Opening Floor Statement by Senator Kent Conrad (D-ND)
on Spending Reconciliation Conference Report
December 19, 2005

CONRAD. I thank the chairman for his spirited defense of this package. He is quite right. There are elements of this package that are positive. There are elements of this package that at some point we will adopt. Perhaps we will adopt them this year.

The chairman has left out certain chapters in the book of reconciliation. Reconciliation was part of this year's budget process. There are three chapters in the book. The first chapter is the spending cuts that have now come back from the conference report, deliberations between the House and the Senate, that cut spending $40 billion over 5 years. That is $8 billion a year when the budget is $2.5 trillion. If my math is right, that is one three-hundred-fiftieth of the spending for a year.

But what is left out of the chairman's presentation is the other chapters of the book. Chapter No. 2 is the tax cuts. He is quite right, they are not before the Senate today, but they are coming. They are part of this package. They are part of this book. They are the second chapter. The second chapter cuts $70 billion of taxes. Put the two together, a $40 billion spending cut and a $70 billion tax cut, and guess what. You have increased the deficit, not reduced it.

This is all part of a package. It is part of the budget process, three chapters that one has to read to reach a conclusion on the meaning of the book. The third chapter is the one they really do not want you to read. The third chapter increases the debt of the country by $781 billion. That is the third chapter. We do not hear them talk about that chapter at all. There is a reason for that.

If we go back and look at what the President has said--in 2001, when we enacted his economic program, he said: “[W]e can proceed with tax relief without fear of budget deficits, even if the economy softens.”

SARBANES. Will the Senator yield?

CONRAD. I am happy to yield.

SARBANES. That was in March of 2001. At that time, wasn't the Federal budget running a surplus?

CONRAD. The Senator is exactly right. The Senator from Maryland, a valued member of the Senate Committee on the Budget, remembers very well the budget was in surplus. In fact, we had a projection from the administration that we were going to have almost $6 trillion of surplus.

SARBANES. So at the time we were running this surplus--and let me just note, it had taken a lot of work to get out of an earlier deficit into surplus--and there was some concern expressed that the excessive tax cuts the President was proposing would throw us into a budget deficit and we would lose that surplus, the President told us in no uncertain terms that there was no reason to fear budget deficits; is that correct?

CONRAD. The Senator is exactly correct. The President told us there was no concern about the possibility of budget deficits. In fact, the Senator may recall this chart provided by the Congressional Budget Office and the Office of Management and Budget of the President that said this was the range of possible outcomes going forward with the fiscal affairs of the country. They adopted the midpoint of this range of possible outcomes showing very dramatic surpluses, all above the line, dramatic surpluses throughout this entire period coming to 2005.

Look what actually happened. At that time, the worse case scenario was this bottom line. We can see for the most part it was all in surplus territory. This is what they said was the best case scenario. They adopted the middle of the range of possible outcomes.

I can remember very well our Republican friends saying to me: Don't you understand, Senator, it will be way above this midrange because the tax cuts will generate greater economic activity and more revenue.

Now we can look back and test that theory and see what happened in the real world. Here is what happened in the real world: This red line, it is far below the worst case estimate of what might happen. In fact, it represents massive deficits, the biggest in our history. That is what really happened.

Then the President said the next year, in the State of the Union Address: “..... Our budget will run a deficit that will be small and short-term .....”

That was after saying there would not be any deficits. That proved to be wrong.

SARBANES. Will the Senator yield?

CONRAD. I am happy to yield.

SARBANES. So the previous year the President was saying there would be no deficit, and a year later, in the face of what obviously would be a deficit, he said, well, it will be a small and short-term deficit.

CONRAD. That is exactly what he stated in 2002, small and short-term deficit. Now we are able to check that record.

He made that claim in 2002, the first year we were into deficit, after running surpluses in the years leading up to that.

In 2001, the first year he was in office, the budget from the previous administration had a surplus. The next year, after his policies were adopted, we plunged into deficit. Then he told us that year the deficits were small and short term.

The chart shows what has happened. The next year the deficit got much worse. In 2003, it was approaching $400 billion. In 2004, the deficits actually exceeded $400 billion. This year, the deficit is over $300 billion. Of course, much of the Katrina costs have not been included in this year's deficit because it will be coming next year.

