

**Opening Floor Statement by Chairman Kent Conrad (D-ND)
on FY 2008 Senate Budget Resolution
March 20, 2007**

Let me begin, if I may, by thanking the ranking member, Senator Gregg, for the way in which he has conducted the work of the committee on the minority side and the fairness with which he has conducted it when he was in the majority. I wish to say to him that we will endeavor to approach this in the same way with him. There will not be surprises. We will try to organize this in a way that gives each side a fair opportunity to make their points and to offer their amendments. I wish to again thank Senator Gregg for his courtesy and professionalism throughout both the times when he has been in the majority and the times he has been in the minority.

The budget resolution that has now passed the committee has these key elements: It restores fiscal responsibility by balancing the budget by 2012, it reduces spending as a share of gross domestic product, it reduces debt as a share of gross domestic product after 2009, and it adopts new disciplines, spending caps, and restores a strong pay-go rule. At the same time, it meets the Nation's priorities by rejecting the President's cuts in key areas and provides increases for children's health care, for education, and for our Nation's veterans.

It also seeks to keep taxes low by protecting middle-class taxpayers with two years of alternative minimum tax relief, the old millionaire's tax that has rapidly become a middle-class tax trap. It also includes a deficit-neutral reserve fund for new tax relief and extensions of expiring tax provisions.

Our goal is to be fiscally responsible, but to do it in a way that keeps tax rates low and addresses some of the other things we have seen that have been brought before the committee, things that are serious problems. We find abusive tax situations that have grown up around the country. We see the use of tax havens. We also see the tax gap growing geometrically -- the difference between what is owed and what is paid -- and that is not fair to the vast majority of American taxpayers who pay what they owe. So we try to keep taxes low, and we include no assumption of a tax increase.

We also try to prepare for the long term by including a comparative effectiveness fund to address rising health care costs, looking at those procedures and those disciplines and those technologies that work to hold down health care costs in one part of the country and to adopt them in other parts of the country. We also adopt a new budget point of order against long-term deficit increases.

The budget resolution that came out of the committee and which we bring to the floor today starts with a \$249 billion deficit and reduces it each and every year. In fact, we almost balance in 2011 under this proposal. We do achieve balance in 2012 with \$132 billion to the plus side. One might say this is a surplus. I always hesitate to use that term because the only reason it is in surplus is because of Social Security. Nonetheless, in terms of the way deficits are calculated and reported by the press, there is a \$132 billion positive balance in 2012.

One of the most important things we have to stop is the growth of the debt. All the economists tell us the most important thing we have to do is to reverse the debt growing faster than the size of the economy. I am proud to report this budget does so. This shows the debt, gross debt of the United States, as a share of gross domestic product. You can see that after 2009, each and every year we are bringing down the debt in relationship to the size of our economy. That is, by all accounts, the single most important thing we can do in terms of returning fiscal responsibility.

In terms of a spending comparison, the green line is the spending in the budget resolution, the red line is the President's spending. You can see there is a very close fit. We do spend more money than is in the President's budget, but when you put it on a comparison basis and you look at five years in which the United States will be spending just over \$15 trillion, the difference between our spending and the President's is almost indecipherable.

As a share of gross domestic product, our spending is going down. In 2008, we will be at 20.5 percent of GDP. Each and every year, spending as a share of GDP will be going down, so that by 2012 we have spending at 18.8 percent of gross domestic product.

The budget resolution has lower spending as a percentage of gross domestic product than the average during the period of Republican control. From 2003 to 2007, the average spending in Republican budget resolutions was 20.1 percent. Under our 5-year budget plan, the average will be 19.7 percent, four-tenths of one percentage point below what the Republican spending was in the years in which they controlled.

On the question of defense spending and war spending, we have matched the President dollar for dollar. The President has total defense spending, and we are spending \$2.9 trillion during this period. We match that amount. We have the same amount for defense and the same amount for the war.

