-ND) on FY 2009 Budget Conference Agreement
May 21, 2008

We are now considering the conference report on the budget. For the knowledge of my colleagues, and especially my colleague, Senator Gregg, I will consume somewhere in the range of 35 minutes. If he has other things to do, we can get that word to him so he is not inconvenienced while I make an opening statement.

Here is what we are confronting -- a very dramatic deterioration in the budget condition of our country. You can see, in 2007, the official deficit was $162 billion; that is down from what had been record levels. We achieved an all-time -- not achieved, there is no achievement to it -- we saw an all-time record deficit in 2004 of $413 billion. That became the record. The year before was the record up until that point -- $378 billion in the red. Of course, the real situation is far worse because this does not disclose how much the debt has been increased.

Then we saw some improvement, to 2007, a deficit of $162 billion. But now we are right back at record levels -- $410 billion estimated for this year. I believe it is going to be even worse, and 2009 will be about the same level.

When I talk about debt, here is what I am talking about. The gross debt of the United States has gone up like a scalded cat under this administration. When this President came into office at the end of the first year, the debt stood at $5.8 trillion. By the time we are done with the 8 years he will have been responsible for, the debt will have increased to more than $10.4 trillion -- a near doubling of the debt of the country.

Increasingly, this money is being borrowed from abroad. As this chart shows, it took 42 Presidents -- all the Presidents pictured here, 224 years to run up $1 trillion of U.S. debt held abroad. This President has far more than doubled that amount in just 7 years. There are over $1.5 trillion of foreign holdings of U.S. debt run up by this President in just 7 years. He has taken what 42 Presidents took 224 years to do and he doubled it and then added another 50 percent to foreign holdings of U.S. government debt.

The result is we owe Japan over $600 billion, we owe China almost $500 billion, we owe the United Kingdom a little over $200 billion, we owe the oil exporters over $150 billion. My goodness, we owe Hong Kong over $60 billion. We now owe Russia over $40 billion. That is a sad fiscal record, but that is the legacy of this President's fiscal policy.

This tremendous runup in foreign debt means we have spread dollars all over the world and are now increasingly dependent on the kindness of strangers to finance our debt here. One of the results of that has been a substantial drop in the value of our currency. If you think about it, the value of a currency is in part a reflection of supply and demand. When you put out a tremendous supply of dollars, guess what happens to the value of the dollar -- it goes down. That is what has happened.

You can see back in 2002, this is Euros per dollar. It was 1.13 in January 2002. Through the end of last month, we were down to .63. The value of the dollar against the Euro has dropped like a rock. It has dropped 44 percent.

If anybody is wondering why food prices are going up so rapidly, why oil prices are going up so rapidly, here is one of the key reasons. Those commodities are sold in dollar terms in the world market. When the dollar goes down in value, guess what happens to the value of commodities: there is tremendous upward pressure on their value. That is what, in fact, has happened.

We have also seen the economic growth of the country stagnate. You can see, if we look at the nine previous business cycles we have experienced since World War II, you can see that economic growth averaged 3.4 percent a year during previous business cycle expansions. But, if we look at average annual economic growth since the first quarter of 2001, we see it is stagnating at 2.4 percent.

Something is happening in this business cycle that is unlike what we have seen in the nine major business cycles we have seen since World War II. We see this recovery is much weaker. We see it in job creation; we see it in business investment.

For example, on job creation, if you look at job creation, again looking at the nine previous business cycles since World War II, and you look at the months after the business cycle peak and look at job creation -- this dotted red line is the average of the nine other major business cycles since World War II -- that is the dotted red line. Now, this other line is the current business cycle. You can see that we are 10.3 million private sector jobs short of the typical recovery since World War II. In other words, if you take all the previous nine major business recoveries since World War II and you average them, compare them to this business recovery, we are running 10.3 million private-sector jobs short in this recovery. What does that tell us? That tells us something is wrong, something is wrong with our economic performance.

We don't just see it in job creation. We see it in business investment. Again, the dotted red line is the average of the nine previous recoveries since World War II. The black line is this recovery. You can see that we are now running 59 percent below the pace of business investment at the same point during the nine previous recoveries. Something quite significant is happening in terms of our national economy. Anybody who does not see this and understand it and seek to find solutions to it, I think is missing the point. There is something wrong with the underlying economy that has been affecting us since 2001. It is so atypical, it is so different than the other nine recoveries since World War II.

