

**Transcript of Remarks by Senate Budget Committee Chairman
Kent Conrad (D-ND) at Markup of FY 2010 Senate Budget Resolution
March 25, 2009**

Today's session will be focused on opening statements, as is our tradition. I would ask members to try to limit their remarks to five minutes. After opening statements, we'll lay down the Mark, so there will be no votes today.

I might just advise colleagues that in my home state we are faced with massive flooding from one end of the state to the other. The mayor of my hometown has just gone on the air and indicated that the threat to my hometown is unprecedented in the history of our city. So, I may be required to do a bit of coming and going during this afternoon, because we are dealing with a very serious crisis in the capitol city, which is my home town.

I would also hope to substantially shorten the question and answer session tomorrow, so we can finish in a timely way. So tonight and tomorrow morning, my staff will be available to answer any questions from members or their staff about the Mark. We then will reconvene at 10:00 a.m. to begin considering amendments. And staff will be available from nine to ten o'clock tomorrow morning as well, as long as they need to be tonight to answer questions.

I would remind members that our committee rules prohibit proxy voting on the budget resolution and its amendments, so all members will need to be here in person to cast their votes.

Senator Gregg and I have already talked about the need to stack votes tomorrow, and we will stack them in consultation with the ranking member in order to make it as easy as we can on members. And we will try to announce in advance, as we have in the past, when those votes will be likely to occur.

We also will ask that all amendments, other than full substitutes, be fully offset over the total of the years covered by this budget resolution. Amendments will need to be paid for over the total of that time period, that is the period from 2009 through 2014.

I would encourage members not to offer "sense of the Senate" amendments. We have tried to get away from that practice. None are included in the Chairman's Mark and it would be my hope that we could have substantive amendments instead of "sense of the Senate" amendments.

In addition, I would note that we will be consulting with the Parliamentarians on any amendments that we believe are not in our jurisdiction and that could cause problems for the resolution.

We intend to file the resolution and the committee print on Friday so that we can proceed to the resolution on the floor on Monday. We anticipate no votes on the resolution on Monday. We invite members to file written views to be included in the committee print, but those will need to be signed and submitted no later than noon on Friday.

Senator Gregg and I met this morning and I think we have the clear intention of getting

amendments up as early as possible and votes on amendments so there is a chance for fuller debate on substantive amendments. Remember last year, we had the problem of Presidential candidates not being available, and that really compressed the time that we could have votes. We hope this year, because that circumstance has obviously changed, that it will be easier to have substantive debate and amendments voted on earlier in the process.

Before I describe the Chairman's Mark, I want to be clear about what a budget resolution does and does not do. I find there is a lot of confusion about this. The truth is that we don't set the policy. We don't tell the Finance Committee how to meet their instructions. We don't tell the Appropriations Committee how to meet their instructions. That is outside the authority of this Committee.

This budget really needs to be viewed in the context of the very difficult situation that we have inherited. This administration and this Congress have been handed significant complications.

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This is the circumstance that we confront as a country, a dramatic deterioration of the budget picture. Record surpluses that were turned into record deficits. And we now expect the deficit to reach \$1.7 trillion in 2009.

We also saw federal debt more than double under the previous administration – rising from \$5.8 trillion in 2001 to \$12.1 trillion now.

And disturbingly, we have become increasingly reliant on foreigners to buy our debt. I know this is the ranking member's favorite chart, because he now has his own version of this chart. But it does make an important point. It did take 224 years and 42 Presidents to rack up \$1 trillion of foreign-held debt, U.S. foreign-held debt. President Bush more than tripled that amount during his time in office.

And here is the economic situation we face. The nation has lost 3.3 million private-sector jobs in the last six months. 660,000 lost in February alone.

The unemployment rate is now at 8.1 percent, the highest level in more than 25 years.

And economic growth has plummeted – falling to negative 6.2 percent in the fourth quarter of last year. And we are expecting revised estimates tomorrow to be even lower.

So this is what President Obama has inherited:

- record deficits and a doubling of the national debt over the last eight years;
- the worst recession since the Great Depression;
- financial market and housing crises;
- 3.3 million jobs lost in the last six months; and
- ongoing wars in Iraq and Afghanistan.

So this is about as tough a situation as any President could inherit. And as everyone has seen, our economic outlook has further deteriorated. The CBO has informed us that they anticipate \$2.3 trillion less in revenue than what was projected three months ago.

The budget resolution I am offering to my colleagues preserves the major priorities of the President while making the adjustments necessary in light of the dramatic change that the CBO has informed us of. And so in this budget Mark I have done my best to preserve the priorities – that are much more than the President’s priorities, I think they are the priorities of the American people – to reduce our dependence on foreign energy, I think that is something that unites us; to focus on excellence in education; and health care reform, because we all know that is the 800 pound gorilla; and also substantially reduce the deficit in the first five years.

