Opening Floor Statement by Senator Kent Conrad (D-ND)
on FY 2007 Senate GOP Budget Resolution
March 13, 2006

I thank my colleague, the Chairman of the Budget Committee, for his many courtesies during the budget process and the budget hearings. There has been full consultation with respect to the operations of the Committee, the hearings that we have held, the way we have conducted the markup, the way we will proceed here on the floor. I thank him very much for that set of courtesies.

I also thank him for his professionalism. There are many places he and I agree. I think both of us would be the first to acknowledge that we are on an unsustainable course and that the country is going to have to face up to these growing deficits and debt. And the sooner we do it, the better.

With that said, I do disagree with this budget. I don't think it meets the needs of our time. I don't think it faces up to this rapidly growing debt. I don't think it has the right priorities for the American people. And I don't think it has the right balance.

If there is one message I would want to communicate, it is this: The debt is the threat. We hear a lot of talk about deficits, but really the threat to our country is the growing indebtedness of our country, an indebtedness that is increasingly being financed by foreigners.

How did we get into this mess? We can go back to 2001 when the President told us that if we would adopt his financial plan, everything would go well. He told us: "[W]e can proceed with tax relief without fear of budget deficits, even if the economy softens."

That is what he told us back in 2001. Now we are able to check the record and see – was the President right? This chart shows very clearly the President was wrong. We had a $236 billion surplus in the year before he took office, and this is the fiscal record since. The President's plan has plunged us into deep deficit, the largest deficits in our country's history.

The next year, 2002, the President revised his position and said: "...[O]ur budget will run a deficit that will be small and short-term...."

He retreated from the assertion that we were not going to have deficits because obviously that proved wrong. Then he said the deficits are going to be small and short-term. That was the next year. Now we are able to check that statement and see if that was right. Once again, the President was simply wrong. The deficits have not been small and short-term; they have been large and long-term. In fact, virtually every year, the deficits have gotten worse. In the first year under the President's plan, we had a $158 billion deficit. In 2003, that exploded to $378 billion. It increased even more in 2004 to $413 billion. Then we had some improvement in 2005 with $319 billion. In 2006, we are now forecasting once again the deficit going up.

Far more serious than the deficit is the increase in the debt because the debt is increasing much more rapidly than the size of the deficits. I indicated for 2006, we are anticipating a deficit now of $371 billion, but the debt is going to increase by $654 billion.

I find very often people are confused on this point. They think the deficit is the amount by which the debt increases, and that is not the case. The biggest difference is Social Security funds that are in temporary surplus that are being used under the President's plan to pay for other things -- to pay for tax cuts, to pay other bills. And when you add up the deficit and the amount being taken from Social Security, which has to be paid back, and other trust funds that are also being diverted and being used for other purposes, what we find is the debt in this year will increase not by $371 billion, the amount of the deficit, but instead by $654 billion. That is why I say the debt is the threat.

The next year after 2002, the President, in 2003, no longer made the argument that the deficits were going to be small and short-term because that was clearly not going to be the case. Now he revised his argument for the second time when he said: “Our budget gap is small by historical standards.”

That is not really right, either, because here is the record with respect to the deficits in comparison to back in 1970, 36 years of comparisons. We can see the deficit under the President's plan has been the largest in dollar terms in our history. In fact, he is in first, second, and third place. He has the top three deficits in our country's history.

There is a new report out that says the deficits as reported are themselves understated. Not only is the debt going up more rapidly than the deficits, but this is a report about what would happen if we were under the kind of accounting system virtually every company in America is under, accrual accounting. Here is what it says. This is a Gannett News Service report from March 3 of this year: “If the United States kept its books like General Motors and nearly every other business in the country, the 2005 budget deficit would be $760 billion and rising, not $319 billion and falling, as is commonly reported....”

They go on to ask the question: “How can two reports on the same budget be so different? It's a matter of what's counted. The budget figures usually bandied about in Washington are the amounts the Government takes in and spends each year. The financial report, which has been an annual requirement since the mid-1990s, does what businesses are required to do: include the cost of promised benefits.”