But there are other areas in which we do better. Perhaps the signature proposal of this budget is to fully fund children's health care, to say to every child in America: You are valued, and we want you to have health insurance. We believe this is substantively right, that this is a good investment. Our children are the least expensive to cover, and you have the biggest payoff because you have an entire lifetime of return if you are able to safeguard a child's health. So we have made a major commitment -- up to \$50 billion over the five years -- to provide the opportunity to provide America's children with health coverage. The President only had \$2 billion for this purpose. He couldn't even cover those who have existing coverage. If there is one thing that unites our caucus, it is a vision of being able to extend health care coverage to every child in America. Our budget resolution will help make that prospect a reality -- if it is adopted.

This is from the *Akron Beacon Journal* in Ohio. Earlier this month, they wrote:

"The State Child Health Insurance Program arguably is the best thing going for children in families with annual incomes too high to be eligible for Medicaid but not high enough for them to afford private health insurance...Statehouses across the country consider the SCHIP a winner.... At issue is President Bush's budget plan changing aspects of the funding and direction of the

program, forcing States to scale back or scratch up more funds to keep their programs at current levels. Why scramble something that is working well?"

We have asked that question. Why is the President turning his back, in his budget, on millions of American children? Why is the President saying we won't even provide coverage to those who already have it? Why isn't coverage being extended to the millions of young people in this country who have no health care coverage at all?

Another major area of priority in this budget is for education. The President provides in his budget, for just the fiscal year 2008 -- and I wish to emphasize that the previous numbers I have talked about were five-year numbers. I am now talking about just the year 2008. The President's budget for education is \$56.2 billion. We are proposing \$62.3 billion. Why? Because we believe education is an absolute priority. Education is our future. Education is what allows us to maintain a competitive edge in this world. Education is what gives children in America the chance to make the most of their God-given talent.

This is a year in which we reauthorize the Higher Education Act. This is a year in which we reauthorize No Child Left Behind. This is the year in which we have to put the funds up to keep the promises that have been previously made and, unfortunately, all too often were broken. Our funding level meets those needs in education and gives an opportunity to improve things such as the Perkins loan program, things such as title I, No Child Left Behind, and the other education programs that are critical to America's role and position in the world.

A third area of priority after children's health care and education is our Nation's veterans. We have all read the stories about what has gone on at Walter Reed. I do not think there is a Member on either side of the aisle who was not outraged to see what was happening to veterans. I think we all know there are problems in our VA system as well. We have increased the President's proposal for veterans health care from the \$39.6 billion he provided to \$43.1 billion.

I am especially proud of this because we have matched the independent budget in every area but one. In fact, we have either matched the independent budget, which is the budget put together by our veterans organizations themselves -- this is what they have told us is necessary, and we have either matched them or exceeded them in every category but one. The only category in which we didn't match or exceed them was in an area in which the Veterans' Committee tells us they couldn't spend the money in 2008 if we gave it to them.

In medical care, the independent budget called for \$36.3 billion. We have provided \$36.9 billion. I might add, that is at the recommendation of the Veterans' Committee.

The independent budget called for \$1.3 billion for information technology. We have provided \$1.6 billion -- again at the recommendation of the Veterans' Committee -- because they have analyzed the information technology systems in the VA and determined there would be a significant advantage by this additional expenditure. As you know, the VA system is now developing a world-class system, one that provides information in real time on each patient's condition. This makes a profound difference in the medical treatment to our Nation's veterans.

On medical and prosthetic research, the independent budget called for \$480 million. We have provided \$481 million. On operating expenses, the independent budget called for \$2.23 billion. We have matched that amount.

On construction -- this is the only area in which we did not match the independent budget. They called for \$2.14 billion. We provided \$960 million, the amount the Veterans' Committee tells us could actually be efficiently spent this year. If we were to provide them more money, the Veterans' Committee tells us that money could not be effectively or efficiently deployed. I don't think any of us want to waste money or to spend money that cannot be efficiently or effectively employed.

