

**Transcript of Remarks by Chairman Kent Conrad (D-ND)  
at Senate Budget Committee Hearing on President Bush's FY 2008 Budget  
with OMB Director Rob Portman  
February 7, 2007**

Opening Statement

We want to welcome Director Portman, the head of the Office of Management and Budget, to the Senate Budget Committee. I am appreciative that the Director has taken his time to be here and that we can have a discussion on these critically important issues facing the country. I have high regard for Director Portman, both personally and professionally, and we very much appreciate his public service, and look forward to his testimony today.

Let me just start with concerns we have about the budget and these are things we can discuss during the hearing. As we look at the budget, we see a number of things that are left out -- full Iraq war cost beyond 2008. In saying that, I also want to acknowledge and commend Director Portman for pressing to get at least a realistic war cost put in for 2008. I don't think that would have happened without his pressing the issue, and we appreciate it. It was certainly a step in the right direction.

We also note that while this is a five-year budget, there is only money for Alternative Minimum Tax reform for the one year, so it leaves out detail past that for the Alternative Minimum Tax. The budget also leaves out discretionary spending levels beyond 2008. So this is a five-year budget, but we have only discretionary spending details for the one year.

One of the serious issues that we have to confront as a Congress and a country is the revenue side of the equation. Our friends on the other side only want to focus on the spending, and while I would completely agree that we have to be disciplined on the spending side, I think we also have to look to the revenue side of the equation. Our friends on the other side of the aisle point to the rapid revenue growth of the past several years, and indeed there has been rapid revenue growth the last several years. But they neglect to mention what happened before then. They neglect to mention that we have had revenue stagnation for six years. In fact, revenue went down after the last peak we had in 2000 where we had revenue of just over \$2 trillion. Revenue was below that in 2001, below for 2002, 2003, 2004, 2005. Only in 2006, on a real revenue basis, did we get back to the revenue of 2000.

So revenue was down, but spending was up. In fact, under the administration's spending plan, the spending side of the equation was increased by 40 percent. So, revenue was down, spending was up.

The consequence is the debt exploded. Here is what happened to the debt of the country. We have a \$3 trillion increase in debt during this administration, and over the next five years we are anticipating, if the President's policies are adopted, another \$3 trillion of debt.

The President in this budget advocates a number of spending cuts, but he also advocates additional tax cuts, making the current tax cuts permanent. And with the other omitted items, if we look at the ten-year outlook, rather than just the five-year outlook because the five-year outlook we

see some improvement. But then, if we put back the omitted items, we see the fiscal condition turning back on us, back into deeper deficits and more debt.

Perhaps most serious, and I think most of us share the understanding that our long-term situation is unsustainable. And when I look at the President's budget, he makes that situation worse, because in making the tax cuts permanent, the cost of those tax cuts explode at the very time the trust funds of Social Security and Medicare go cash negative. And the combined effect of all this is to take us right over the cliff. Now, that can't be the fiscal future of the country.

This next chart shows what happens if the tax cuts expire or are offset. That's the green part of this bar. If they are not paid for, if they are not offset, here is what happens to the fiscal trajectory of the country. And it is a trajectory of rapidly rising deficit and debt and at the worst time, right when the baby boomers are retiring.

I look at the President's budget and he has savings in Medicare and Medicaid, which over a ten-year period would equal \$280 billion. But the cost of the President's tax cuts during that same time are \$2 trillion, \$2 trillion when we add debt service into it.

And then there are questions of priorities. We look at the President's budget and for 2008 the cost of tax cuts for those earning over \$1 million a year, for that year alone, is \$55 billion. The President says cut education \$2.3 billion. These are not priorities that on our side we share. We don't think that is the proper balance for the country.

We see the same thing with respect to the COPS program. The President's budget proposes cutting the COPS program 94 percent. It would take \$521 million to restore the COPS program for 2008. Again, that same year, the President is advocating continuing tax cuts for those who earn over \$1 million a year costing \$55 billion, a hundred times as much.

LIHEAP, low income heating assistance – the President's budget proposes cutting that nearly 20 percent. It would take \$420 million to restore it. Again, the comparison is to the tax cuts for those earning over \$1 million a year. I would say this is especially sensitive in my home state. The other day it was 46 degrees below in North Dakota. We have a real understanding of the need for heating.

What I want to focus my time on is the long-term outlook, because while we have differences on this five-year budget, those are differences I believe we could bridge. I am far more concerned about where this is all headed in the long-term. This is what Chairman Bernanke told us: "... [O]ne might look at these projections and say, 'Well, these are about 2030 and 2040 and ... so we don't really have to start worrying about it yet.' But, in fact, the longer we wait, the more severe, the more draconian, the more difficult ... the adjustments are going to be. I think the right time to start is about 10 years ago."

That puts this discussion where I think it needs to be.

## Selected Question and Answers

### *Chairman Conrad Question:*

The longer term implication of the President's plan is to dig the hole much deeper. The President's plan that says we're going to extend all of the tax cuts, a cost of \$2 trillion over ten years, dwarfs the savings that the President has called for on the mandatory side. I indicated your savings on the mandatory side, \$280 billion over ten years, is absolutely dwarfed by the tax cuts. So you have winded up in a worse position.

