

**Opening Floor Statement by Senate Budget Committee Chairman Kent Conrad (D-ND)
on FY 2008 Budget Conference Agreement
May 17, 2007**

We bring to the floor the conference report on the budget. It is a conference report that I believe is worthy of our support. Let me say why.

Under this budget plan, we will balance the budget in 5 years. In the fifth year, 2012, we will have, according to the projections, a \$41 billion surplus. This is after 6 years of deficit, and in an additional 4 years, we will finally be returning to balance.

The budget resolution we bring to the floor will reduce spending as a share of gross domestic product each and every year, from 20.5 percent in 2008 down to 18.9 percent in 2012. It is that spending discipline that helps us reach balance in the fifth year.

It also has the positive effect of bringing down the debt as a share of our gross domestic product in every year after 2010. This is gross debt. If we looked at publicly held debt, it will actually be bringing it down every year from 2009 on. So I believe this is a responsible budget that returns us to a fiscally responsible approach to our Nation's spending.

Some have said there is a big difference in spending between this budget and the President's budget. We have put it on a chart to visually compare over the 5 years the difference in spending in this proposal and what the President proposed. You can see, there is virtually no difference -- virtually no difference -- in spending between this proposal and the President's spending proposal.

Yes, it is slightly more spending, but this slight addition is going for veterans health care, to expand children's health care, and to provide further investment in education. Those are the fundamental places where we have modest additions to spending. As you can see, on a fair comparison basis, when you put the two spending lines together on the same axis, comparing apples to apples, you see the difference in spending is quite modest.

On the revenue side, we have included a 1-year fix to the alternative minimum tax, the old millionaire's tax. It is rapidly becoming a middle-class tax trap. If we had not acted, over 23 million people would be caught up by the alternative minimum tax in this next year. We have avoided that, providing dramatic tax relief to those people.

We also extend the middle-class tax cuts in this proposal. That includes continuation of marriage penalty relief, the child tax credit, and the 10-percent bracket. These provisions will benefit tens of millions of the American taxpayers.

We also include estate tax reform. It is well known under the current estate tax law, we will go to a \$3.5 million exemption per person in 2009. Then there is no estate tax in 2010. Then we go back to an estate tax in 2011 that provides only \$1 million of exemption per person or \$2 million for a couple. Instead of having that anomalous situation, we will continue

providing a \$3.5 million exemption per person or \$7 million for a couple indexed for inflation. I think that makes common sense.

Now, we have heard from some there is a big tax increase in this budget. There is no tax increase in this budget. Let me reemphasize that. There is no assumption of a tax increase in this budget. I do not know what I could say to be more clear.

Here, shown on this chart, is what the President said his budget would produce in revenue over the 5 years. This is the President's own estimate of what his budget would produce. He said his 5-year budget would produce \$14.826 trillion of revenue over the 5 years. That is according to the scoring by his own Office of Management and Budget. Our budget produces \$14.828 trillion of revenue over the 5-year period. There is virtually no difference between what the President claimed his budget would produce in revenue and what our budget produces in revenue.

Now, our friends on the other side will be swift to say: Ah, but wait a minute, Senator, you are using Office of Management and Budget estimates and CBO estimates, two different estimates. That is true. The point I am making is the President said it was entirely reasonable to expect to raise \$14.826 trillion of revenue over this 5 years. That is his own estimate of what his budget would produce. CBO says our budget would produce \$14.828 trillion -- a \$2 billion difference on a \$15 trillion base. That is statistically the same.

If you put them both on a CBO baseline -- in other words, have estimates done for both the President's revenue and our revenue by the CBO -- we have 2 percent more revenue than the President -- 2 percent. We believe 2 percent can be achieved with no tax increase of any kind.

Let me reemphasize that. We believe, if you look at the CBO scoring that says we have 2 percent more revenue than the President, that can be achieved without any tax increase of any kind. I will explain why in a moment. If you look at what is shown on this chart, this is a 5-year budget. But all of us know we are going to write another budget next year, so what matters is next year. Here shown on the chart is the revenue line in our budget and the President's revenue line. You will notice they are identical. There is no difference -- none -- not a penny, not a dime. In 2009, there is virtually no difference in the two.

So let's be serious. When somebody jumps up here and says this is the biggest tax increase in history, the only way that is possibly true is if the President has proposed the biggest tax increase in history. Because there is, for next year -- and we will write another budget next year -- for next year, there is no difference in the revenue in our proposals.

How can it be we could get 2 percent more revenue under the CBO scoring than the President proposes without a tax increase? How is that possible? Well, first of all, we have the tax gap, which back in 2001 was estimated to be \$345 billion a year. I believe that tax gap now is in the range of \$400 billion a year. That is the difference between what is owed and what is paid. I believe that is now \$400 billion a year or thereabouts. Over 5 years that would be more than \$2 trillion -- money that is owed that is not being paid.

But that is not the only source of revenue without a tax increase. The second area of opportunity to get revenue with no tax increase is the explosion and the abuse of offshore tax havens. I have shown this building down in the Cayman Islands many times on the floor. This 5-story building is the home to 12,748 companies. It is remarkable that all of those companies -- 12,748 -- are doing business in this little 5-story building, but that is what they claim.

Are they really doing business down there? The only business being done out of this building is monkey business because what they are doing is engaging in an enormous tax scam. They claim they are doing business down there because they don't have any taxes down there. So how does it work? It is a giant shell game. They have entities in the United States that they say are making no profits, because they move the money offshore into these Cayman Islands subsidiaries where there are no taxes, and all of a sudden they show enormous profits. Who is being fooled by this? Shame on us if we are being fooled. But currently, we are. I would suggest we close down this scam.