If that were done, the deficit for 2005 would not have been $319 billion, the deficit would have been $760 billion.

I am increasingly persuaded that the language we use in Washington misleads people. I go back to when President Bush came in and we were told we were going to have $5.6 trillion surpluses. It was never true. Much of that money was Social Security money. There wasn't much of a surplus at all. It was in temporary surplus, but every dollar of that money was going to be needed.

This shows that if we were on an accrual basis such as virtually every other institution in this country operates on, we would not have had a deficit of $319 billion in 2005, we would have had a deficit of $760 billion.

Then in 2004, the President changed his argument once again. He went from there are going to be no deficits, to they are going to be small and short-term, to they are small by historical standards. When all of those proved wrong, then the President said: I am going to cut the deficit in half over the next 5 years. This is what he said in August of 2004: “So I can say to you that the deficit will be cut in half over the next five years....”

I think the President will be proved wrong once again. Why? Because in reaching that calculation, the President simply left out things. He left out any war costs past 2007. He left out all the costs of fixing the alternative minimum tax, which will cost $1 trillion to fix. He didn't put any money in his budget for it past this year.

When we add back in the items the President has left out and we go beyond the five years in his budget to capture the full effect of his proposed tax cuts, what we see is some modest improvement during the five years in terms of the deficit -- that is not true of the debt, by the way; it is true of the deficit -- but past the five years, things get much worse as the full effects of the President's tax cuts take effect. Here is why.

This chart shows the full effect of the President's proposed tax cuts. The President's budget only goes to this dotted line. But look what happens beyond the dotted line in terms of the cost of his tax cut. It absolutely explodes. Of course, not all this is captured in his budget.

Similarly, none of the costs beyond fiscal year 2006 are in his budget for fixing the alternative minimum tax. The alternative minimum tax, the old millionaire's tax, is rapidly becoming a middle-class tax trap. It costs $1 trillion to fix over 10 years. The President doesn't have a dime in his budget to do it beyond 2006.

The President has what I would call a rosy scenario. He says he is going to cut the deficit in half, but it is largely based on a fiction. It is not really a budget at all.

On the alternative minimum tax, again the President has nothing in his budget past 2006 to deal with it. Three-point-six million taxpayers were affected in 2005. By 2010, there will be 29 million taxpayers affected. And the President does nothing to address this need. There is no money in his budget past 2006 to face up to it.

But that is not the only place the President has understated the costs. With respect to the war, in 2006 and 2007, the supplementals he has provided, he has $118 billion budgeted. The CBO says $312 billion is needed. Once again, the President is badly understating the true cost to the country and, as a result, winds up with a misleading budget result.

When I say the debt is the threat -- and I hope, if people take nothing else away from my discussion today, they will begin to understand that the great threat to this country is the burgeoning debt of our Nation. The debt is the threat.

As I have indicated, the President has funded the war with a series of supplementals. The Chairman of the Committee had this chart up as well. In 2006, $118 billion; in 2007, he is only asking for $50 billion at this point. Really, is that what the war is likely to cost? Is all of a sudden the need for these additional funds going to be cut more than 50 percent? Or is the President playing hide the ball from us in terms of these costs?

When I talk about the debt, the President early on acknowledged how important it is to face up to the debt. This is what he said in 2001: "...[M]y budget pays down a record amount of national debt. We will pay off $2 trillion of debt over the next decade. That will be the largest debt reduction of any country, ever. Future generations shouldn't be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren."

The President was exactly right. I agree with every one of these words in terms of the need to pay down the debt and we should not be shuffling this responsibility off on our children and grandchildren. That is what the President said. He said he would have maximum paydown of the debt.

Let's look and see what has actually happened because, once again, the President was simply wrong. There has been no paydown of the debt. This is what the debt was at the end of his first year. We don't hold him responsible for what happened the first year because he is operating under the previous administration's budget.

At the end of the first year, the debt was $5.8 trillion. At the end of this year, the debt will be $8.6 trillion. The President said he would have maximum paydown of debt. There is no paydown of debt here. The debt has exploded. And if the President's budget or the budget that is offered on the floor is adopted, at the end of the next five years, the debt will be $11.8 trillion -- a national debt that will have more than doubled since the end of the President's first year in office, all of this before the baby boom generation retires.