It is very interesting, the President was wrong about saying no deficits. We saw that in 2002. So in 2002 he said they will be small and short term. He was wrong again. Instead of small and short term, they are large and long lasting; in fact, the biggest deficits we have ever had in the history of the country.

SARBANES. Will the Senator yield for a question?

CONRAD. Yes.

SARBANES. In 4 years, after the President said there would be no deficits, we have incurred deficits of, according to my quick calculation, over $1.2 trillion; is that correct?

CONRAD. The Senator is correct.

If you go to the next step, what we have is a situation that is more serious even than that. The deficit does not capture the increases in the debt. The deficit last year was $319 billion. I say "last year" because we are now in Federal fiscal year 2006. That started October 1. So the 2005 deficit ending the end of September, the year ending the end of September, was $319 billion.

But here is how much got added to the debt: not $319 billion but $551 billion. All of it has to be paid back.

Of course, as the Senator knows, the big difference between the two calculations--the deficit and what got added to the debt--the biggest difference is the money being taken from Social Security to pay other bills.

Last year, the last Federal fiscal year, $173 billion of Social Security money was taken to pay for other things. The result is, when you add that with the deficit and other trust funds that are being raided--another $59 billion--what got added to the debt was really $551 billion.

If we look back on the relationship between spending and revenue expressed as a share of gross domestic product--and we do it in that way because economists tell us that is the best way to make these comparisons--the red line on this chart is the spending line. You can see, the spending had come down substantially until we reached the year 2000. Spending had come down each and every year of the Clinton administration as a share of gross domestic product. Now we have had a substantial uptick because of defense costs and homeland security, rebuilding New York.

But look at the revenue line. The revenue line, which was at a peak when the President came into office--he said this was a record high. He was right--but look at how the revenue plunged with the President's policies. Most of this is tax cuts. And the other, of course, is economic slowdown. The result is, we have opened up a chasm between the revenue line of the United States and the spending line. We see that gap going forward, and really at the worst possible time because this is before the baby boomers retire.

In looking at that, the President told us--the next year, after his 2002 address--in 2003: “[O]ur budget gap is small by historical standards.”

So first he told us there would be no deficits. Then he told us the deficits would be small and short term. Both of those proved to be wrong. Then he said to us, well, they will be small by historical standards.

Let's check that assertion because here is what we see: They are not small by historical standards. In fact, they are the biggest deficits we have had in the history of the United States. I know the President likes to say, well, as a share of GDP they are not as big as the deficits in the 1980s. But that is because he excludes the money he is taking from Social Security. Back in the 1980s, there was no money to take from Social Security, or very little. Now there are large amounts to take from Social Security, and the President is taking it all, every penny; last year, $173 billion.

Over the next 10 years, under the President's plan, he is going to take $2.5 trillion of Social Security money and use it to pay for other things. This is at a time when he says there is a shortfall in Social Security. Well, he is helping create the shortfall in Social Security because he is taking the money and using it to pay for other things.

Then the President told us in 2004: “So I can say to you that the deficit will be cut in half over the next five years.”

Let's review. In 2001, he told us there were going to be no deficits. He was wrong. In 2002, he said it was going to be small and short term. Wrong again. The next year he told us, in 2003, the deficits were going to be small by historical standards. Wrong again. They are the largest deficits we have ever had in dollar terms. And if you measure appropriately, as a share of GDP, it is as large as the deficits in the 1980s, when you include the money from Social Security that he is taking to pay for other things.

Now he says he is going to cut the deficit in half over the next 5 years. Well, let's examine that claim. Here is what the President says is going to happen: The deficit is going to get cut in half over the next 5 years. But he has really left out a lot of things to make that assertion. He has left out the war cost past September 30 of this year. There is nothing in his budget for that. He has left out the money to fix the alternative minimum tax, the old millionaire's tax that is rapidly becoming a middle-class tax trap. It costs $700 billion to fix. He has no money in his budget to do it. And, of course, his Social Security plan, which is the biggest budget buster of all, he has no money in his budget to do that.