Other priorities in the budget resolution include restoring the cuts to the COPS Program. The President proposed cutting the COPS Program, which puts police on the street, by 94 percent. What sense does it make to eliminate police on the street at a time when crime is rising, at a time when we face a continuing terrorist threat? It makes no sense to this Senator, and I don't think it makes sense to most Senators. I held a hearing on this in Fargo, ND. I had the police chief there and I had the sheriff of Cass County there. They told me how important this has been to my State. Over 250 police officers have been added to the streets of North Dakota because of the COPS Program. We should not be cutting it, as the President proposed, by 94 percent. So we have restored that cut.

On heating assistance, the President cuts the Low-Income Home Energy Assistance Program by almost 20 percent. We have restored that cut.

Community Development, CDBG -- I think we all know how important community development block grant funds are to this Nation's mayors. If there is one thing we have heard loud and clear, it is that the President's cut there makes no sense.

Finally, with respect to transportation and Amtrak, we have funded this at \$1.78 billion that the committee requested. The President had a deep cut there, threatening transportation service not only in the Northeast corridor but all across the country, including my own State.

With respect to revenues in the resolution, I wanted to emphasize the following points: The budget resolution protects middle-class taxpayers with two years of alternative minimum tax relief, and that is fully offset, it is paid for. What is the alternative minimum tax? Remember, years ago they found out that some very wealthy people were paying no taxes. It was a handful of people -- as I recall, in the hundreds -- very-high-income people who were paying no taxes. So they put in place something called the alternative minimum tax. It is an alternative tax structure to try to make certain that very wealthy individuals, high-income individuals, pay something in terms of taxes.

Unfortunately, it was not appropriately adjusted for inflation. The result is more and more people are being caught up in it. Last year, some 3.5 million people were affected by the alternative minimum tax. If we fail to act, there will be over 20 million people caught up in the alternative minimum tax this year. We have prevented that from occurring, and we have

prevented it from occurring again the next year.

We also provide a deficit-neutral reserve fund for tax relief, including extension of expiring provisions, a deficit-neutral reserve fund that says you can extend current tax cuts if you pay for them.

Next, we provide for new measures to close the tax gap, shut tax shelters, and address the burgeoning growth of offshore tax havens. I will have more to say about those in just a minute.

We also called for fundamental tax simplification and reform. We had tax reform a number of years ago. Since that time, we just keep adding complexity, we just keep adding regulations, and we just keep adding new and more provisions that make the Tax Code more and more complex.

I am a former tax commissioner. I used to be the elected tax commissioner of my own State. I couldn't do my own taxes today. I happen to have a very good accounting firm back in my hometown of Bismarck, ND, prepare my taxes. Unfortunately, I think that is true of most of us. That should not be. Certainly, the vast majority of people should be able to do their own taxes. It should be far more simple than we have allowed it to become, so we think it is important to call for tax simplification reform.

We also have no assumption -- I wish to emphasize this -- no assumption of a tax increase. We do not believe a tax increase is necessary to achieve the revenue levels we have outlined in this resolution.

Let me show why we believe that is the case. The red line is the President's revenue line. The green line is our revenue line. There is a three-percent difference. In other words, on the same scoring basis, same projections by the Congressional Budget Office, who are the ones who evaluate these things, our revenue line would produce three percent more revenue over the five years than the President's plan. Our plan would produce some \$15 trillion of revenue over the five years; the President's, three percent less.

Seeing it another way, here is what the President called for in his initial budget. In his beneficial budget proposal, the President said his plan would raise \$14.8 trillion over the five years. Our plan, as I have indicated, raises \$15 trillion. That is a difference of 1.2 percent. So our budget contains revenue over and above what the President proposed of 1.2 percent.

I know my colleague will jump up and say: But that is OMB scoring, the Office of Management and Budget scoring for the President, and you are using CBO scoring. That is true. But what is also true is the President controls the Office of Management and Budget. That is his office. It is his office that said he was going to raise \$14.8 trillion over the five years. I am constrained to use Congressional Budget Office scoring. The Congressional Budget Office said our proposal would raise \$15 trillion. So that is a difference of 1.2 percent. We think that can be achieved by going after the tax gap, by going after these tax havens, by going after these egregious tax abuses I will get into in a minute.