This President has racked up already more debt than any President in history and by a large measure. The debt limit has already increased over $3 trillion: $450 billion in 2002 was added to the debt limit; in 2003, $984 billion; in 2004, $800 billion; now this week, they are asking for another almost $800 billion increase in the debt limit. That is why I say the debt is the threat.

And what are the ramifications? Here is one that I find most stunning. It has taken 42 Presidents -- all of these Presidents pictured here going back to the time of George Washington, through every President, including the President's father, and then President Clinton -- it took 42 Presidents 224 years to run up $1 trillion of external debt, our debt held by foreigners. This President has more than doubled that amount in five years.

This is an utterly unsustainable course. It is an absolutely unsustainable course. Unfortunately, in this budget, nothing is being done about it except to make it much worse.

The result of these extraordinary debts being held by foreigners -- and there was a recent article in the *Washington Post* that indicates now that foreigners hold almost 50 percent of the

U.S. debt. It used to be that we would borrow from ourselves to finance this debt. Not any more. Now we are borrowing from every country all around the world. We have borrowed over $680 billion from the Japanese. We have borrowed more than $250 billion from the Chinese. We have borrowed more than $230 billion from the United Kingdom and, my favorite, we have borrowed more than $100 billion from the Caribbean Banking Centers. Why, we have even borrowed $60 billion, more than $60 billion, from South Korea.

This is a course that is utterly unsustainable. Chairman Greenspan has said it. The Comptroller General of the United States has said it. The head of the Congressional Budget Office has said it.

Now we have this budget on the floor, and this budget basically is a stay-the-course budget. It keeps running up the debt. It keeps running up the debt, and in record amounts.

If that is what you want to support, I would say to my colleagues, vote for this budget. If you think the appropriate course for the country is record additions to our debt, then vote for this budget. Because in this budget, they have left out 10-year numbers, so they hide the effect of the tax cut proposals of the President. They don't have funding for the ongoing war costs beyond 2007. They don't fund the alternative minimum tax reform beyond 2006. They have left out entirely the President's Social Security privatization proposal.

If we put back some of those things that have been left out, instead of the chart that the Chairman showed with these red blocks with the budget deficit going down or appearing to go down, if you add back the omitted costs and you add back the money that is being taken from Social Security that adds to the debt -- all of it has to be paid back -- and you add the associated interest costs, what you find is the debt is going up each and every year of this budget proposal by more than $600 billion.

In 2007, the debt is going to go up $680 billion. In 2008, it is going to go up $656 billion. In 2009, it is going to go up $635 billion. In 2010, it is going to go up $622 billion. In 2011, it is going to go up $662 billion.

Now, unless somebody thinks I am just imagining these numbers, making them up, let's look at what is in the budget offered by our colleagues, their calculation, their calculation of how much the debt is going to go up during this period. And, remember, they have left out war costs past September 2007. They have left out the need to fix the alternative minimum tax. They have left out the associated interest costs. But even their calculations -- even their calculations -- show the debt going up this year, 2007, by $663 billion; in 2008, $577 billion; in 2009, $536 billion; in 2010, $513 billion; in 2011, $539 billion. This debt is running out of control.

If we look at what are the causes, it is very simple. We are spending more money than we are raising in revenue. That is why we have explosions of deficit and debt. We are spending more than we are raising, and our colleagues on the other side don't want to reduce their spending to the amount of revenue they are able to provide, nor are they willing to raise the revenue to meet their spending. The result is an explosion of deficit and debt.

This shows the relationship between spending and revenue going back to 1980. The red line is the spending line. You can see during the previous administration, spending as a share of gross domestic product came down each and every year. Why do we use gross domestic product? It is because economists say that is the way to take out the effects of inflation and real growth, so that you are comparing apples to apples.

With the new President, President Bush, spending went up. Why did it go up? Overwhelmingly, it went up because of the need for more spending for national defense and homeland security, and to rebuild New York. Those are increases in spending that all of us supported on a bipartisan basis, and that took the spending up to something over 20 percent of GDP.