This budget resolution seeks to address some of what we know. It seeks to strengthen the economy and create jobs in several different ways, first, by investing in energy, education, and infrastructure. We think those are priorities to strengthen the economy. It expands health care coverage for our children; it provides tax cuts for the middle class; it restores fiscal responsibility by balancing the budget by the fourth and fifth year of this 5-year budget plan.

It also seeks to make America safer by supporting our troops, by providing for veterans health care, by rejecting our homeland and rejecting the President's cuts in law enforcement, the COPS Program, and for our first responders, our emergency personnel, our firefighters, our emergency medical responders.

In terms of the tax relief that is in this budget resolution, this budget conference report that has come back from an agreement with the House of Representatives, we do the following things. We extend middle-class tax relief, specifically: the marriage penalty relief is provided for; the child tax credit is provided for; and an extension of the 10-percent bracket.

We also provided for alternative minimum tax relief, because we know if we did not, the number of people who would be exposed to the alternative minimum tax would explode from roughly 4 million now to 26 million if we failed to take action.

We also provided for estate tax reform. Right now we are in this bizarre situation where the estate tax goes up to $3.5 million of exemption per person in 2009; the estate tax goes away completely in 2010, there is no estate tax; and then in 2011, it comes back with only a $1 million exemption. We say that makes no sense at all. We should extend the $3.5 million provision per person, $7 million a couple, and index it for inflation.

We also provided for energy and education tax cuts to provide incentives to develop alternative forms of energy and reduce our dependence on foreign oil. We also provided property tax relief and, of course, the popular and important tax extenders, things such as the window energy credit, the solar credit, the research and experimentation credit. All of those are provided for in this budget.

We balance the books by the fourth year, $22 billion in the black, or in this case in the green, by 2012. By 2013 we maintain balance, all the while we are bringing down the debt as a share of gross domestic product from 69.3 percent of GDP to 65.6 percent of GDP in 2013. So we are bringing down the debt as a share of gross domestic product each and every year of this budget resolution. Let me be the first to say, that is not enough. We need to be doing more. I will say in a minute how I think we can and should do more. But this is an important beginning.

One of the ways we do it is we restrain spending. Under this budget conference report, we bring down spending as a share of GDP each and every year of the 5-year plan from 20.8 percent of GDP down to 19.1 percent in 2012 and 2013.

The other side will be quick to say, but you are spending more money than the President is. That is true, we are spending somewhat more money than the President, because we have rejected his cuts to law enforcement, to our first responders, and to other things we think are priorities of the American people.

But when they talk about the difference in spending, they have a tendency to dramatically overstate the difference. Here is the difference between our spending line, which is in green, and the President's spending line. If you are looking at this on television, you probably cannot see any difference. That is because there is almost no difference between our spending line and the President's spending line.

In fact, for this year, the difference in total spending between our budget and the President's budget is 1 percent. That is the difference, 1 percent. Over the life of this 5-year plan, you can see it is a very modest difference.

Let me turn to 2009, because that is the most immediate year covered by this budget plan. You can see the Bush budget calls for $3.03 trillion of spending. We call for $3.07 trillion of spending. Again the fundamental differences are, we are investing in education, in energy to reduce our dependance on foreign oil, and on infrastructure which is so critically important to our future economic success.

On the revenue side of the equation, we also have somewhat more revenue than the President's plan because we have lower deficits and lower debt than the President's plan. Here you can see the difference. The green line is our revenue line; the red line is the President's revenue line. You can see in the first 2 years there is virtually no difference between our revenue lines; they are right on top of each other. In 2011 there is a slight difference, and 2012, 2013, as we climb out of deficit and balance the books.

But again the differences are quite modest, and here they are over the 5 years. We are calling for $15.6 trillion of revenue, the President is calling for $15.2 trillion of revenue. That is a difference of 2.9 percent. That is the difference between the revenue we have proposed, which leads to lower deficits and lower debt than the President's plan.

