Floor Statement of Senate Budget Committee Chairman Kent Conrad (D-ND)
on Budget Conference Agreement
April 29, 2009

The Senate now begins consideration of the conference agreement on the budget for 2010. I think we have to see this budget in its context. We have to understand what this administration has inherited from the previous administration. To be clear, it is a colossal mess -- the worst recession since the Great Depression, a doubling of debt under the previous administration, and a more than tripling of foreign holdings of U.S. debt.

I try to suppress partisanship in my discussions on the Senate floor, but it is impossible to overlook the record of the previous administration. They have slammed this economy into the ditch. President Obama is put in the position of the cleanup crew. It is not pretty or easy, and it is going to be a difficult challenge for this country to come out of a policy stew that is impossible to choke down.

Let me be clear in my own view of how we got here. I believe we had an overly loose monetary policy under the control of the Federal Reserve ever since 9/11, an overly loose fiscal policy under the control of the White House and the Congress, record deficits, a massive buildup of debt -- when the economy was relatively strong and right before the baby boom generation started to retire. That is remarkable.

If you look back into history, it is rare to have at the same time an overly loose monetary policy, low interest rates, Congress and the White House running an overly loose fiscal policy with record deficits, even at a time of relative economic strength; on top of that, a dysfunctional trade policy with record trade deficits, which meant we were shipping hundreds of billions of dollars to other countries to buy their goods, over and above what we were producing, and a deregulatory environment administratively and in terms of the laws of this country that allowed things like the AIG derivative fiasco to develop completely without oversight.

Those elements created the seedbed for bubbles to form. So we didn't just get a housing bubble, we got a commodity bubble -- wheat prices went to nearly $20 a bushel; we got an energy bubble, with oil prices up to $145 a barrel. So if one looks at this historically, we see the formation of these bubbles, and bubbles ultimately burst and create enormous economic wreckage. That is what has occurred here.

All of this was under the direction, fundamentally, of the Bush administration. This was their policy that was pursued for eight years. Our friends on the other side controlled the House and Senate for six of those eight years. They put into place the policies that have been the guiding principles of policy for this country for the last eight years.

As a result, we saw a very dramatic deterioration in the budget picture under the Bush administration. They went from inheriting surpluses to putting us into record deficits. For 2009, there is a deficit of $1.7 trillion. In fairness to them, they are not responsible for that whole amount because part of it is the stimulus package that was enacted.

Clearly, they are responsible for at least $1.3 trillion of the $1.7 trillion of deficit in 2009. This is the record on deficit and of debt by the previous administration. After their first year in office, the debt was $5.8 trillion. We typically do not hold administrations responsible for their first year because they are working off the plan of the previous administration. If you look at the eight years they are responsible for, the debt went from $5.8 trillion to over $12 trillion.

That is not the only part of this that is important to keep in mind. It took 42 Presidents 224 years to build up $1 trillion of foreign debt held by foreign entities. The previous administration tripled that. They ran up another $2.5 trillion of U.S. debt held abroad. Some say it is a sign of strength that people are willing to lend us all this money. I personally don't think it is a sign of strength. I think it is a sign of vulnerability that we are running record trade deficits, meaning record borrowing, much of that borrowing done abroad.

Last year, of the debt we had to finance, 68 percent of it was financed by foreign entities.

This President walked into a truly astounding set of circumstances. Here is what they are: Record deficits; doubling of the national debt under the previous administration; the worst recession since the Great Depression; and financial market and housing crises. Everywhere you look, this President inherited a crisis -- in housing, in the financial sector, and in the fiscal sector. Also, 3.7 million jobs have been lost in the last 6 months, and we have ongoing wars in Iraq and Afghanistan.

So what do we do about it? The budget is a document that outlines the fundamental priorities of the country. In this conference agreement, we have attempted to preserve the President's priorities of reducing our dependence on foreign energy -- critically important to our economic future -- a focus on excellence in education, and fundamental health care reform.

If we look ahead to the fiscal future of America, no single thing is more important than reforming the health care system. Already, we are spending nearly 18 percent of our gross domestic product on health care. That is $1 of every $6 in this economy going to health care. We are on a trajectory to have 37 percent of our gross domestic product going to health care. That would be more than $1 in every $3 in our economy going to health care. Clearly, that is unsustainable. At the current rate of nearly 18 percent of our GDP going to health care, we are spending twice as much as any other industrialized country.