But look what happened to the revenue side of the equation. The revenue side of the equation went from a record level in President Bush's first year, and the revenue side of the equation collapsed. Part of it, as the Chairman rightly describes, is as a result of economic slowdown, but about half of the reduction is because of tax cuts. Now we can see the revenue in 2004 was actually the lowest as a share of GDP since 1959 -- the lowest since 1959.

We have seen a bump-up as we have seen economic recovery. The Chairman is absolutely right; economic recovery does lead to revenue. Absolutely. The place where we disagree is the notion that some on that side of the aisle have that tax cuts generate more revenue. I have heard this so often from the other side: Tax cuts generate more revenue.

Let's check the facts. What the Chairman showed was projections. He showed what he forecasts or somebody forecasts is going to happen in the future. Let's not rely on future projections. Let's look at what has actually happened in the real world to revenue after the massive tax cuts of this administration. Did we get more revenue? That is a pretty simple question to ask and a pretty simple question to answer. The answer is no, we didn't. In 2000, before the big tax cuts, we had over $2 trillion of revenue. Then we had the massive tax cuts of 2001, and look what happened to revenue – it went down in 2002. It went down in 2003. In 2004, it still was well below where it had been in 2000. We didn't get back to the revenue base that we had in 2000 until the year 2005.

At what point are we going to dispel the myth that tax cuts create more revenue? They didn't, they haven't, and they won't.

That is not my view. I am taking my view from what has actually happened in the real world, instead of some ideological belief and hope. Let's go on facts. Let's go on what has happened. Here is what Chairman Greenspan says: “It is very rare and very few economists believe that you can cut taxes and you will get the same amount of revenues.”

This is not based on just what Chairman Greenspan says added to the facts of what happened since 2001; here is what an Economy.com report says on the U.S. macroeconomy: “Economists find no support for the claim that tax cuts pay for themselves. Four years after income taxes were first cut and nearly four years after the recession ended, Federal revenues are still slightly below their early 2001 peak on a nominal basis; on a real basis, adjusted for inflation, revenues are down 11 percent from their all-time high. Therefore there is no support for the Laffer Curve effect: the view that a tax cut can actually boost government revenues as workers and entrepreneurs respond with large increases in effort."

From that, I don't make the argument that the answer to our problem is tax increases at this point. I do believe revenue has got to be part of the solution.

Our friends on the other side and the Chairman have said it has to be done on the spending side. Absolutely, the spending side has to be a very significant part of addressing this problem. But revenue also has to be a part of addressing this problem, and the first place we ought to look for revenue is not a tax increase. The first place we ought to look for revenue is the tax gap, the difference between what is owed and what is being paid.

The revenue department says the tax gap is now $350 billion a year. Let me repeat that. The tax gap, the difference between what is owed and what is being paid, the revenue commissioner tells us, is now $350 billion a year. If we were to just collect revenue due under the current revenue table, we would virtually eliminate the deficit.

We would still have a problem with the debt because, as I have indicated, the debt is going up much faster than our deficits. But if we could collect the amount of money that is actually due, we would make meaningful inroads into this incredible abyss of deficits and debt, and we ought to do it.

Also, as the Chairman has said -- and this is a place I agree -- we are going to have to deal with the entitlements. Entitlements are growing much more rapidly than the size of the economy, and they are going to be added to by the baby boom generation. The baby boom generation is going to change all of this very dramatically. So at some point, we are going to have to face up to that.

I think it is increasingly clear that the only way this is going to be faced up to is if we do it together. Republicans can't do it alone; Democrats can't do it alone. It is going to require Democrats and Republicans working together to face this challenge of a burgeoning debt, and the sooner we do it, the better.

On the assertions that the economy is doing great, here is what the Comptroller General said about our current fiscal path before the Senate Budget Committee last month: "Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security."

Is anyone listening? Is anyone listening? Here is the Comptroller General of the United States telling us we can't stay on this course, that it threatens our economy and even our national security.