In the area of energy, it has never been more clear that our nation’s economic and national security are directly linked to our energy policy. We are dangerously dependent on foreign oil. In 1985, we imported only 27 percent of our petroleum. We are now nearly at 60 percent. As a result, we are becoming increasingly vulnerable to oil supply disruptions and instability in other parts of the world.

So, the budget resolution responds by investing in energy. These investments will reduce our dependence on foreign energy, create green jobs, preserve the environment, and help with high home heating costs.

It does it by providing for a deficit-neutral reserve fund to accommodate legislation to invest in these areas. To be clear, this reserve fund could accommodate policies of the individual committees that write policy in these areas. Be it the EPW Committee or the Energy Committee, they would have maximum flexibility to draft legislation, but it would all have to be paid for.

In the area of education, for too long, we have been falling behind our competitors. Looking at just one key statistic, we are falling far behind countries like China in producing engineers. In 1985, we were producing slightly more engineers than China. China is now producing almost seven times as many engineers as we are.

The budget resolution responds with investments in education that will generate economic growth and jobs, prepare our workforce to compete, make college more affordable, and hopefully improve student achievement.

Again, we do this through the device of the deficit neutral reserve fund. It extends the simplified college tax credit – providing up to \$2,500 a year. And it includes the President’s requested level of \$5,550 for Pell Grants; and fully funds his education priorities, such as early education.

Let me make clear, we did not adopt the President’s proposal to make all the Pell grants mandatory. We maintained the current structure that is a hybrid structure – part discretionary, part mandatory. And we did that in conjunction with the committees on jurisdiction.

In the area of health care, we all know this is the 800 pound gorilla. That soaring health costs that threaten American families, American businesses, and the fiscal structure of the country

itself. Total public and private health care spending is projected to rise to 37 percent of GDP by 2050 if we stay on the current trend line; and clearly we can not.

The budget resolution responds by again creating a deficit neutral reserve fund that gives maximum flexibility to committees of jurisdiction. And I want to be clear, and I have spoken to Senator Gregg about this, and he will have his opportunity to express his reservations about this, but instead of requiring that legislation like this be paid for over six years and 11 years, we will require it will be paid for over 11 years, but not have the six-year requirement as well. Because as we reviewed the proposal on health care, there are clearly up front costs and we do not think it can be paid for over the first six years.

Notably, The resolution also includes a reserve fund to address Medicare physician payments; and it continues investments in key health programs, such as NIH and the FDA.

Let me say in respect to the so called “Doc Fix”, we have been paying for the “Doc Fix” year after year. The President came with a budget that said you don’t have to. Once we got the new forecast, it became clear to us we have to insist that the “Doc Fix” should be paid for as well as other things if we are to reduce the deficit to three percent of GDP, which economists say is absolutely essential.

In the area of defense, the budget resolution matches President Obama’s core defense budget and the President’s request for additional war costs. The budget resolution follows this approach, which will enhance oversight of war funds and save vital resources by also including a more honest accounting of the war in Iraq and Afghanistan.

Over the 2010 to 2013 period, the budget resolution actually includes \$45 billion more in defense funding than President Bush’s final defense plan for that same period.

As I noted earlier, the budget resolution cuts the deficit in half by 2012 and by two-thirds by 2014. We show a final deficit of 2.9 percent in 2014, which is just slightly below the 3 percent target we were urged to hit. That would be a deficit of \$508 billion in 2014.

Spending as a share of the economy also declines under the resolution – dropping from 27.6 percent of GDP in 2009 to 22 percent of GDP in 2014.

In terms of discretionary spending, and this has been extremely controversial, we provide a 3.8 percent increase over the 2009 level for defense, a 17.8 percent increase for international. By the way, I was urged to do this not only by the Secretary of State, but interestingly the Secretary of Defense called me at home on Saturday urging me to put these increases in the budget, as he told me because many things are being funded in the defense budget that should more properly be funded in the State Department budget.

We also provide a 6 percent increase for domestic initiatives, so on total domestic spending, we have an increase here of 5.3 percent. I can tell you there are many who urged me very forcefully, some members of this Committee, to be significantly higher than that. Let me just say when you lose \$2.3 trillion, you have to do a lot of things to get back to some reasonable

budget trend line. And we have made many changes. In the five-year budget submitted by the President, we have made \$608 billion of changes to get down to a deficit of less than 3 percent of GDP in the fifth year. We simply had to do this to get the deficit on a downward trajectory and one that can be supported.

On the revenue side, the budget resolution also includes a total of \$825 billion in tax cuts.