When you put all those items back in, you see quite a different picture emerge. In fact, past this 5 years, you see the deficit growing dramatically. Of course, the biggest reason for that is, the cost of the President's tax cuts absolutely explodes in the second 5-year period.

Now, the President told us, back in 2001, how important it was to pay down the debt. He said at the time: “..... [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.”

So the President, back then, was telling us he was going to pay down the debt. Well, there is no paydown of debt occurring here. The debt is exploding. It was $5.7 trillion back in 2001. It is $8 trillion today. And here is where it is headed: By 2010, under the terms of the budget that we are discussing, the debt is going to reach $11.3 trillion. So on this President's watch, the debt will have doubled. All the while, he was telling us he was going to have maximum paydown of the debt, and that we owed it to future generations to pay down debt. There is no paydown of debt going on here. The debt is skyrocketing.

SARBANES. Will the Senator yield for a question?

CONRAD. I am happy to yield.

SARBANES. This reconciliation process really is a package, in which you have to consider not only the spending cuts but the tax cuts they are pushing through, as well as the increase in the debt. Am I correct that this reconciliation package includes raising the debt limit by some $800 billion?

CONRAD. The Senator is correct. This package really does have three chapters. The first chapter is the spending cuts, $40 billion over 5 years. There is only $8 billion a year in a $2.5 trillion budget. It is so insignificant. But then the second chapter is cutting taxes $70 billion, which, if you put the two together, there is no deficit reduction going on here. They are increasing the deficit. And the third chapter is extending the debt limit of the United States by $781 billion.

That is what happens if you read this whole book. It is not a pleasant ending.

SARBANES. If the Senator will yield further?

CONRAD. I am happy to.

SARBANES. I want to tell the Senator one story. I was in a shopping center over the weekend, and I saw a bumper sticker on a car. The bumper sticker said: “Mr. Bush, we will be forever in your debt.” Just then, the person whose car that was came along, and I said to them: What was it you were thinking about that the President has done when you say we are going to be forever in his debt? I thought it was for something he had done. The person said: Think about it. I meant exactly what it says. Mr. Bush, we are going to be forever in your debt.

Here is the debt, which the Senator from North Dakota is pointing out. I think the person is right. We are going to be forever in this debt. This is what is being handed to this generation, the next generation, and the generation after that.

As the Senator pointed out in the previous chart, they have doubled the debt over this very short time period.

CONRAD. They have doubled it. And the amazing thing to me is our colleagues are out here with a bill that is headlined, “Deficit Reduction.”

If you read the fine print and look at their own estimates of what happens if this budget is finally approved and implemented, here is what it does to the debt. Anybody see any reduction of deficit here anywhere? This is taking us from $7.9 trillion of debt at the end of fiscal year 2005 and it is going to run it up to $11.3 trillion in 5 years. Each and every year, according to their estimates of what their budget does, the debt of the country is going to increase by $600 to $700 billion a year.

They are out here talking about a deficit reduction package. Please. Do words have no meaning? Do we make phrases up in order to fool people? People aren't going to be fooled because each and every year they are going to be able to see what has happened under the claims that are being made. Have the deficits been reduced? Has the debt been reduced? Or is it skyrocketing?

I make the assertion today that if this budget is actually implemented for the next 5 years, for which it has been approved, at the end of the time, the debt will be dramatically larger than the debt today. The kind of stunning result of all this is that our country is borrowing more and more money, much of it from abroad. I went and looked at the external debt of the country. It took 42 Presidents--here are their pictures, all of these Presidents--224 years to run up a trillion dollars of external debt. In fact, it was $1.01 trillion of external debt. This President has more than doubled it in 5 years. This President has run up more debt that is held by foreigners than 42 Presidents did in 224 years. That is a remarkable accomplishment. I hesitate to call it an accomplishment because accomplishment suggests something positive. There is nothing positive about it.

The result is, here are the countries to which we owe money. We owe Japan almost $700 billion. We owe China almost $250 billion. And my favorite is the Caribbean Banking Centers. We owe them over $100 billion. One would think, in the midst of all this, Congress would want to actually do something to reduce the deficit.

SARBANES. Will the Senator yield for a moment?

