

**Floor Statement by Senator Kent Conrad (D-ND) on Tax Reconciliation Bill
May 11, 2006**

I want to thank my very able colleague from Delaware, Senator Carper. I always enjoy listening to him and his perspective on these issues. I think he is somebody who is rock solid on this issue of fiscal responsibility.

I am hopeful at some point very soon we will get serious about restoring fiscal discipline to this country. We are headed for the cliff, and we are headed at a very rapid rate. So I again thank my colleague from Delaware, Senator Carper.

I have said publicly before, and I believe it, that I have never seen this city, this institution, the White House, more disconnected from reality than we are at the current time. Let me just put in perspective where I see that we are and where we are headed.

This chart shows the fiscal failures of this administration. The President inherited a surplus of \$128 billion in 2001, and by his second year in office he had us in the ditch, right back in the deficit ditch that we dug out of: \$158 billion of red ink in 2002. Then the deficits really exploded to almost \$400 billion in 2003, over \$400 billion in 2004. We saw somewhat of an improvement in 2005 to about \$320 billion. Now it is going back the other way. We now estimate the deficit will be in the range of \$325 billion this year.

Far more serious is what is happening to the growth of the debt, because the deficit, while it is projected to go up \$325 billion this year, here is the projection on the debt. The debt is now estimated to be increasing by over \$600 billion this year.

Put that in perspective. At the end of the first year of this Presidency we had a gross debt of the country of \$5.8 trillion. In one year under the President's plan -- this year we are going to add another \$600 billion to the debt. That is an absolutely unsustainable course.

Now the President comes to us and says what we need to do is make all the tax cuts permanent. Let's dig the hole deeper. Here is what the President's proposal would do. In the first five years -- see this is a little like hitting the iceberg. You know, most of the iceberg is underwater. Most of the President's tax cut is hidden from view because it is outside the five-year budget window. The President only shows five years. Why? Maybe it is because he doesn't want to show where all this is headed. But here is the revenue loss as you go forward. The cost of these tax cuts absolutely explode.

This is at a time when the debt is exploding. Remember what the President told us when we adopted this fiscal course? He told the country he was going to have maximum paydown of the debt. Do you remember that? He was going to pay off all the debt that was available to be paid off. Now we can go back and check the record and see what actually happened, and here is what actually happened. This is what has happened to the national debt under this President's watch. There is no pay down of debt. The debt is exploding.

As I indicated, it was \$5.8 trillion after his first year in office. We don't hold him

responsible for the first year because we were operating under another fiscal plan. But look at what has happened since. The debt has skyrocketed. At the end of this year it will be \$8.6 trillion. This President has already added \$3 trillion to the national debt.

Under the budget plan that is over in the House of Representatives and here, it is going to go up another \$3 trillion. They will have more than doubled the debt of this country.

Perhaps most stunning is how much of this debt is being financed by foreigners. This chart shows it took all these Presidents, 42 Presidents, 224 years, to run up \$1 trillion of debt held by foreigners. This President has more than doubled that amount in just five years. This President has trumped all these Presidents combined, in terms of running up foreign debt, U.S. debt held by foreigners. That is truly a stunning achievement.

This morning in the Budget Committee we were interviewing Mr. Portman, who has been nominated to head the Office of Management and Budget. One of my colleagues said: The performance of this administration on fiscal affairs has been extraordinary. And I agree. It has been -- extraordinarily bad. No other President has come close to this record of running up debt, debt on top of debt. He will have doubled the debt of this country, and he has already more than doubled U.S. debt held by foreign countries.

Our Republican colleagues say: Don't worry. If you cut taxes you get more money. The only problem with that is we are now able to examine the record. We are now able to go back and look at what happened since they started down this policy road, and here it is. The numbers do not lie.

In the year 2000, we had over \$2 trillion of revenue. The President came into office and said he had an idea, he was going to cut, and cut massively, taxes, and we would get more revenue. Let's look. Did we get more revenue? In 2001, the revenue went down to under \$2 trillion. The next year it went down some more. It went down to \$1.85 trillion. How about the next year, did it go up then? No. It went down some more. In 2003, we went down to \$1.78 trillion.