We are on an unsustainable course, and the President says we have to alter that, we have to expand health care coverage so that everybody is included so we can then institute the kind of cost controls that will be necessary.

I know it is counterintuitive to think: How can it be that we are going to reduce costs if we are expanding coverage? The thing we know in our current system is that people without coverage still get health care, but they are getting it in the most expensive setting: they are getting it in the emergency rooms of our hospitals all across the country. We would be much better off having them have coverage and having them in a system that is a wellness system, one that is designed to keep people from getting ill and, if they become ill, managing their illness in a way that prevents the most costly of outcomes.

This conference report also provides $764 billion in tax cuts focused on the middle class. I know there has been a lot of talk in the press about some tax increases, and indeed there are. For those of us who are fortunate enough to make more than a quarter of a million dollars a year, we will be expected to pay somewhat more -- not a lot more but a little bit more. If we are going to get our fiscal house in order, those of us who are most fortunate are going to have to pay a little bit more. But on a net basis, when you add in the tax increases asked for from those who are the most fortunate, with all of the other tax changes, the overall effect is to reduce taxes from current law by $764 billion over the next five years, and those tax reductions are focused on the middle class.

We also cut the deficit in half by 2012 and by two-thirds by 2014. We get it down to three percent of gross domestic product by 2014. Most of the economists say that is the key metric because at three percent of GDP, growth of the debt relative to our national income is stabilized. We keep the debt from growing the way it has been.

The discretionary spending level in this conference report is $10 billion below the President's proposal. We have cut his spending plan by $10 billion. In addition, there are reconciliation instructions for health care and education. They require at least $2 billion in deficit reduction.

I personally believe reconciliation, which is a special process here, a fast-track process, will not be used for health care because as people get into it, I think they will find it is a very difficult way to write major, substantive legislation. My own prediction is that reconciliation will not be used for health care. The committees of jurisdiction have until October 15 to report legislation in the regular order of business using the regular procedure. I have talked with the chairman of the committee that has most of the responsibility for health care, and, of course, that is the Finance Committee. Senator Baucus says it is his full intention to proceed under the regular order, not using the reconciliation instruction. But it is there as an insurance policy.

We also have the alternative minimum tax fix for three years, so we will not see a big increase in the number of people affected by the alternative minimum tax. There are some three million or four million people now paying. If we did not take these steps, 24 million people would be expected to pay the alternative minimum tax. Nobody wants to see that happen. So we have a fix for the next three years.

We also have disaster relief for the next two years. We call it a placeholder because it is an estimate of what disaster relief will cost for the next two years based on looking back over the last five years and doing an average. This is a break from how we have typically dealt with disaster funding. Typically, we have done it through emergency designations. The President thought: Look, we know we are going to have disasters. Why don't we budget for them? It is a worthy experiment, and we will see how it works.

Even though none of us can predict what disasters might occur, we know the strong likelihood is that there will be disasters. Certainly, my state has experienced them. We have had flooding all across the State of North Dakota from one end to the other. I have been home three times in the last several weeks going from town to town all across North Dakota, from the Red

River Valley in the east, to the Souris Valley in the central part of the state, the James, the Cheyenne -- all of them, are experiencing flooding that is unlike anything we have ever seen in recorded history.

We know there are disasters. There are going to be costs. In my state, hundreds of millions of dollars have already been experienced in terms of losses, roads, bridges devastated. We have even had dams significantly eroded by these weather events. We know there are costs associated with it, and we have tried to anticipate them in this budget.

Most important, this budget coming from the conference committee focuses on three key priorities: reducing our dependence on foreign energy, putting a focus on excellence in education, and fundamental health care reform.

First, with respect to energy, it reduces our dependence on foreign energy, creates green jobs, helps protect the environment, and helps with high home energy costs. It does that in three ways. One, it creates a reserve fund to accommodate legislation to invest in clean energy and address global climate change. Second, it provides $500 million above the President's level of discretionary funding for energy for fiscal year 2010. Third, it builds on the economic recovery package investments in renewable energy, efficiency and conservation, low carbon coal technology, and modernizing the electric grid.

By the way, modernizing the electric grid presents this country with an amazing opportunity to have a leap forward because we are really dealing almost in the horse-and-buggy era with the grid that we have that is not permitting us to shift power from places we can produce it -- clean, green power -- to places that need it.