AMT relief. I indicated that over 3 million people were affected in 2006. In 2007, there will be over 20 million -- in fact, it is 23.2 million. In 2008 it would be 25.7 million if we failed to act. This budget resolution will prevent that explosion of people being subject to the alternative minimum tax, the middle-class tax trap.

This is what the head of the General Accounting Office said, General Walker said in August of 2006: "If we are looking into the future and face the facts, we will see that our problem is not just on the spending side and entitlements, it is also on the revenue side."

General Walker is telling the truth. Here is what happens if we extend all of the President's tax cuts without paying for them. If we extend all of the President's tax cuts without paying for them, debt as a share of the economy will reach over 200 percent. Debt as measured by the gross domestic product of the economy will reach over 200 percent in coming years.

The red part of this bar is the additional debt if tax cuts are extended without offsets, without paying for them. The green part of this bar is what happens to the debt if tax cuts expire or are offset, are paid for. That is an important fact to keep in mind. We simply cannot extend all of the tax cuts without paying for them, without pushing this country right over the cliff into massive debt.

I want to talk a minute about the tax gap because I have indicated we believe we could get this additional revenue -- remember our revenue is 1.2 percent more than what the President said his budget would raise. How do we get it? Well, one of the first places we ought to look is the tax gap. The tax gap is the difference between what is owed and what is paid.

The Internal Revenue Service tells us for 2001 the tax gap was \$345 billion for that 1 year alone. That is based on an estimate of the tax gap back in 2001. Surely the tax gap has grown significantly since that time. I believe this was a conservative estimate to begin with in terms of what the tax gap was in 2001, \$345 billion for that year alone. Again, this is the amount of money that is owed under the current Tax Code but not paid. If we could eliminate this tax gap, we would eliminate the budget deficit. The budget deficit would be gone.

All of us know we cannot collect it all. All of us know we cannot collect it all. But over this five-year period, the tax gap is probably in the range of \$2 to \$2 1/2 trillion. If we just collected 15 percent of it -- 15 percent -- that would be over \$300 billion. That alone would come close to meeting the revenue needs under our budget resolution.

But we don't just look to the tax gap, even though that is important, and even though the National Taxpayer Advocate finds the tax gap is adding more than \$2,000 to the average household's tax bill in this country.

This is what the Taxpayer Advocate (Nina E. Olson) said this year: "Compliant taxpayers pay a great deal of money each year to subsidize noncompliance by others. Each household was effectively assessed an average tax of about \$2,680 to subsidize noncompliance in 2001. That is not a burden we should expect our Nation's taxpayers to bear."

What an outrage. What an outrage. The vast majority of us who pay what we owe are getting stuck with the bill from those who do not. Those individuals, those corporations that do not pay what they legitimately owe under the current Tax Code, an amount back in 2001 that was \$345 billion in 1 year alone, that has now grown substantially -- I am certain -- since then.

Some are saying, well, we cannot collect most of it. Why not? I used to be a tax commissioner. We went after it aggressively, and we collected tens of millions of dollars on that tax gap in the little State of North Dakota. We can do it. If we could do it there, we certainly can do it here in the Nation's Capital. If we can go after big corporations in North Dakota, from the capital in Bismark, ND, with the power of the Federal Government, we can go after these companies and these individuals who are abusing and avoiding what they legitimately owe. I don't buy that we can't. I don't buy it.

It is not just the tax gap, the difference between what is owed and what is paid, it is also the explosion of tax havens. This is a building in the Cayman Islands, a five-story building that is the home to 12,748 companies. Let me repeat that. This modest building in the Cayman Islands, a five-story building, is the legal home of 12,748 companies. They say they are doing business out of that building. Really? They are doing business out of that building?

They are not doing business out of that building. They are doing monkey business out of that building. What they are doing is avoiding taxes in the United States and other jurisdictions. That is what they are doing.

When I was tax commissioner, I went after a company doing business in North Dakota. I found them engaged in one of these tax dodges in one of those tax haven countries. They wound up sending us big chunks of money because they were hiding their profits in these tax haven countries. We should go after them.