In 2004 -- how about this, now, four years later, was the revenue up to where it had been in 2000? No, not even close. What is this talk, you cut taxes and you raise more revenue? The only problem with that is it hasn't worked. It didn't work. We didn't get back to the 2000 level of revenue until 2005.

It is even more clear for revenue as a share of gross domestic product, which is what economists say we should use so that we are taking out the effects of inflation and growth. What do we see? The President came into office in 2000, revenue was 20.9 percent of GDP. Look what happened. This is what happened on the revenue side of the equation. It absolutely collapsed, most of this because of the tax cuts. So in 2004 we were down to 16.3 percent of GDP, revenue of the Federal Government. That was the lowest it has been since 1959. Now we have had an uptick, but we are still way below where we were.

We are also well below where they said we would be back in 2001. If you go back to 2001 and see what their estimates were of what revenue would be in 2006, this is what they said. In January of 2001, they said: When we get to 2006, we will have \$2.7 trillion of revenue. Here is what we see -- not \$2.7 trillion, but far short of that, \$2.3 trillion. Maybe we are going to have something a little bit better than that, maybe even 10 percent better, but still way short of what they projected.

Now our Republican colleagues come out with this plan. It's breathtaking that, when already we can't pay our bills, we are adding dramatically to the debt. Their answer? Spend more money. We just approved more than \$100 billion of additional spending that was off-budget -- and cut the revenue some more, cut the revenue \$70 billion, and that is just step one. They are going to come out here with some more tax bills and cut it even more. So their answer is dig the hole deeper. They are saying: America, you are going to get a big tax cut. It is your money.

Let's examine that statement: It is your money. I agree with that. All of this is the people's money. That is exactly right. But, you know, to give this tax cut -- because we are running deficits, there is no money to give back. This money is all being borrowed. It is being borrowed largely from the Japanese and the Chinese. So let's think about what we are doing. We can't pay our bills so the President says let's have a big tax cut, reduce our revenue even more, and we have to borrow it.

Increasingly, we borrow the money from the Chinese and the Japanese. So we are going to borrow the money from the Chinese and the Japanese to give people a tax cut and here, who is going to get it? Those who earn from \$10,000 to \$20,000 are going to get an average tax savings of how much? \$2. That will certainly be helpful to them. Those earning \$20,000 to \$30,000 are going to get \$9. Those earning from \$30,000 to \$40,000 are going to get \$16. Those earning between \$40,000 and \$50,000 are going to get \$46. Those earning from \$50,000 to \$75,000 are going to get \$110.

Let's go to the other end, those earning more than \$1 million. They are going to get \$42,000. And where are they going to get it from? They are going to get it from borrowing from the Chinese and the Japanese and the British and the Caribbean banking centers and the South Koreans and every other country in the world that we can borrow money from. Does this make any sense?

Let's see. We can't pay our bills now, so what is the answer? The administration says: Spend a bunch more money. They wanted \$92 billion off-budget additional spending, and by the way, cut the revenue some more so that the hole gets deeper.

Where are you going to get the money? We don't have the money. So we are going to have to borrow the money. Who are we going to borrow the money from? From the Chinese and the Japanese so we can give those earning more than \$1 million a year a \$42,000 tax cut, so we can give those earning \$10,000 to \$20,000 a year \$2. That way they can say everybody is getting something. As amusing as it might be, it is also serious and it is leading us down a path that is, in my judgment, a complete disaster.

The tax bill that is before us also leaves out things that we typically extend year to year that would normally be included in this legislation. But our friends on the other side said, No, it is much more important to give these big breaks to those who are at the very highest part of the income level in our country. We are going to leave out the R&D tax cut, which might actually help strengthen our country for the future. We are going to leave out tuition deduction, which will help families afford tuition so we can better educate them. That is left out. The sales tax deduction is left out for States that have sales tax and people deduct what they pay in sales tax. The work opportunity and welfare-to-work credit is left out. The savers credit -- and we have negative individual savings in our country -- they leave out that credit. That is an interesting idea. Leasehold and restaurant improvements is left out. Teacher classroom expenses is left out. The new market tax credit is left out.