You will hear our friends on the other side say, this represents the biggest tax increase in the history of the world. We beg to disagree. We do not think any tax increase is necessary to meet these numbers. If someone is listening and they heard me say, well, Senator, you said you have got more revenue, although it is only 2.9 percent more revenue, than in the President's plan, but you say you can do that without a tax increase, how is that? How can you do that?

Well, here is how I would propose to do it. First, the Internal Revenue Service estimates the tax gap, the difference between what is owed and what is paid, is $345 billion a year, the difference between what is owed and what is paid.

Now the vast majority of us pay what we owe. But unfortunately there are an increasing number of people and companies who do not pay what they owe. That difference is now estimated at $345 billion a year. That goes back to 2001. I personally believe it has grown substantially since then so it would be a higher number.

But that is not the only place where there is leakage in the system. I have shown this chart many times on the floor of the Senate. This is a five-story building in the Cayman islands called Ugland House. This little building down in the Cayman Islands is the home to 12,748 companies. Let me repeat that. This little five-story building down in the Cayman Islands is the home, at least they say it is their home, to 12,748 companies. They say they are all doing business out of this building.

Now I have said that is the most efficient building in the world, little tiny building like that, and it houses 12,000 companies. How can any building be that efficient? Well, we know they are not doing business there. They are doing monkey business, and the monkey business they are doing is to avoid taxes in this country. And how do they do it? Well, they operate through a series of shell corporations, and they show their profits in the Cayman Islands instead of the United States to avoid taxes here. Why would they do that? Do they not have taxes down in the Cayman Islands? No. Is that not convenient? So they do not show their profits here, even though they make their profits here, they show their profits down in the Cayman Islands.

That is the kind of scam that is going on. If you doubt it, here is a story that came to us from the Boston Globe on March 6 of this year: "Shell companies in the Cayman Islands allow KBR [that is Kellogg, Brown and Root] the nation's top Iraq war contractor, and until last year a subsidiary of Halliburton, has avoided paying hundreds of millions of dollars in Federal Medicare and Social Security taxes by hiring workers through shell companies based in this tropical tax haven. More than 21,000 people working for Kellogg, Brown and Root in Iraq, including about 10,500 Americans, are listed as employees of two companies that exist in a computer file on the fourth floor of a building on a palm-studded boulevard here in the Caribbean. Neither company has an office or phone number in the Cayman Islands, but they claim it is their home."

This is a scam. That is what is going on here. This is the largest defense contractor in Iraq, and they are engaged in a total scam to avoid taxes in this country. If this does not make people angry, I do not know what it would take, because what they are doing is they are sticking all of the rest of us who are honest with our tax obligations.

It does not stop there. Here our own Permanent Committee on Investigations issued this report last year: "Experts have estimated that the total loss to the Treasury from offshore tax evasion alone approaches $100 billion per year, including $40 to $70 billion from individuals, and another $30 billion from corporations engaging in offshore tax evasion. Abusive tax shelters add tens of billions of dollars more."

So when somebody says: Well, you have got to raise taxes to produce 2.9 percent more revenue than the President has called for, I say, no, you do not. Let us go after some of this stuff. Let us go after these offshore tax havens. Let us go after these abusive tax shelters. Let us go after this tax gap.

Now, the other side will say, well, there is nothing you can do about it. Well, certainly there is nothing you can do about it if you do not try. You cannot do a thing if you do not try. But if you try, you can get this money. Let me say, I know you can, because I used to be the tax commissioner for my State. I was the chairman of the Multistate Tax Commission. I went after this money. I got hundreds of millions of dollars for my little State of North Dakota going after some of these scams. The United States could do much more.

Here is a picture of a foreign sewer system. This is a sewer system that is in France. Why do I put up a picture of a sewer system in Europe when I am talking about the budget of the United States? Well, because the two have a linkage. What is the linkage? The connection is that we actually have investors in this country buying European sewer systems, not because they are in the sewer business, no, no, no. They are buying European sewer systems to reduce their taxes in this country. How do they do it? It is very simple. They go over, they buy a European sewer system, they then show that on their books as a depreciable asset. They depreciate it over a period of years to reduce their taxes in this country, and then lease the sewer system back to the European city or municipality that built it in the first place.