We went on the Internet to find out what we could find there. We punched in "offshore tax planning." Offshore tax planning, that is the euphemism used by these tax haven countries. You know how many hits you will get on the Internet? You will get 1,260,000 hits on the Internet, 1,260,000. What do they talk about? They talk about offshore tax planning, basic techniques of international tax planning.

International tax planning. What they are really talking about, what you find when you go to the individual Web pages -- because tax planning, that is the euphemism. What they are really engaged in is tax avoidance, tax evasion. That is what is really going on.

Here is my favorite: "Live tax free and worldwide on a luxury yacht. Moving offshore and living tax free just got easier." You bet it got easier. You transfer your money to one of these offshore tax haven accounts, and they say very clearly: Do not worry about paying taxes any time in the future. We will shield you from it because we do not have taxes that apply to earnings in these offshore accounts, and we will not report back to your home country that you have stuck your money here and are earning big chunks of change on it and owe taxes on it. We will help you shield that from your Government.

It says in one of these: "Your money belongs to you, and that means it belongs offshore." That means it belongs offshore because you put it offshore, and it will be tax free.

That is not fair to all of the rest of us who pay the taxes we owe. This is from *USA Today*, a story from September of last year: "Offshore Tax Havens Aggressively Targeting U.S. Taxpayers." This is the quote from the UofMoney.com: "I am going to show you how to protect your money and all you own so nobody, not even the Government, can get at it," says University of Money dot-com.

Well it does not end there. This is, again, from *USA Today*, that same story, "Offshore Tax Havens Aggressively Targeting U.S. Taxpayers."

"Once your assets have been transferred to the offshore entity they are safe," says website Carib-offshore.com. "You cannot be taxed on them."

Now, what could be more clear? This is a giant tax dodge. It is growing. It is a cancer on the vast majority of people and companies that pay what they owe.

How big is this? Well, this is from the State Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations. That is a committee of ours. That is a committee of the Congress of the United States from February of this year: Experts have estimated that the total loss to the Treasury from offshore tax evasion alone -- this is not the tax gap, this is tax evasion -- approaches \$100 billion a year, including \$40 to \$70 billion from individuals, another \$30 billion from corporations engaging in offshore tax evasion. Abusive tax shelters add tens of billions of dollars more.

If we got a chunk of this money and a chunk of the tax gap money, the two of those, if we got 15 percent of those, we would meet the revenue requirement in the budget resolution before the body.

Now, some will say, well, that is impossible to do. I do not believe it. I do not believe that is impossible to do. I was a tax commissioner. I know what can be done if we put the effort into it, if we put the resources into it. We can make enormous progress. Will we ever get it all? No. Obviously, no. We are not going to get it all. But can we get some fraction of it? Goodness knows, this country, if it puts its mind to it, can make significant progress.

One hundred billion dollars a year in these offshore tax havens -- this is according to the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations. They say tens of billions more in abusive tax shelters. What kind of tax shelters are they talking about?

Here is the kind of tax shelter they are talking about. Here is the Dortmund, Germany, subway system. What has that got to do with U.S. taxes? Well, as it turns out, it has got a lot to do with U.S. taxes because wealthy U.S. investors bought the Dortmund subway system from

Dortmund, Germany. They went out and bought it. You know what they did? They depreciated it on their books for U.S. tax purposes to lower their U.S. taxes, then they leased it back to Dortmund, Germany, to continue to run their own subway system.

Now, that is a ripoff, I think. What are we doing? We are allowing people to depreciate and reduce their U.S. taxes by buying the Dortmund subway system over in Germany, a system that was paid for by German taxpayers, and then to lease it back to Dortmund, Germany, to run. Are we really going to let this kind of thing go on?

It does not stop there. Here is the city hall in Gelsenkirchen. Wealthy investors in the United States bought that, too, depreciated that on their books in the United States for tax purposes, then leased it back to Gelsenkirchen for their city hall.

Shame on us for allowing this kind of thing to go on. It does not end here. Here is a European sewer system. This is my favorite rate of all. European sewer system, wealthy investors in the United States bought it and depreciated that on their books to reduce their U.S. taxes and leased the sewer system back to the European city that built it in the first place. Come on. Come on. How are we allowing this to go on?