Our friends last year labeled this whole plan the deficit reduction plan. Let us look at what they have done. They reduce spending \$39 billion over five years. They did not actually reduce spending. Spending, of course, is going up dramatically; it is not going down. They reduced the rate of growth theoretically over five years by \$39 billion. But then they turned right around and in this bill cut the taxes \$70 billion. When you put the two together, there is no deficit reduction. The deficit increases. Instead of labeling it the "deficit reduction bill," they should have called it the "deficit increase bill." And they are not done yet because we all know they are going to come with a second tax package outside of reconciliation and add another \$30 billion or \$40 billion of revenue reduction.

On top of it all, they have used a series of budget gimmicks to make room for these additional tax cuts. They count short-term savings from the revenue-losing Roth IRA provision. That gains about \$6 billion in the near term but loses \$36 billion over a longer period. They concocted this as a way to make the numbers work at least for a moment.

They sunset the small business expensing provision, they have a five-year delay on the implementation of withholding on Government contracts, and they have a timing shift for corporate estimated payments -- gimmicks on top of gimmicks to make something look like something it is not. That is an old Washington tradition.

Perhaps the most egregious is the Roth gimmick, counting short-term savings for something that is a long-term loser. Here is a quote from the *Washington Post*: "One measure would allow upper-income savers with a traditional Individual Retirement Account to pay taxes on the account's investment gains and then roll over some of the balance into a Roth IRA, where the money can be withdrawn tax free upon retirement. The provision would raise about \$6.4 billion over 10 years, seemingly keeping the size of the tax-cutting package down. But over the next 35 years, it would cost the Government \$36 billion, according to the Urban Institute" Tax Policy Center. This is the kind of shell game that gets us deeper into trouble.

If you look at it, just visually, what they are doing with business expensing: in 2006, 2007, 2008, and 2009, the expensing limit is \$100,000. What do they do? They drop it dramatically by 75 percent to make it look as though somehow this whole package fits within the \$70 billion. It is, frankly, a giant fraud.

Here is what our Comptroller General said about the current fiscal path. He says: “Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage our economy, our standard of living, and ultimately, our national security.”

That is what is at stake here. Ultimately, that is what is at stake here -- the economic security of our Nation, the national security of our country. And our friends are playing fast and loose with the long-term security of America -- doubling the national debt over a very short period of time, doubling the amount of money that we will owe foreign investors, utterly unsustainable. None of it adds up.

What are the consequences? Here are the consequences. Here is what the Federal Reserve has been doing to interest rates. Interest rates -- up, up, up, up, up, and up -- 16 rate increases. Why? Because they are desperately afraid of the inflation that comes when you borrow massive amounts of money and you spend more than you take in. They are very worried about a country that is going to add \$600 billion to the national debt this year and run a trade deficit of another \$700 billion -- unprecedented in our Nation's history.

Our friends on the other side say the economy is doing well. Is it doing well? Here is what has happened to real median household income. It has declined four straight years. Real median income is down, down. That is not success.

When we compare this economic recovery with the previous nine economic recoveries since World War II, here is what we find. This dotted red line is what has happened in the nine previous recoveries on business investment. The black line is the recovery. What you see is we are 45 percent lower than the average of the nine previous recoveries since World War II. That is not economic strength. That is an economic plan that is not working.

It is not just true in business investment; it is also true in job creation. Again, the dotted red line shows what has happened in the average of nine recessions since World War II. The black line is the recovery. You can see that we are 6.5 million private sector jobs short of the average recovery since World War II.

Something is wrong. I submit that one of the things wrong with this is we are loading on this economy the biggest increase in debt in the history of our country -- and it just keeps on coming.

Our colleagues on the other side have abandoned fiscal responsibility completely. They have decided to put it on the charge card, send a bill to our kids and our grandkids, and they have done it at the worst possible time. They have done it before the baby boomers retire.

This is the sweet spot in the budget cycle. These are the good times. What is going to happen when the baby boomers start to retire? The baby boomers are not a projection; they are a reality. They are going to retire, and they are going to be eligible for Social Security and Medicare, and we can't pay our bills now. What is going to happen when they begin to retire?

Let me tell you that the logic of what our colleagues on the other side of the aisle are

doing is to force this country into a situation in which they have to shred Social Security and Medicare in order to keep this country from bankruptcy. That is the logic of where they are taking our country. It is a disastrous fiscal direction.

I hope very much that our colleagues will say no to this, say no and get us back on the course of fiscal responsibility.