CONRAD. Yes.

SARBANES. Let me go back to this external debt that is being held outside the country. Isn't it important to understand, as difficult as the deficit and debt problems are, that when the debt is held internally, it is Americans owing it to Americans. But when the debt is being held externally, it means that as a nation, we have to service this debt which is being held outside of the country. So that amount becomes a charge, as it were, against our own standard of living; isn't that correct? Would not our standard of living be lowered as a consequence of having to meet this external debt-servicing requirement?

CONRAD. The Senator is exactly right. What is happening now is, we used to borrow the money largely from ourselves. Now we are borrowing from abroad. Since the President took over, the debt of the country has gone from $5.7 trillion to $8 trillion. That is a $2.3 trillion increase. Look at this: The debt has increased by $2.3 trillion, but a trillion of it has come from abroad. Over 40 percent of the debt that has been increased under this President is coming from abroad. Again, I go back to the historic record. It took 224 years and 42 Presidents to run up a trillion dollars of debt held abroad. This President has exceeded that amount in 5 years.

During the President's term, the debt has increased $2.3 trillion, a trillion of it coming from foreigners.

SARBANES. Will the Senator yield? I note from his chart, in 2001, we had $5.7 trillion in debt, of which $1 trillion was held abroad.

CONRAD. Right.

SARBANES. So about a sixth, maybe 17 or 18 percent, was being held abroad.

CONRAD. That is correct.

SARBANES. This President has added $2.3 trillion in debt, of which $1.1 trillion is being held abroad. So there has been a dramatic shift in who is holding this debt and what that represents in terms of a burden on our society.

CONRAD. It is very dramatic. You can see the trend continuing. Now, when we have a bond auction, about half of the debt is being bought by foreigners.

SARBANES. There is a wonderful line in a Tennessee Williams play where Blanche DuBois says: I have always depended on the kindness of strangers. It seems to me that is what is happening to the fiscal situation of the United States. We are becoming increasingly dependent on foreigners and in particular foreign countries, since this debt now is being purchased largely by the central banks and not by individual investors. There has been a dramatic shift in terms of who is holding our debt. We are becoming increasingly dependent on others for our fiscal survival. It is a dramatic and deeply concerning development.

CONRAD. I spoke to the student council leaders of my State. There were 900 to 1,000 of them in the room. I pointed out this fact about more and more of our debt being held externally. I asked them: How many of you think this is a sign of strength and how many think it is a sign of weakness? Some people say this is a sign of strength that people will loan us this amount of money. And I would say 98.9 percent of the students said they saw it as a sign of weakness, not a sign of strength. Maybe one reason is they realize they are the ones who will have to pay this bill.

Now we have this bill before us. Here is the total spending we are going to do over the next 5 years--$14.3 trillion. Our friends come here with $40 billion of spending cuts. That is one three-hundredth, less than one three-hundredth, in fact, one three-hundred-fiftieth of the spending that is going to occur over the next 5 years, one three-hundred-fiftieth of the spending. Of course, it is going to be completely topped by the tax cut that they are proposing, a tax cut of $70 billion that is going to occur.

It is interesting. Why do we have this package before us? Here is what the chairman of the Ways and Means Committee said in the House. He told a group of lobbyists that the spending cuts are necessary to make room for tax cuts. The spending cuts are $40 billion over 5 years. The tax cuts in the Senate are $70 billion. In the House, the tax cuts are even bigger. In the House, the tax cuts over 5 years are $95 billion.

Some people have said to us: Senator, who knows what is going to happen in 5 years? How about this next year? What is the comparison in this package between the spending cuts and the tax cuts? Here you have it. In the Senate package, the spending cuts are $5 billion for the year and a $2.5 trillion budget. That is one five-hundredth of the spending. And the tax cuts are $11 billion. So in the first year, they are $6 billion under water. They are adding to the deficit, adding to the debt by $6 billion, not cutting it as they claim here in their speeches. But when you put the whole package together, they are increasing the deficit.

If you look at the House package and their proposed tax cuts, it's much worse. Five billion dollars of spending cuts, $21 billion in tax cuts in the first year. So they are adding to the deficit by $16 billion in the first year alone, adding to the debt.