In addition, we have in this budget coming back from the conference a focus on excellence in education. We generate economic growth and jobs. We prepare the workforce to compete in this global economy. We make college more affordable. We attempt to improve student achievement, which is at the heart of what education is all about. We do it again in three ways: by providing a higher education reserve fund to facilitate the President's student aid increases; we provide for education tax cuts to make it more affordable for our young people to go to college and other institutions of higher learning; and we provide the President's requested level of $5,550 for Pell grants and fully fund his education priorities, such as early childhood education.

The third key priority is fundamental health care reform, and that is accommodated in the conference report. We attempt to bend the health care cost curve to get costs under control, to improve health care outcomes for our nation's people, to expand coverage because we have more than 40 million people now without any health care insurance. We increase research, especially devoted to those areas of highest opportunity to make meaningful progress, and we promote food and drug safety. Again, we do that in three ways with a reserve fund to accommodate the President's initiative to reform the health care system; by funding for at least 2 years a reserve fund that further addresses Medicare physician payments; and continues investment in key health care programs, such as the NIH and the FDA.

I want to at this moment indicate that one of the key staff persons on our Budget Committee is himself in the hospital. Joel Friedman, who is the deputy staff director for the Budget Committee, a remarkable person, truly gifted, somebody who has the respect of people on both sides of the aisle, is in the hospital. Our thoughts and prayers are with Joel and his family. I don't know if he is able to watch this. Last week, he was not able to because he did not have C-SPAN in his room. But I want him and his family to know that the entire Budget Committee family -- and that goes for Republicans and Democrats -- is thinking of him and hoping for his swift recovery.

While we have focused on these key priorities of the President -- excellence in education, reducing our dependence on foreign energy, health care reform -- we are doing it all in the context of dramatically reducing the deficit. In fact, we cut the deficit by two-thirds by 2014. As measured by the gross domestic product, which economists say is the best measure, we do even better than that, as measured by share of the gross domestic product, we are reducing the deficit by 75 percent, by three-quarters, from 12 percent of GDP in this year to three percent of GDP in 2014.   Again, that metric of three percent of GDP in 2014 is especially important because economists tell us that at that rate, we have about stabilized the growth of the debt. In other words, the debt will not continue to grow faster than our national income if we can continue deficits of three percent of GDP. My own view is we should do even better than that. Certainly, in the second five years, I think it is incredibly important that we do better than that given the fact the baby boom generation will be retiring.

In terms of the revenue changes in the budget resolution, I indicated earlier that if you look at total tax changes in the budget resolution -- and this is CBO scoring, this is not my invention -- the taxes are cut by $764 billion over the five years, and here is where: middle-class tax relief, $512 billion. That includes the 10-percent bracket, the marriage penalty relief, the child tax credit, education incentives, and all of the other 2001 and 2003 tax cuts that affect those earning less than $250,000 a year. All of those tax cuts are extended for the entire five years.

In addition, we have provided for alternative minimum tax relief for three years at a cost of $214 billion. We have provided for estate tax reform at a cost of $72 billion that will permit couples to avoid any estate tax if they have estates of $7 million or less. Let me say that excludes 99.8 percent of estates.   Ninety-nine-point-eight percent of estates will pay nothing -- zero -- under the budget proposal.

In addition, we provide $63 billion for the so-called tax extenders. Tax extenders are items such as the research and development tax credit. Those have to be extended every year or every other year, depending on which one we are talking about, and we provide for those as well.

Those tax cuts that amount to $861 billion are offset by loophole closers of $97 billion.

And what we are focused on here is the offshore tax havens; the abusive tax shelters.

We now know, from the Permanent Committee on Investigations, that we are losing over $100 billion a year to these offshore tax havens; billions of dollars more to abusive tax shelters. I have shown on the floor of the Senate many times pictures of European sewer systems, and people have asked me: What has that got to do with the budget of the United States? Well, it turns out it increasingly has something to do with the budget of the United States because we have the spectacle of wealthy investors here and companies here buying European sewer systems -- not because they are in the sewer business but because they want to depreciate those assets on their books for U.S. tax purposes -- and they turn around and lease the sewer systems back to the European cities that built them in the first place.