For those who say the economy is doing fine, I present an alternative view. Here is what has happened to real median household income. It has declined for four straight years. Median household income has declined for four straight years.

We have looked at previous recoveries since World War II. There have been nine economic recoveries from recessions since World War II. We have compared this recovery to the previous recoveries. Here is what we found. Growth of the economy lags behind the typical recovery. On average in the previous 9 recoveries, GDP has averaged 3.2 percent; in this recovery, it is averaging 2.8 percent.

It is not just economic growth, it is also business investment. Here is the average. This dotted red line is the average of the nine previous business cycles in terms of business investment. Here, the black line is this recovery. Business investment is lagging the average of the nine previous recoveries by 62 percent. What is wrong here? Something is wrong. Something has changed from our previous economic recoveries.

It is not just growth of GDP, it is not just business investment, it is also job creation. This red line is the average of the nine previous recoveries from recessions since World War II. The black line is this recovery. We are running 6.6 million private sector jobs behind the typical recovery. At this very same period in the cycle, this very same time period, we are 6.6 million private sector jobs behind the average recovery since World War II.

We have to face up to what is happening: burgeoning deficits and debt; a recovery that is not producing the same economic growth, the same business investment, the same job creation we have seen in other recoveries since World War II; and then we have a budget that I believe is also wrong on priorities.

This budget says that in 2007, the tax cuts going to those who earn on average over $1 million a year will cost $41 billion for the year. Let me repeat that. Under the budget that is presented here and the budget of the President, the tax cuts going to those who on average earn over $1 million a year, the tax cuts for one year alone will be $41 billion. Meanwhile, the President says cut education $2.2 billion, the biggest cut education has ever been asked to take. I don't believe that is the right priority for the country.

It is not just with respect to education. Veterans are being asked to take reductions such that it would cost $800 million -- $795 million to restore those reductions, those cuts, in terms of what they receive. Actually, this $800 million is the $250 annual enrollment fee the President is asking for and the increase in their drug copayments that he is asking for -- $800 million to eliminate those increased fees and costs to veterans. But the President's budget says: No, it is 50 times more important to provide tax cuts to those earning over $1 million a year. Those are his priorities. I don't think those are the priorities of the American people.

When I look at law enforcement, I see the same thing. It would cost about $400 million to restore the COPS Program. The President cuts the COPS Program that puts police officers on the street. He cuts it about $400 million, which is one one-hundredth as much as is going to tax cuts for those who earn over $1 million a year. Are those really the priorities of the American people? Is it 100 times more important to give tax cuts to those earning over $1 million a year than it is to put police on the street? I don't think so.

It doesn't end there. This budget, the President's budget, on local law enforcement grants, they don't just cut those, they eliminate them. The Byrne Justice Assistance grants, Safe and Drug-Free Schools -- they eliminate them. They don't just cut them, they eliminate them. Vocational education -- they don't just cut it, they eliminate it. The COPS Program, as I indicated, is cut 78 percent; firefighter grants, cut 55 percent; essential air service, cut 54 percent.

I am not talking Washington-talk about cuts. I am not talking about restricting the rate of growth. I am talking about cutting from what was provided last year. Weatherization grants are cut 32 percent, Amtrak is cut 30 percent, community development block grants are cut 20 percent, and the Low-Income Home Energy Assistance Program is cut 17 percent.

This is a budget that I believe is just wrong. I believe it is wrong for the American people. It is wrong because it explodes deficits and debt. It is wrong on its priorities.

Let me just sum up with what the National Catholic Reporter wrote on February 17 of this year: “But what has become clear during five years of the Bush administration is now glaringly apparent in the easily discerned outlines of its proposed 2007 budget: Cuts in vital programs that benefit the poor and middle class, continuing tax relief for the very wealthy...
If budgets are, as some contend and we would agree, moral documents, then this one suggests we have abandoned a basic sense of right and wrong and any notion that we are at our best when we strive to make life better for all, not just those who manage to accumulate wealth.”

I want to end as I began. I believe the fundamental threat of our time is the growth of the debt. The debt is the threat. This budget absolutely fails to face up to that growing and burgeoning debt.