

**Transcripts of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
at Hearing on Nomination of Congressman Jim Nussle to be OMB Director
July 26, 2007**

Opening Remarks

... So let me just begin with a brief opening statement.

Again, welcome, Congressman Nussle, to the Senate Budget Committee. You couldn't have -- by the way, you couldn't have had better introducers than Chairman Spratt and Senator Grassley.

I think we all know this is an important nomination. The Office of Management and Budget is the person that represents the president of the United States on these issues, on these questions.

I think all of us know on this committee that our country faces very serious fiscal challenges, both short term and long term, and that we've got to work together to resolve them; that certainly the long-term challenges are not going to be resolved unless there is a bipartisan consensus. And so I look forward very much to hearing from Mr. Nussle on how he intends to work constructively and cooperatively with Congress to address these challenges. And I hope that we'll hear from you, Congressman Nussle, some concrete steps we can take to break the current logjam that exists with respect to the outstanding issues for this year.

As my colleagues know, I have very serious concerns about the budget condition of the country and the fiscal policies of this administration. Let me just run through briefly a couple of charts that make the point and raise the concerns that I have.

This is what's happened with spending under this administration. Spending has gone up almost 50 percent. And all of us know that that has been driven in large measure by the war and by homeland security. But nonetheless, spending is up sharply.

While spending is up sharply, revenue has stagnated. Real revenue -- that is, adjusted for inflation -- is just now getting back to where it was in 2000.

So while spending has gone up sharply, revenue has been largely stagnant in real terms over this administration's life. And that's led to an explosion of the debt. The debt of the United States has gone from \$5.8 trillion at the end of the president's first year to an estimated \$9 trillion at the end of this year.

And, of course, that means we've had to borrow more and more money and increasingly that money is being borrowed from abroad. Foreign-held debt -- that is, U.S. debt held by foreign countries -- has exploded: more than 100 percent increase in foreign-held debt. That means that increasingly we are in hock to China, Japan.

Let's go to that next that shows -- Japan we owe over \$600 billion. China we owe over \$400 billion. The United Kingdom, over \$160 billion and on it goes. The oil exporters, over \$120 billion. This is a deep concern.

At the same time, we have had significant tax reductions and they have been heavily weighted to those who are the most fortunate among us. You can see in 2006, those with incomes of over \$1 million a year got an average tax reduction of over \$118,000.

The administration has told us that the tax cuts have fueled economic growth. Unfortunately, when we look at this recovery compared to the nine previous recoveries since World War II -- looked at the nine major recoveries since World War II, we see that this recovery is running well short of the average of those other nine major recoveries since World War II. In fact, on revenue, we're still \$86 billion short of the typical recovery.

And it's not just on revenue. We see the same thing with respect to job creation. Job creation -- again, if we look at the nine recoveries since World War II, take the average, and compare this recovery, we see we're still 7.3 million private sector jobs short of the typical recovery.

The final point is on business investment. This is perhaps the most striking. Again, comparing this recovery to the nine major recoveries since World War II and averaging all of them, we see this recovery running 69 percent behind, on business investment, those other recoveries.

Something is wrong. And I'm increasingly concerned with the direction of the economy. We all know the subprime market is raising questions. Interest rates are rising. Markets are unsettled. So we've got a lot of work to do.

And, of course, the biggest hurdle of all are the long-term challenges. And this is a place where, Congressman Nussle, I think you and I and Senator Gregg are perhaps in very close agreement, at least in a diagnosis of the problem. We all know that we're headed for a cliff. We've got an unsustainable course here for the country. And it's going to take working together to have any chance to deal with it.

We've heard the president say that the budget resolution adopted by this Congress spends too much. Let me just put up a slide that shows the difference between the spending -- the overall spending -- between what the president called for, \$2.91 trillion, vs. what's in the budget, \$2.94 trillion. That is less than a 1 percent difference.

Goodness, if we can't resolve this matter, how are we ever going to resolve the question of the long-term imbalances that exist, especially the looming challenge of the health care accounts, which is the 800-pound gorilla? It is a thing that can swamp the boat. And we have absolutely got to turn our attention, and do it in a bipartisan way, to addressing that challenge.

I'd like to make just a final point on the tax cuts. CBO -- let me just go to that last slide --

CBO now tells us that we wouldn't have a deficit if we didn't have the tax cuts for this year. Now, I don't think any of us take the position that none of these tax cuts should be extended. I certainly don't take that position. I think certainly those tax cuts aimed at the middle class need to be extended.

