Floor Statement by Senate Budget Committee Chairman Kent Conrad (D-ND) on Fully Paid For AMT Amendment September 23, 2008

I have offered this amendment to prevent the alternative minimum tax from hitting 26 million taxpayers in 2008. My amendment is fully paid for. That is how we should provide alternative minimum tax relief.

We need to wake up around here. We are facing a fiscal crisis, in part because of the massive deficits and debt we have run up as a nation that has helped propel this bubble. Our markets are in turmoil. The Bush administration is now proposing to spend hundreds of billions of taxpayer dollars to stabilize Wall Street. We simply cannot continue to pile debt on top of debt. We have to begin to send a signal that the United States is going to start paying its bills. We are running massive budget deficits, massive trade deficits. The debt of the country has mushroomed.

In one fell swoop, the administration is proposing adding $700 billion more. That is on top of the $100 billion dedicated to Fannie Mae, the $100 billion dedicated to Freddie Mac, and the $85 billion dedicated to AIG. Let's add that up. That is nearly a trillion dollars. Let's add the $30 billion for Bear Sterns. We are over a trillion dollars.

Let's think very carefully about what is happening. Yesterday, the Washington Post reported the dollar declined in value against the euro by more than 2 percent in a single day. I ask people who are watching and listening to think very carefully now about how these events are connected. The dollar has gone down in value sharply. Already in the last 6 years it has gone down about 40 percent against the Euro. Yesterday, in one day, it went down 2 percent. In one day, the stock market went down almost 400 points. In one day, the price of oil went up by a record amount for a single-day increase. These events are all connected. We have to connect the dots. The dollar goes down in value, oil sells in dollar terms. That puts upward pressure on oil prices.

Of course, as people see that we are headed toward some kind of economic weakness, they look for safe havens. One place to look is commodities. A key reason people are losing confidence in the dollar is the mushrooming debt. To add in just a matter of days almost a trillion dollars to a debt that already stands at $9.6 trillion has an effect on people's confidence in the ability of the United States to repay. That means they are going to insist on higher interest rates in order to continue to extend us credit.

As we run up these massive deficits and debt, where do we get the money to pay for this? We get it by borrowing, and increasingly we have been getting it from borrowing from other countries. We cannot afford to continue on this course of not paying for things.

We can look back now and see the results of these irresponsible fiscal policies. In the last eight years, we have seen the five highest deficits ever recorded, with the highest of those now projected to come in 2009. The 2009 estimate of the deficit does not include the still unknown cost of the Federal intervention to help the financial markets.

But our budget situation is actually even worse. The debt is going up much more rapidly than the reported deficit. For example, the increase in the debt in 2008 will be far greater than the estimated $407 billion deficit. That is because the general fund of the United States is taking the surpluses from Social Security and Medicare and using those funds to pay other bills. Let me repeat that: The debt increase in 2008 will not be the $407 billion advertised deficit. The increase in the debt will be $647 billion. For next year, the deficit is estimated to go up $438 billion. The debt will go up by $800 billion. And all that is before we include those bailouts. We could easily see the debt of the country go up a trillion dollars next year. The debt, as we sit here today, is $9.6 trillion. That is the gross debt of the United States.

This President has been building a wall of debt: $5.8 trillion at the end of his first year; now they want to increase the debt ceiling to over $11 trillion. This chart shows $10.4 trillion in 2009. That has now been erased because what they are proposing to do is increase the debt ceiling to over $11 trillion, nearly a doubling of the debt in that short period of time.

Here is what the New York Times headline from this weekend said: "Administration Is Seeking $700 billion for Wall St.; Bailout Could Set Record." That could mean hundreds of billions of dollars of debt added to the wall of debt we already face. That is an unsustainable circumstance. It is a key reason why the dollar went down 2 percent in value in one day.

One of the great risks that is being run by this fiscal policy is the risk of a sharp downward break in the value of the dollar. If that were to occur, we would be faced with a series of unpleasant alternatives. One would be a sharp cut in spending by the United States. A second possibility would be a dramatic increase in taxes. A third would be a substantial increase in interest rates to attract additional capital to float this boat.

I hope people are listening. I know this is hard to fully comprehend because economic issues are complex. But they are related. They are tied together. The fact that we have dramatically increased the debt and deficit has an impact on the value of our dollar. When we flood the world with dollars, the value of those dollars goes down. When those dollars go down in value, that puts us in a position of having to find some way to attract additional dollars. One way open to us is to increase the rent we pay for those dollars we call interest. If we had to dramatically increase the interest rate to attract dollars to be able to float this enterprise, that would have an adverse effect on economic growth and economic activity.

So all of these things are connected. They are related, and they matter. We are already seeing the dollar fall further in response to the prospect of billions of dollars of additional debt being piled on.

The Washington Post article I showed earlier said "Currency's Dive Points to Further Pain." Again, a 2-percent reduction in the value of our currency in a single day. This is after the dollar has already lost about 40 percent of its value against the euro since 2002.

I am not the only one who believes we have to start paying for things. Earlier this month, the former Chairman of the Federal Reserve reiterated his opposition to deficit-financed tax cuts. This is what Alan Greenspan said on Bloomberg Television: “...[U]nless [tax cuts are] paid for on the so-called pay-go, I'm not in favor of it. I'm not in favor of financing tax cuts with borrowed money.”