The Permanent Subcommittee on Investigations has said we are losing \$100 billion a year through these offshore tax havens. Let me quote from their report from earlier this year: "Experts have estimated the total loss to the Treasury from offshore tax havens alone approaches \$100 billion a 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."

Mr. President, \$100 billion a year in tax havens, and tens of billions more --

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I would say what you find is quite stunning. We went on the Internet, I would say to my colleague -- first of all, I thank him because the picture of this building down in the Cayman Islands came from him. I have used it repeatedly because it tells such a powerful story: 12,748 companies that call this little building home. We know what is going on. It is a giant scam.

I would say to the Senator, we went on the Internet and we entered in "offshore tax planning." Do you know how many hits you get if you enter in that phrase? You get 1.2 million hits.

Here is my favorite. If you go online and you look at what is on the Internet --

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When you look on the Internet -- this is my favorite one: "Live tax free and worldwide on a luxury yacht. Moving offshore and living tax free just got easier." That is the kind of scam which is going on that is costing the Treasury of the United States, according to our own Permanent Subcommittee on Investigations, over \$100 billion a year.

It doesn't stop there. This is a picture of a sewer system in Europe. What does a sewer

system in Europe have to do with the budget of the United States? Well, as it turns out, it has a lot to do with it because this sewer system in Europe was actually purchased by wealthy U.S. investors, depreciated on their books for U.S. tax purposes, and then leased back to the European city in which it is actually located. It has no business purpose. There is only one purpose, and that purpose is to operate as a scam. This is the kind of thing which should be shut down. Nobody can justify this. Nobody can defend this. That is what is going on.

So I believe the combination of closing the tax gap, just a tiny portion of it, combined with shutting down these offshore tax havens, combined with shutting down these abusive tax shelters, could easily provide the 2 percent of revenue we have that is over and above the President, according to a Congressional Budget Office score, with no tax increase to anyone.

The budget conference report we bring to the floor also funds a number of critically important priorities for the American people, including expanding health care coverage for children. When you look at the comparison, the President has provided \$2 billion for this purpose over the 5 years. We provide \$50 billion so that there is the prospect of covering every child in America who is not otherwise covered with health insurance. That is good policy, it is a good investment, and it is morally right. We ought to ensure that every child in America has health care coverage. It is good policy because if you solve a health care problem for a child, you get a return on that investment for their lifetime.

Another area that has been a priority in this budget is education. Under this budget, we provide some \$6 billion in this next year over and above what the President provided because we think education is the future. If we are not world class in education, we are not going to be a world-class power. So we have provided that additional investment in education.

The third area of initiative is in veterans health care. If there is any scandal that I think has troubled the American people more than what we saw at Walter Reed where heroes returning from Iraq and Afghanistan have been subjected to subpar medical treatment, I don't know what it is. I don't know of anything that has so angered so many people, at least in my constituency. So we have adopted a budget here that closely follows the independent budget which is put forward by the veterans organizations themselves which provides for \$43.1 billion in funding in the next fiscal year, compared to the President's \$39.6 billion.

To recap, the budget resolution we bring to the floor, the conference report, puts the Nation back on a sound fiscal path. It balances by 2012 with a \$41 billion surplus in 2012. It reduces spending as a share of gross domestic product each and every year of the 5 years of the budget. It reduces debt as a share of gross domestic product from 2010 on. It adopts spending caps and restores a strong pay-go rule.

What is pay-go? Pay-go simply says that if you want to have more mandatory spending or more tax cuts, you can have them, but you have to pay for them, and if you don't pay for them, you have to get a super-majority vote.

This budget also meets the Nation's priorities. It fully funds the President's defense and

war cost requests. It rejects the President's cuts in certain key priority areas. It provides increases for children's health, for education, and for our veterans health care, an area in which the American people overwhelmingly want us to invest.

In addition, this budget resolution keeps taxes low. It extends specifically the middle-class tax relief provisions, including marriage penalty relief, the child credit, and the 10-percent bracket. It provides alternative minimum tax relief so that more and more middle-class people don't get swept up in that tax. It provides for fundamental estate tax reform. It includes the deficit-neutral reserve funds for additional tax relief and for the extension of other expiring provisions. It includes no assumption of a tax increase.

This budget also prepares for the long term. It provides for program integrity initiatives to crack down on waste, fraud, and abuse in both Medicare and Social Security. It includes health information technology and comparative effectiveness reserve funds to address rising health care costs. According to the Rand Corporation, widespread health information technology alone could save \$81 billion a year. It also adopts a new budget point of order against long-term deficit increases.

I will conclude by saying this budget has specific proposals addressing our long-term fiscal challenge. It provides program integrity initiatives to crack down on waste, fraud, and abuse. It provides new mandatory spending, and tax cuts must be paid for in the pay-go provision. It provides that long-term deficit increase face a point of order, a super-majority hurdle on the floor of the Senate. It provides for the health information technology reserve fund. I have already indicated that the Rand Corporation indicates that health information technology could save \$81 billion a year. Finally, it includes the comparative effectiveness reserve fund, so that we look at the technologies and approaches being used across this country on how we could save money by using the best practices in health care.

We think this is a responsible budget, one that meets the needs of the American people. We believe it merits our colleagues' support.

Before I yield the floor, I want to thank my colleague, Senator Gregg. I acknowledge that we have differences about this budget. That is healthy. That is the strength of our democracy, that we have a debate and differences. But I wish to say that Senator Gregg has always conducted himself as a professional and has been extremely helpful as we have gone through the process. He and his staff have cooperated with us closely, while they have disagreed very strongly with respect to some of the conclusions we reached. I wish to acknowledge the way in which he and his staff have conducted themselves as we have gone through this difficult process. I thank him for the many courtesies he has extended to us as we have gone through the budget resolution this year.