I think we also really owe it to the country to review our entire tax system. I am increasingly convinced that it's badly outdated, does not deal with the challenge currently facing the country. We've got the alternative minimum tax hanging out there, costs \$800 billion to fix, and it's the old millionaire's tax rapidly turning into a middle-class tax trap. We've got all of these other tax provisions that are going to not be extended past 2010. That, I think, is an impetus to reform. And most of all, our competitive position in the world ought to be an impetus for us to thoroughly revamp the current tax system.

We've got the looming prospect of a demographic tsunami called the baby boom generation, and all of us know that we are going to have to fundamentally reform our long-term entitlements. If we fail in that, we put the country's long-term fiscal strength at risk.

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Closing Remarks

CONRAD: Let me just conclude where I began. And we've only got just a couple of minutes left on this vote. And this is really, I think, the toughest question.

Here is, I think, the toughest question. This is what's happened to the debt during this administration. You were, as House Budget Committee chairman, one of the architects of the policy that's led to this explosion of debt.

Why, as a policy matter, separate from our feelings about you as an individual -- and let me just say publicly, I always felt I got along well with you, Jim Nussle. I like you, and I always thought we had a very constructive working relationship. My staff feels good about your staff.

But this is apart from personal feelings. This is a question of policy. I think this is a -- I think this has been a very serious -- well, frankly, I think it's a disaster for the country, this run-up of debt before the baby boomers retire. This has been the record of this administration.

You were one of the architects of this policy. Why should we confirm you if the intention is to follow this policy -- to continue this policy?

NUSSLE: Senator, it's a very fair question. I will report to you. As I think you know, there was no intent, as a direct policy matter, to run up debt. It was a reaction to challenges that faced us in 2001 that you and I worked on in a bipartisan way in many of those responses.

Obviously, the dot-com bubble bursting, the corporate scandals, the recession, the 9/11

attacks, what that did to the marketplace, the response -- the emergency response to 9/11, which we worked on and did in a bipartisan way and was done cheerfully in a bipartisan way in the best interests of our country.

Certainly part of that was the taxes to try and jumpstart the economy, which Chairman Greenspan said were the right taxes at the right time in order to deal with that, as well as the new departments of Homeland Security and the war. Each one of those red dots on the map are those...

CONRAD: Let me ask you this. Senator Grassley put up a list of things that he'd like extended. There's no suggestion of paying for any of it -- no suggestion of paying for it.

You had earlier said in response to my question, you don't want to dig the hole deeper. But now in response to the questions from Senator Grassley, he wants to spend \$2 trillion here and not pay for it. And you've endorsed that.

That gives me great concern that, while I hear you saying you don't want to dig the hole deeper, when he asks the specific policy questions, all I hear is the hole is going to get dug deeper and we're going to go more in debt at the worst possible time, before the baby boomers retire.

You know, one of the things we've done -- and I'm proud of doing in this budget resolution -- is reinstating PAYGO. So we say if you want more tax cuts, you can have them, but you've to pay for them. If you want more mandatory spending, you can have it, but you've got to pay for it.

Do you believe that the PAYGO procedure ought to be followed?

NUSSLE: Well, first, with regard to digging the hole, Senator, there are two entities that have shovels: the government has a shovel that's shoveling it out, and the American people have a shovel that's shoveling it in.

And I'm concerned about the ones that are shoveling it in, as I know you are too. I'm not suggesting you don't. But I do believe that economic growth is a very -- and I've heard you give very eloquent speeches on our need for expanded economic growth.

The tax code is one way to accomplish that. It isn't the only way. But it is one of the, I believe, best ways for us to help with making sure that we're not all doing the shoveling on just this end.

With regard to PAYGO, in the bipartisan agreement that I had with Senator Cardin, you may be interested to know that we, in a bipartisan way, agreed to extend PAYGO. I've had the belief that there are ways that we can work together in order to provide speed bumps to spending as well as speed bumps to all sorts of things in order to prevent that hole from digging deeper.

The president has indicated his position on that. And if nominated -- or, excuse me, if confirmed, obviously I will be someone who works at his pleasure and will help instill those policies.

But I also know that there are ways that we can work together to reform the process to provide more fiscal responsibility, and I would look at any reform proposal that comes forward as we consider ways to improve that process.

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CONRAD: I would just indicate for members of the committee and other members, we'll hold the hearing record open until noon tomorrow. That's a hard deadline. I don't intend to extend it. So the hearing record will be open until noon tomorrow.

Thank you, Congressman Nussle, for your appearance here today. Thank you for your willingness to continue in public service. We'll close the hearing.