Now, why should we allow that? This is the kind of thing I think we can shut down and easily achieve 2.9 percent more revenue than the President has proposed. The question comes, well, why haven't you done something about shutting down these scams already? There is a very simple reason we have not. It is called the President of the United States. Because the President of the United States has repeatedly blocked attempts to shut down these scams.

Here are a few of the examples. We tried to codify economic substance, prohibiting transactions with no economic rationale, things that were done solely to avoid taxes. The President threatened a veto. We tried to shut down schemes to lease foreign subway and sewer systems and depreciate the assets in this country. The President threatened a veto. We proposed ending deferral of offshore compensation by hedge fund managers trying to evade taxes in our country. The President threatened to veto it. We proposed expanding broker information reporting so we could close down some of this tax gap. The President threatened a veto. We proposed taxing people who give up their U.S. citizenship in order to evade taxes here in America. The President threatened a veto.

Now, I have indicated, I have acknowledged, we have 2.9 percent more revenue in our plan than in the President's budget. The other side will say: Biggest tax increase in the history of the world. That is exactly the same speech they gave last year. Now we have the benefit of a record. Because we can look back, we can look at the speeches they gave last year, and we can look at what has actually happened this year. We can see, what did this Democratic Congress do? Did they raise taxes? No. In fact, here is precisely what happened: They reduced taxes in the House and the Senate by $194 billion. They had offsetting loophole closers, for a net tax reduction of $187 billion.

Anybody who is listening can reality test. Just go to your mailbox. Have you gotten a little check from the U.S. Treasury representing a tax cut as part of a stimulus package? Millions of Americans have, and millions more will. That is part of this $194 billion of tax reduction that has occurred with Democrats running both Houses, despite claims of our colleagues on the other side that we were going to have the biggest tax increase ever.

We all know some of the things that are happening in this economy. One is that gasoline prices are soaring. I filled up my car last week. I have a 1999 Buick. I know people think all Senators have limousines and drivers. Not me. I have a 1999 Buick that I drive myself. I filled it up last week, $52.19. The price of gasoline has soared. In January of 2001, gas was $1.47 a gallon; in May of 2008, $3.79. We are hearing by Memorial Day gas average $4 nationwide. We have addressed that in this budget by investing in energy, creating green jobs, reducing dependence on foreign oil, and strengthening the economy.

We have provided for energy tax incentives in this budget. We have provided for $2.8 billion over the President's budget for energy to provide for alternative sources of energy, homegrown sources of energy so we are less dependent on foreign oil. We have also created an energy reserve fund to invest in clean energy and the environment. But we know skyrocketing gas prices are not our only problem.

We also know if we look at what is happening to education, we are falling behind our global competition. This is one metric to look at that, the number of engineering degrees in China and the number of engineering degrees in this country. The red line is China's engineering degrees. You can see they are absolutely soaring. There are over 350,000 a year graduating as engineers in China. In this country, we are down here at about 75,000 engineering graduates. Engineering is critical to future economic growth. We know that. So that has to be a concern. Here, China is now graduating 350,000 engineers a year; we are in the 75,000 range. That is something we have to pay attention to. Obviously, I have used one example. There are many others.

This budget resolution invests in education to generate economic growth and jobs, to prepare our workforce to compete in a global economy, to make college more affordable, and to improve student achievement. We have provided for education tax incentives to encourage people to go to college. We have provided $5.5 billion over the President's budget in discretionary funding for education, and we have created an education reserve fund for school construction and for the reauthorization of the higher education legislation.

It doesn't stop there. We also have serious infrastructure issues in this country. Here is a picture of the dramatic collapse of the bridge on 35-W between Minneapolis and St. Paul last year. I am acutely familiar with this bridge because when my wife was in medical school, I went across that bridge many times a week. Can you imagine the absolute horror of the people who were on that bridge? Here are the cars of people who were on that bridge when it fell out from underneath them. This was at rush hour last year, one of the most heavily used bridges in the State of Minnesota.

This budget seeks to address infrastructure by providing targeted investments to repair crumbling roads and bridges, improve mass transit, expand airports and schools. It creates a reserve fund to allow for major infrastructure legislation. It provides $2.5 billion more than the President for key discretionary transportation accounts. It fully funds highways, transit, and increases funding for the Airport Improvement Program.