I picked out sewer systems, because that is most graphic, but it doesn't end there. We actually have companies buying city halls in Europe and depreciating on their books for U.S. tax purposes here leasing those city halls back to the European cities that built them in the first place.

Some say if you go after that kind of scam, you are increasing somebody's taxes. Well, I suppose in some sense you are. But you know what. Shame on the people who are doing it. The vast majority of us pay what we owe. But unfortunately, we have an increasing group of companies and individuals who are dodging what they legitimately owe here and they are doing it in these offshore tax havens.

I have shown on many occasions a picture of this little five-story building in the Cayman Islands that claims to be the home to 14,000 companies -- 14,000 companies. They say they are all doing business out of this little five-story building in the Cayman Islands. They are not doing any business out of there. They are doing monkey business. And the monkey business they are doing is to avoid their taxes in the United States. Shame on us if we don't close that down.

Some say: Well, this is a big spending budget -- big spending. Really? That can only be the statement of people who haven't read this budget, because this budget takes domestic discretionary spending as a percentage of our gross domestic product from 4.4 percent in 2010 to 3.4 percent in 2014. So as a share of our national income, domestic discretionary spending is going down.

Facts are stubborn things. Over the life of this budget, non-defense discretionary spending in dollar terms -- in dollar terms -- is being increased 2.9 percent a year. That is below the rate of growth of our national income. That is why, as a share of our economy, domestic discretionary spending is going down, not up. So when you hear claims this is a big spending budget, it is not this budget. They may be talking about some other budget, but the budget before us is the budget reported by the conference committee, and that budget is tough on spending, it is tough on deficits, it is tough on getting our country back on a more sustainable course.

We have a series of budget enforcement tools in this budget resolution that I am particularly proud of: discretionary caps for 2009 and 2010; we maintain a strong pay-go rule; we 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; and we provide a point of order against mandatory spending on an appropriations bill.

This last one I want to emphasize I think is especially important. Because what we have found is our friends on the Appropriations Committee have found a new way around the rules here and they have started to put mandatory spending on discretionary spending bills. Let me be clear. Mandatory spending is for things such as Medicare, for Social Security. If you are eligible, if you qualify, you get your benefits. So that is called mandatory spending, and that is most of the spending of the Federal Government. Most of the spending is now mandatory spending. Medicare and Social Security are the biggest ones. We also have certain veterans benefits, which is mandatory spending for some of it, much of it discretionary.

Discretionary means under the discretion of the appropriations process each year. That is why it is discretionary. And discretionary spending, as I have indicated, is going down under this budget as a share of our gross domestic product. But we don't want mandatory spending to be increased in discretionary spending bills, and that started to happen a couple of years ago and we put this point of order in place to provide a barrier, a hurdle, against that bad practice.

We also have in this budget resolution provisions addressing our long-term fiscal challenges. I think everybody understands that health care is the 800-pound gorilla. Health care in our Federal accounts -- Medicare, Federal share of Medicaid, and other aspects of health care spending -- is where we see spending of the Federal Government soaring and continuing to grow out of control. So there is the health care reform reserve fund that I previously described that is critically important to getting our fiscal future back in line.

We also provide program integrity initiatives to crack down on waste, fraud, and abuse in Social Security and Medicare. This is especially prevalent in Medicare. The previous Secretary -- Secretary Leavitt -- whom I had high regard for, came to see me one day. He had with him information about scams that were being conducted across the country to defraud Medicare, and he had pictures of phony operations in Florida that were in shopping malls where they had individual storefronts set up that were supposedly providing Medicare services, each of them billing $500,000 to $1 million a year in so-called services to Medicare-eligible patients.

When they pierced the veil, what they found was they weren't providing any services, they were just doing the billing. They were billing but they weren't providing any services. It was a complete scam. And there were dozens of them -- dozens of these storefront operations. The Secretary himself went to some of them in the middle of the day and they were closed. They were closed for the public, but they were open for scam. We have provided funds to go after those kinds of fraudulent operations.

We have also provided a long-term deficit increase point of order to try to prevent any action by the Congress to increase the long-term deficit without facing a supermajority point of order hurdle.