And we cannot get one percent more revenue than the President does in his budget? I don't believe it. Close down this tax gap, tax havens, these offshore tax havens. Go after these kinds of scams.

It does not end there. Closing loopholes and abusive tax shelters are not tax increases. Some are going to come out here and say, well, you have got more revenue, it is a tax increase. Is it a tax increase to close these loopholes, to close these abusive tax shelters? I do not think so. I am not alone in that. The former chairman, Republican chairman of the Senate Finance Committee, said this last year: "Just in the period of time since 2001, our committee has raised \$200 billion in revenues by shutting down tax shelters, by closing inversions and other abusive tax schemes. Now, in the year 2004 alone, the Finance Committee fully offset a \$137 billion tax bill at no expense to the American taxpayers." That's \$137 billion in one year.

Hallelujah. If we do that each of the five years of our budget, we would more than meet the revenue called for with no tax increase.

The budget resolution also addresses some of our long-term fiscal challenges. We provide \$15 billion in Medicare savings. We have program integrity initiatives to crack down on waste, fraud, and abuse. I will talk more about that in a minute.

We have new mandatory spending and tax cuts that must be paid for under pay-go. We have a long-term deficit increase point of order. We save Social Security first with an amendment that was adopted in committee.

We have a health information technology reserve fund the RAND Corporation says could

save hundreds of billions of dollars a year if implemented, and we have a comparative effectiveness reserve fund to look at those changes we could make in health care to dramatically improve the cost effectiveness of our system.

We all know what is driving our budget challenges. Right at the heart of it is health care. Rising health care costs are driving Medicare cost growth. If we look to the years ahead, the red part of this chart is what health costs are doing to raise the cost of Medicare. The green is the effect of demographics. The green is the change of the numbers of people in the baby boom generation. The red is the increase in projected health cost. That is where we have to focus like a laser. That is what this budget resolution does. We have this comparative effectiveness reserve fund that will jump-start an effort to bring down health care costs. It provides a new initiative to provide research on effectiveness of different treatments, medical devices, and of drugs so we can identify those things that work where we make an investment and it is paying off.

The Secretary of Health and Human Services, Secretary Leavitt, said this in February of this year in testimony he provided: "It's evident that there is substantial fraud going on in the Medicare program and we need to be able to have the resources to root it out, to prosecute it, to make certain that it stops....[I]t's a desperate need, we have to have more resources for enforcement."

This budget resolution gives the Secretary the resources he has asked for to go after fraud in Medicare and Medicaid. This chart shows what he is talking about. Because this is part of an ongoing investigation, I can't reveal on the Senate floor where this site is. It is an office building. Some of the businesses in this building are front operations, scam operations. They are operations that are billing Medicare on average about \$1.5 million a year, but they are not providing any services. This is the kind of thing that is going on all across the country. Unfortunately, there are certain parts of the country where it is more prevalent.

The Secretary told the committee there are hundreds of these operations in one State alone, billing Medicare typically \$1.5 million a year. He would go to the doors of each of these operations in the middle of a workday, and nothing is going on. Nobody is there. Yet they are billing, billing, billing, billing Medicare for fraudulent devices. This is the kind of scam we have to shut down.

In this budget resolution, we provide important budget enforcement tools as well: discretionary caps for 2007 and 2008; we restore a strong pay-go rule. Pay-go simply says if you want new tax cuts, you have to pay for them. If you want new mandatory spending, you have to pay for it.

We also have a point of order against long-term deficit increases, and we allow reconciliation for deficit reduction only. Reconciliation is a big word, a fancy word for special procedures around here that go outside the normal way business is done. It is a fast-track procedure. The only reason it was provided for is to reduce deficits. In recent years it has been hijacked and used to increase deficits. That stands the whole process on its head. We now return reconciliation for the purpose it was intended, to be used to reduce deficits only.

That is a brief summation. Maybe not so brief. I took my colleague's breath away with that "brief" reference. That is a relatively brief summation of what is in this budget resolution.