This budget resolution also deals with other critical national priorities, including fully funding the defense requests of the President. The President has asked for $2.9 trillion over the next 5 years. This budget provides $2.9 trillion.

We also provide $3.3 billion more for our veterans health care than the President. The President has called for $44.9 billion over a 5-year period. We have adopted the independent budget, which is a budget that was put together by the veterans organizations to more fairly reflect the needs we see coming because of veterans coming back from Iraq and Afghanistan. We have allocated $3.3 billion more than the President for that purpose. We think we owe these veterans the high-quality care they were promised. All of us who have been to our VA hospitals, who have been to Walter Reed, are acutely aware of the need for more investment in those facilities.

We have also provided in this budget, in fiscal year 2009, $2.8 billion more than the President's budget for law enforcement and first responders. Inexplicably, at least to this Senator, the President has called for the complete elimination of the COPS Program. The COPS Program has put 100,000 police officers on the street, over 200 officers on the street in my home State of North Dakota. The President, in his budget, didn't just call for cutting that program. He called for its total elimination.

It makes no sense to me. I just had my house here broken into while I was back home during the break. I have a fellow who rents from me in the basement. He came home from work and our place had been broken into. The place was totally trashed. Many of his things were stolen. Why we would take police off the street when, in jurisdiction after jurisdiction, we are facing heightened criminal activity doesn't make any sense.

I am getting to the end. I know my colleague has been riveted listening to me talk about these charts. He has only had a chance to see them maybe 12 times. I thank him for his patience.

We also have budget enforcement in the budget resolution, discretionary caps for 2008 and 2009. We maintain a strong pay-go rule that I know my colleague will probably want to comment on. We also have a point of order against long-term deficit increases, a point of order against short-term deficit increases. We allow reconciliation for deficit reduction only. I know this is a place where my colleague will agree. I am sure he is pleased that we don't have a reconciliation instruction in this conference report for any other purpose, and we have no reconciliation instruction for any purpose. We also have a point of order against mandatory spending on an appropriations bill. Again, this is something the Senator will strongly support because we have seen the games that were beginning to be played when the appropriators figured out they could start to do that. We tried to shut it down or at least to create a budget point of order, maintain a budget point of order to prevent that practice from expanding.

The budget conference report also addresses long-term fiscal challenges. I don't want to overstate this because, the truth is, I don't believe an annual budget resolution is the place to deal with the long-term fiscal challenges facing the country. The annual resolutions tend to be done on a partisan basis. Our fiscal challenges are so big, so deep, my own conviction is this has to be done with a special process, a special procedure.

The Senator, who is the ranking member of the Budget Committee, and I have teamed up to offer our colleagues legislation that would create a bipartisan task force that would be responsible for coming up with a plan to deal with our long-term challenges, our fiscal challenges, the imbalance between spending and revenue, and the overcommitments we have made on the entitlement programs.

The proposal we have made is very different from what others have made because our proposal would require a vote in the Congress, not another commission report that sits on a dusty shelf somewhere. That is not going to cut it. We need a plan. We need a plan that is bipartisan. We need a plan that gets a vote. The Senator and I have a plan to do that.

While we are getting ready for that process to occur -- and I hope it will -- we have provided for a comparative effectiveness reserve fund to deal with health care, a health information technology reserve fund -- the Rand Corporation has told us we could save $80 billion a year if we had information technology widely deployed in the health area, program integrity initiatives to crack down on waste, fraud, and abuse in Medicare and Social Security, and a long-term deficit point of order to guard against legislative initiatives that would increase the long-term deficit.

Finally, as I mentioned, Senator Gregg and I have a proposal to address these long-term imbalances, a panel of lawmakers and administration officials with an agenda of everything being on the table, with fast-track consideration, and a requirement that Congress must vote. If the members of this task force, at least a supermajority of them, were to agree on a plan, that plan would come to Congress for an assured vote and a further assurance that there would be a bipartisan outcome because we would require not only a supermajority of the task force to report a plan but a supermajority in Congress to pass it as well.

Before surrendering the floor, I thank Senator Gregg for his many courtesies and the very constructive way that he has helped run the Committee on the Budget throughout this year. He is a gentleman, a person of honor whose word is gold. I deeply appreciate that. I also appreciate very much the professionalism of his staff.