Let me close on this quote by President Obama, because it is something I agree with very much. While I believe this budget has made good progress at getting our fiscal house back in order for the next five years, we have to do much more -- much, much more. President Obama said this at the Fiscal Responsibility Summit he hosted at the White House at the end of February: “Now, I want to be very clear. While we are making important progress towards fiscal responsibility this year, in this budget, this is just the beginning. In the coming years, we'll be forced to make more tough choices, and do much more to address our long-term challenges."

That is true. We have got much more work to be done, especially in the second five years. This is a five-year budget, because of the 34 budgets written by the Congress, 30 of the 34 have been five-year budgets. The President sent us a 10-year budget. Some have asked why we didn't do a 10-year budget. Very simply, because Congress almost always has done five-year budgets because we know that the projections for the second five years are highly unreliable -- highly unreliable. Frankly, a forecast for five years is a bit of a crap-shoot.

I used to have the responsibility of forecasting the revenue for my State. I had to do it for three years. I know how difficult it was to do that for three years. Five years is extraordinarily difficult, especially at a time like this of dramatic economic changes and a very steep downdraft. The reality is that 10-year forecasts have very little reliability. So we have done a five-year budget here. That, as I say, has been done 30 of the 34 times Congress has written a budget under the Budget Act. Thirty of the 34 times, it has been a five-year budget.

I say to my colleagues, I believe this budget is part of economic recovery. We are facing very tough winds. We are facing a very tough economic environment -- the steepest downturn since the Great Depression -- and we are going to have to be aggressive in terms of preventing a deflationary spiral that could suck this economy down. We saw it in the Great Depression -- a failure of Government to act effectively until tremendous damage had been done: the unemployment rate rose to 25 percent, the stock market fell by nearly 90 percent. We had a circumstance in which 25 percent of the people -- more than 25 percent of the people -- were unemployed, with staggering devastation to the strength of America.

The Chairman of the Federal Reserve, Mr. Bernanke, has made it his life's work to study how to avoid another Great Depression. In his analysis, and others like it -- as historians look back -- the conclusion is there was a failure of the Government to act proactively. It waited too long. It believed the markets would correct themselves. It believed that somehow everything would work out without intervention. That proved to be a fatal mistake.

All of the elements of the Federal response have taken a different direction in this downturn, and it started with the previous administration, to their credit. The Federal Reserve has done a great deal to provide liquidity in this economy. Instead of pulling back, it has extended credit. The Federal Government, instead of pulling back in order to balance our budget in the short term, has put forward hundreds of billions of dollars in a stimulus package to provide an increase in aggregate demand to provide stimulation to the economy, to provide liquidity. Without it, I believe the collapse would be far steeper, far more serious, and far more threatening. And remember, what we are faced with is not just a national crisis, it is a global crisis, with global economic activity falling very dramatically all around the world. The response of almost every industrialized country has been like ours, to provide liquidity, to provide stimulus. China has a major stimulus program, Japan, and Europe; virtually all the countries of Europe. Russia has announced a major stimulus plan.

I believe those are the right policy responses, however imperfect -- and imperfect they are, the specific packages that have been developed. I myself thought we could have done much better in our stimulus package. I would have liked to have seen much more funding for infrastructure. I wanted much more funding for infrastructure because I personally believe that is a place where you get a two-fer: You get a lift for the economy and you also get an investment that strengthens our economic competitive position for the future. But look, there was a substantial infrastructure component. I would have liked to have seen it be far bigger and more robust, but nonetheless, we are moving in the right direction.

This budget moves in the right direction. It is a contribution to economic recovery. It does preserve the President's key priorities of reducing our dependence on foreign energy, which must be done. It focuses on excellence in education, because if we are not the best educated, we are not going to be the strongest country in the world for very long. And it provides for fundamental health care reform -- because that is the 800-pound gorilla that could swamp the fiscal boat of the United States, not to mention the boats of every American family and American companies that absolutely need cost containment -- at the same time improving health care outcomes for the American people. Finally, yes, dramatically reducing the deficit, reducing it by two-thirds in dollar terms, by three-quarters as a share of the gross domestic product of the United States over the next five years.

This is not a perfect document. If I were able to write it just by myself I think I could have improved it. I think every Member here believes that; that if they were able to write this document it would be a better document.

That is not our option. We have a Senate, we have a House of Representatives, we have a President. This is the work of all three entities: The President of the United States, the Senate of the United States, the House of Representatives. I believe we have produced an important step in economic recovery.

I urge my colleagues to support the conference report.