- \$601 billion to extend the middle-class tax cuts from 2001 and 2003, such as the 10 percent bracket, the child tax credit, the marriage penalty relief, and the education incentives, as well as the other 2001 and 2003 tax cuts extended in the President's budget for taxpayers making under \$250,000 a year.
- There is also \$216 billion for three years of alternative minimum tax reform. By providing for three years of AMT relief, we ensure that offsets would not be required while the economy is weak or in recession. But beyond those three years, the resolution assumes that the alternative minimum tax would have to be offset or handled as part of tax reform.
- There is also \$72 billion to match the President's estate tax reform proposal, which would permanently extend the 2009 level of a \$7 million exemption for couples and \$3.5 million for individuals.
- There is also \$69 billion for the tax extenders that we have to consider every year in the Finance Committee, and for certain key business provisions the President endorsed as well.
- The resolution also includes \$133 billion in loophole closers and raisers, which could be raised by codifying the economic substance doctrine, enhancing international enforcement, and addressing abusive tax shelters.

It has been reported that this budget resolution rejects the President's Making Work Pay tax credit. Let me say I think some of the reports are in error here. Let me be clear. The Making Work Pay provisions are extended for two years in the stimulus package. So they are provided for for the next two years in the stimulus package. To extend them further under our assumptions would require offset, would require them to be paid for. And again, we tried to be fair in the distribution of the adjustments to be made. So, of the \$608 billion that we changed from the President, 30 percent is on domestic discretionary, 30 percent is on the revenue side, and 40 percent is from mandatory spending.

The budget resolution retains a number of key budget enforcement mechanisms, including:

- discretionary caps for 2009 and 2010;
- maintaining a strong paygo rule – Senator Gregg may have a different view of that;
- a point of order against long-term deficit increases;
- a point of order against short-term deficit increases;
- allowing reconciliation for deficit reduction only – there are no reconciliation instructions

- in this proposal; and
• a point of order against mandatory spending on an appropriations bill.

The budget resolution takes steps to begin addressing our long-term fiscal challenges. As I noted earlier, the health reform reserve fund would accommodate a major health reform initiative that will be critical to bending the cost curve on health care. Addressing the rise of health care costs is the single most important thing we can do about our long-term budget challenges.

The resolution also provides for program integrity initiatives to crack down on waste, fraud, and abuse, especially in federal programs like Medicare, to allow for investigations, prosecutions and recovery of what we believe are billions of dollars that are being fraudulently taken from that program.

And, as I noted earlier, we retain a long-term deficit increase point of order, to prevent the adoption of legislation that would worsen our long-term deficit picture.

One thing I should repeat with respect to reconciliation, we have a rule here that precludes reconciliation for being used for anything that does not have deficit reduction. So people might want to keep that in mind who are pressing for the use of reconciliation.

But, to be clear, the President himself has indicated that this year's budget is just the beginning, and much more will be needed to put our budget back on a sound long-term fiscal course.

The President's Fiscal Responsibility Summit initiated an open bipartisan dialogue on this subject. I hope we will soon reach consensus on establishing a special bipartisan process to deal with these long-term budget issues. Senator Gregg and I have a proposal. I am open to alternatives. To me it is absolutely critical that we take on the long-term threat to the economic security of the country posed by growing debt. But I do believe that this budget represents a responsible beginning; to reduce the deficit by more than two-thirds over the first five years to get us to a deficit of less than 3 percent of GDP in the fifth year.

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I have said publicly and privately many of the things you just said [about reconciliation], and I believe them. I don't believe reconciliation was ever intended for this purpose. I don't believe reconciliation was intended for anything other than deficit reduction.

I think you all unfortunately abused that process. I believe it deeply. You used it for tax cuts that dramatically extended deficits and debt, not reduced it. So you abused it. But that wrong does not make it right for us to try to use reconciliation for a purpose never intended. Beyond that, if people carefully research how reconciliation works, I think they will find it doesn't work well for writing major substantive legislation. And the key reason it doesn't work well is because of the Robert C. Byrd rule that provides for direct strikes of anything that doesn't score, for direct strikes of anything where the score is only incidental to the policy change, and that would leave one with what the Parliamentarian has described as Swiss cheese legislation. So with respect to reconciliation I happen to agree with the gentleman.

I also happen to agree with the long-term concern on deficit and debt. We are on a course that is unsustainable. I do believe that the five years of the budget Mark that I am laying down puts us on a much healthier trend line. But I in no way represent that my Mark or the President's budget deals effectively with the long-term threat to this country. That is going to require entitlement reform and tax reform, and I believe a special process like the one that the gentleman from New Hampshire and I have outlined to our colleagues. I don't believe it is ever going to happen under the regular order. I believe it does require a special process.