To my colleagues who say: Well, it is the people's money so let's give it back to them in a tax cut, what people are we talking about here? It is the people's money, so we give it back to them. The problem is, the people's Government does not have any money. The people's Government is out of money. It is borrowing money, and increasingly it is borrowing from foreign entities. So when people say: We ought to give the people's money back to them, it is a little late. We already did that. We did that, and much more. We went and borrowed money to give it to them.

Now, who is going to get stuck with the tab? It is going to be the American taxpayer. Because you can only continue to stack up debt for so long. At some point the chickens come home to roost. That is why I support a fully paid-for alternative minimum tax relief amendment. This alternative minimum tax relief provides tax relief in the first year costing $76 billion, but it is paid for over the next 10 years.

I remind my colleagues that pay-go does not require that these bills be paid for immediately. It requires the legislation be paid for over 6 and 11 years. Given the economic downturn and turmoil we now confront, I would not call for paying for AMT relief right now. But we can provide offsets over time to cover the cost. That would be the responsible thing to do, and it would send a signal to the financial markets that we are serious about putting our fiscal house back in order.

Some have argued we should not be raising taxes to pay for alternative minimum tax relief. We are not talking about raising taxes. We are talking about closing tax loopholes and making hedge fund managers and oil companies pay their fair share.

Here is a list of the offsets or the pay-fors included in my amendment.

One, ending deferral of offshore compensation by hedge fund managers trying to evade current taxation. Two, delaying implementation of a new worldwide interest allocation provision designed to benefit some multinational corporations. Three, correcting underpayment of royalties for oil and gas production on federal land in the Outer Continental Shelf. Four, codifying economic substance -- prohibiting transactions with no economic rationale, done solely to evade taxes.

Does anyone oppose closing these loopholes? Does anyone oppose these offsets, these means of paying for what is needed? Because certainly alternative minimum tax relief is needed. Otherwise, 26 million people are going to get hit by the alternative minimum tax.

It is important to recognize these annual alternative minimum tax fixes, as costly as they are, conceal the much longer and larger long-term cost of fixing this problem. The cost to reform the alternative minimum tax over the next 10 years is a staggering $1.6 trillion. Let me repeat that. To fix the alternative minimum tax over the next 10 years would cost $1.6 trillion. So if we continue to pass alternative minimum tax patches that are not offset, that is the real amount, as shown on this chart, we are going to be adding to the Nation's debt.

Over the summer, I asked the Congressional Budget Office to examine the impact on our budget and economy from continuing to pass these unoffset tax cuts. CBO found that the debt absolutely explodes if we continue with unoffset alternative minimum tax reform and unoffset extension of the President's tax cuts -- rising to 602 percent of the gross domestic product by 2082.

Let me repeat that. This is what the Congressional Budget Office has told us will happen if we continue on this course. As shown on this chart, this is the debt if we proceed with the current policies. That is the green line. Now, this is the debt that will accrue if we continue to pass alternative minimum tax reform unpaid for. That is the black line. Finally, the red line is what happens to the debt with unoffset alternative minimum tax reform and extension of the Bush tax cuts. In that case, the result is the debt of the country goes to 600 percent of gross domestic product. That is five times the record amount. That is five times the record amount of debt to gross domestic product in our Nation's history.

What is the implication of such an explosion of debt? What would it mean? I asked the Congressional Budget Office to tell me what would happen if we fail to pay for alternative minimum tax reform and the Bush tax cuts. What would happen to economic growth? Here is what they concluded. As shown on this chart, the black line is the economic loss from not paying for alternative minimum tax reform. You can see, it is very dramatic, the drop in GNP per person. Here is what happens to economic loss from not offsetting the alternative minimum tax reform and the extension of the Bush tax cuts. CBO projects that, over time, it would reduce American living standards by 50 percent.

It is because the debt operates as a gigantic drag on the economic growth of the country. How is that possible? Well, very simply, as I described earlier, if you keep adding to the debt, you have to finance it. How do you finance it? You borrow it. Increasingly, we borrow from abroad. That undermines the value of the dollar. That puts upward pressure on interest rates. Rising interest rates stifle economic growth. Again, that is not just my view.

Here is what the Congressional Budget Office said in a letter to me on July 17 of this year concerning their estimates: "Despite the substantial economic costs generated by deficits in that model, such estimates may significantly understate the potential loss to economic growth from financing the tax changes with deficits....In reality, the economic effects of rapidly growing debt would probably be much more disorderly and could occur well before the time frame indicated in the scenario."

Is anyone listening to what our own advisers are telling us? Deficit financing of tax cuts hurts long-term economic growth, and the reaction could be disorderly changes in the markets well before the models suggest. I believe that, in part, that is what we are seeing today: a sharp drop in equity values, a sharp drop in the value of the dollar, and all the while we see a massive increase in our deficits and debt.

As shown on this chart, this is the long-term budget scenario of the Congressional Budget Office. This is where we are to this point. This is where we are headed without fundamental changes. If we keep patching the alternative minimum tax without paying for it, if we extend the Bush tax cuts without paying for them, there is going to be, according to those who advise us, a sharp reduction in economic growth, a sharp reduction in the economic strength of our country.

We have to start somewhere. I propose we start today by paying for the alternative minimum tax relief that is needed. We could do it today. We could open a new chapter. We could get serious about the long-term economic prospects of our country. The alternative is to stay on the current course, keep running up the debt, keep running the risk of a sharp break in the value of the dollar, keep running the risk of a sharp break in the economic strength of our country.