SARBANES. Will the Senator yield for a question on that chart?

CONRAD. I am happy to.

SARBANES. Is it not also important to ask the question, who is being affected by the spending cuts and who is benefitting from the tax cuts, because that gives you a sense of what the priorities are? It is my perception that the spending cuts are affecting those who have little--working people, or people in difficult circumstances, such as young people trying to get a college education. The tax cuts for which these spending cuts are being imposed--as the chairman of the House Ways and Means Committee said, to make room for them--are going primarily to benefit those at the upper end of the income and wealth scale. So aren't those the priorities that are being set here? People have to make the connection. They say we are doing the spending cuts to reduce the deficit. Of course, then they admit they are trying to hold the deficit down through spending cuts in order to make room for the tax cuts.

So you have to ask, who is being hit by the spending cuts? Who is getting the benefit of the tax cuts? Those priorities, it seems to me, are standing completely on their heads. They are just the wrong set of priorities. We have to make that connection, don't we, to understand what is happening?

CONRAD. We do. I have in my hand a report from the Center on Budget Policy Priorities, a group the Senator knows well, a very well respected group in this town. This is the headline: “Budget Conference Agreement Contains Substantial Cuts Aimed at Low-Income Families and Individuals.”

One of the points they make is that this budget agreement increases the copayment and premiums for those who are on Medicaid. Those are the least fortunate among us. They say: “A large body of research has found that such cost-sharing increases are likely to lead many low-income Medicaid patients to forego various health care services and medications or not to enroll in Medicaid at all."

Second, it provides for benefit reductions. They go on to report that the conference report retains about a third of the House-passed cuts that, for many Medicaid beneficiaries, would eliminate the Federal standards which assure that they receive comprehensive health care coverage.

It goes on. Some of the cuts are for, stunningly enough, child support enforcement. So they are cutting funds for child support enforcement. The CBO estimates show the conference report includes a billion and a half in cuts in Federal funding for child support enforcement efforts. That is funding that States use to track down absent parents, for child support orders, and to collect and distribute child support. The Congressional Budget Office has estimated that this loss in Federal child support funding will result in child support going uncollected over the next 5 years of $2.9 billion.

Some of those advocates for this say they are friendly to families. What is friendly about letting deadbeat dads escape their responsibilities to their kids and their families? That is part of what is done here. If this package were really reducing the deficit, that would be one thing. It doesn't reduce the deficit. This package, when you include the tax cuts, dramatically increases the deficit. When you look at this package, not only does it cut child support enforcement and Medicaid for those who are the lowest income among us, it also badly underfunds child care because also buried in the package is reform of welfare.

The Congressional Budget Office estimates that it would cost $8.4 billion for the States to meet the new work requirements. Only a billion dollars is provided. So if we are going to have these people go to work, one of the things that happens is the cost of childcare goes up. The cost of childcare goes up by $8.4 billion, and they short-funded it by $7.4 billion. We all know who gets the benefit of the tax cut. The tax cuts on the House side go overwhelmingly to the wealthiest among us. The average tax cut just on the capital gains and dividend provisions in the House bill provides those earning over a million dollars a year a $35,000 tax cut.

I don't find this in any religious teaching that I have been exposed to. But the message is very clear. We take from the least among us to give to those who have the most among us. That is what this bill does. On top of that, when you put the whole reconciliation package together, it increases the deficit, increases the debt, and in chapter 3 expands the debt of the United States in one fell swoop by $781 billion.

SARBANES. Will the Senator yield?

CONRAD. Yes.

SARBANES. In light of what we previously looked at as to how this debt is being financed from outside the country, in effect what is happening is that in order to give tax cuts to very wealthy people, we are borrowing from Japan, China, Korea, and the Caribbean money centers, and so forth and so on. That is where we are finding the money to fund this debt that is being created and run up in order to give tax cuts to wealthy people, is it not?

CONRAD. I was speaking to people in my State, and one person in my audience said: You know, the President says that it is the people's money and we ought to give it back to the people. Well, that is absolutely true. This person in the audience said: But it is turning out that it is the Chinese people's money, the Japanese people's money. That is whose money we are giving back. We are having to borrow from them to give it back.