Let's go to where we might agree because there are places you and I agree. The place we agree is our long-term prognosis on the need to face up to the fiscal imbalances.

We have tried, Senator Gregg and I, to bring both sides to the table to devise a solution. To me, the only way that happens is if both sides are prepared to compromise. You have said everything is on the table. What do you mean by that?

### *Director Portman Answer:*

...First of all, I agree with you. I think it is incredibly important we as public officials on both sides of Pennsylvania Avenue and both sides of the aisle acknowledge the problem and I commended you for that in my testimony. And you and I have talked about it a number of times because the long-term liabilities and obligations that are currently unfunded is really the fiscal challenge we face. We're doing a much better job of getting our fiscal house in order short-term. And what the President has said recently is not only a specific proposal for a bipartisan commission to deal with the entitlement challenge, but he has said there should be no preconditions, meaning that everything should be on the table. He's also, as you know, shown some political courage by taking on some of these specific issues, and we do it again in this budget. And I've laid out for you what we think are sensible and reasonable changes in some of the programs that create the biggest challenge, longer-term. We talked about the \$32 trillion unfunded obligation in Medicare. The President has also been way out front on the issue of Social Security. And as you know, we were not successful in getting Congress to take up those reforms, but he continues to believe that this is the biggest fiscal challenge that we face, and we should address it, and we should do so in a bipartisan way.

### *Conrad Question:*

Let me just follow up and ask you this question. When you say no preconditions, does that mean that you can foresee a resolution that includes both additional revenue as well as reduction in expenses for the long-term entitlements?

### *Portman Answer:*

I think it is critical we not prejudge, at this point, where we are going to end up in the long-term because -

### *Conrad Question:*

No, I am not asking for a conclusion. I am asking, though, when your side says, "There are no preconditions," because you say this, Secretary Paulson says it, but then I see the President and the Vice President, when they are interviewed publicly, slam the door in terms of revenue. So, we

need to know. If there is really going to be a serious discussion it can't be a circumstance in which one side, clearly Democrats are the preeminent defenders of Medicare and Social Security, Republicans are the preeminent defenders of tax cuts – that's the reality. So the question is are both sides to compromise, are both sides to give ground here, or is only one side to give ground?

*Portman Answer:*

I would take issue with your premise that Republicans, who are trying to be sure these programs are around for future beneficiaries are not defenders of Medicare, Medicaid and Social Security. It is precisely because we think these programs are so important that we are willing to take what are politically difficult steps to try to ensure the commitment is there for future generations.

*Conrad Question:*

Well, the problem is that you are cooking a fiscal stew that is going to guarantee that there has to be more draconian cuts because you are using Social Security – I mean we can get into that debate. I'd hope to try to reach conclusion on, is there a serious chance for a discussion on the longer-term?

*Portman Answer:*

Absolutely, there is a serious chance, but...

*Conrad Question:*

Fiscal reality is the President has run up the debt \$3 trillion. That threatens Social Security and Medicare. It threatens Social Security to take \$180 or \$190 billion of Social Security money and use it, instead of paying down debt or prepaying the liability, to use it to pay the operating expenses of the government. But that's the President's fiscal plan, every year for the next ten years. That makes the long-term solvency of Social Security more difficult.

*Portman Answer:*

The issue on Social Security is that we need to reform the program so that it is able to sustain itself over time. I totally agree with you on the way you were calculating various approaches to looking at the deficit or even the long-term debt. We should have all that information. All of that is provided by the way in this financial report of the United States that I sent to you all personally and it is up on our website. I encourage every American to look at it. You can look at the debt and deficit in a number of different ways.

*Conrad Question:*

So is revenue on the table? If there is a discussion, if we come together for a negotiation, is revenue on the table as far as the administration is concerned?

*Portman Answer:*

Again, I don't know how I can be more clear. But what the President has said more recently, and this is not again something that was being said a year ago or even six months ago -- and we should note that we have a long standing view -- and I have laid it out in our budget very clearly why we believe that we do not need additional revenues to get to balance in 2012. I have shown you what the percent of the revenue is as to the economy, which is the burden on the economy.

*Conrad Question:*

But as you know, I am talking beyond 2012.

*Portman Answer:*

Well, our long-term figures show the same thing, which is we do not fall below that historic average. The question is what should be the burden on this economy. Do we want to risk the 7.4 million new jobs we have created since 2003, the economic recovery that has enabled us to ....

*Conrad Answer:*

Director Portman, you are doing exactly what I feared.....what I am hearing from you is exactly what I hear publicly from the President and Vice President – that this is only going to be done on the cost cutting side, which clearly has to be done, but nothing on the revenue side. If that is what you postulate, then there will not be a conclusion because then you are only asking one side fundamentally to compromise. If both sides aren't prepared to compromise, there will not be resolution during this administration, and that would be a tragedy.

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*Closing Comment from Chairman Conrad*

Let me just say the debt has exploded, and the debt of this country has exploded at the worst possible time, before the baby boomers retire. And the plan the President has put forward does not fundamentally address where we are headed. I just say this to you. We have an opportunity here to work together, but the only way I know in human relations for there to be resolution between parties who have different views is for both sides to compromise. And, unfortunately I see virtually none on your side. And I regret that more than I can say.