This is a bizarre situation that we are in, but that is what is happening. Some say, well, if you borrow the money, somehow it will pay off. Let's make sure that Chairman Greenspan doesn't believe that. He said this before the Joint Economic Committee: “We should not be cutting taxes by borrowing.” We are borrowing in huge amounts.

This is his statement on restoring the pay-go provisions that we tried hard to get restored, which say you can have additional tax cuts, but you ought to pay for them. You can have new spending, but you ought to pay for it. He said this on March 2 before the House Budget Committee: “All I am saying is that my general view is I like to see the tax burden as low as possible. And in that context, I would like to see tax cuts continued. But as I indicated earlier, that has got to be, in my judgment, in the context of a pay-go resolution.” That is what we offered to our colleagues, but they didn't accept it.

Here are the major provisions in this package. It cuts low-income beneficiaries in Medicaid. It cuts child support. It cuts foster care. I mean, really, is this the priority of the country to cut child support enforcement, foster care, and medical help for those who have the least among us? It delays Social Security supplementary benefit income payments for poor, disabled individuals. Now there are new work requirements imposing unfunded mandates on the States.

I think these are the wrong priorities for the country. The reconciliation bill unfairly targets Medicaid beneficiaries. The Senate proposed no increase in cost sharing for these very low income people. The House insisted on $2.4 billion from those same very low income people. The conference report included 80 percent of what the House proposed.

SARBANES. Will the Senator yield for a question?

CONRAD. Yes, I will be happy to yield.

SARBANES. The way the Medicaid Program is structured, as I understand it, is that in order to be a Medicaid beneficiary, in order to receive Medicaid to meet your health care needs, you have to be adjudged to be at an income level that is so low it is clear you can not afford medical care. In order to get Medicaid to begin with, don't you have to meet that requirement?

CONRAD. Absolutely. The Senator is correct.

SARBANES. And now they are proposing to take people who get Medicaid because their income is so low that they can't meet their health care needs in any other way, and they are imposing additional burdens on these Medicaid recipients.

CONRAD. I say to my colleagues, it is not just in Medicaid. They are cutting foster care. They are cutting child support enforcement. You have to ask yourself: What can they be thinking?

“The President's 2006 budget cites the child support program as one of the highest rated block/formula grants of all reviewed programs government-wide. This is a program that epitomizes the value of parental responsibility--increasing family self-sufficiency, decreasing public assistance use, reducing out-of-wedlock births and discouraging divorces.”

That is what the Center for Law and Social Policy said on November 17 of this year. And we have a bill before us that cuts child support.

One has to wonder, What are they thinking? What are the priorities that are contained here, priorities that cut the spending $40 billion by targeting those who are the least fortunate among us--$40 billion over 5 years. It is only $8 billion a year. The first year it is only $5 billion of savings in a $2.5 trillion budget. That is one five-hundredth of the budget, and then they cut the taxes, especially for the wealthiest among us, much more. So, when you put the two together, they have increased the deficit, not reduced it; they have increased the debt, not reduced it at the very time the debt is exploding before the baby boomers even retire, which will put even more pressure on our budget.

This is a budget that makes no sense. It makes no sense. I have never seen this town more disconnected from reality than we are with this budget.

This bill hurts companies, farmers, and workers, repeals the antidumping provision, eliminating assistance that benefits U.S. companies, farmers, and workers who have been targets of unfair and predatory trade practices.

I conclude as I began. This package does not make sense. When you put together all of the elements of reconciliation, it increases the deficit, it increases the debt at the very time the debt has already been dramatically increased, at the very time we are borrowing more and more money from abroad to float this boat, and this budget and this budget plan pushes us down the road to more deficits and more debt, and they have labeled it deficit reduction, but nothing could be more misleading.

This is a package, when you put it all together, that increases deficits and increases debt and at the worst possible time--before the baby boomers retire--and puts even further pressure on these fiscal imbalances that are leading us to borrow more and more money from all around the world.

At some point, we have to stop and we have to get on a firmer fiscal course. We have to restore fiscal discipline to our country. I thank the Chair and yield the floor.