Opening Floor Statement by Senator Kent Conrad (D-ND) on Tax Reconciliation Bill
November 17, 2005

First, I thank the ranking member on the Senate Committee on Finance, Senator Baucus, for his leadership and for the extraordinary amount of work he does to make the work of the Committee on Finance as responsible as it can be.

There are many provisions in the underlying bill that has come out of the Committee on Finance that I support. I think they are broadly supported extensions of expiring tax provisions that ought to be extended.

I salute the chairman of the Committee on Finance, Senator Grassley, for the good job he has done in putting together this package. While I agree with many of the specific provisions, I have one profound area of disagreement. That profound area of disagreement is that this package is not paid for. The result, if we pass this package, will be to deepen the deficit, to add to the debt, when we already have record deficits and we already have runaway debt.

My colleagues are going to have to answer the question, Why shouldn't we pay for these tax provisions? Why shouldn't we cover the cost? Why shouldn't we prevent the deficit from being expanded? Why shouldn't we prevent the debt from being deepened?

That is the question posed by my amendment. It takes many of the provisions in the Committee on Finance bill, the expiring tax provisions, and extends them for 1 year. It pays for them fully.

It is very important to remember the history. How did we get in the position we are in today? My colleagues will remember this very famous chart that the administration and the Congressional Budget Office presented back in 2001. This part of the chart I call the fan chart showed the range of possible outcomes if we didn't change any budget policies. This range of possible outcomes from a best case scenario; to a median scenario, the midpoint between the range of possible outcomes is the prediction line adopted; to the worst case scenario. These were the projections given to us if we just did nothing.

My colleagues on the other side said: No, this is too conservative, this range of possible outcomes. They said: Don't you understand, if we have tax cuts we will get more revenue so we will be above the midpoint of the range. We might be even above the best case scenario. The problem with that theory is that it did not work out in reality.

Here is what happened in reality: This red line is far below the worst case scenario outlined by the Congressional Budget Office in 2001. I have caught the chairman's attention. He will remember the chart very well from 2001, what the Congressional Budget Office said was the range of possible outcomes. The Congressional Budget Office adopted this midrange of the estimates as their projection.

Many of my colleagues on the other side told me, when I said we shouldn't be betting on a 10-year forecast: Kent, you are way too conservative. Don't you understand if we cut taxes we will get more revenue. We will be above the midpoint of the range of possible outcomes.

Now we can go back and we can check what has actually happened. That is this red line. It is below the worst case possible outcome. Far below it.

So this notion that the tax cuts were going to generate more revenue and were going to prevent massive deficits proved to be wrong. It is very simple. This is not theory. This is not ideology. This is reality. This is what really happened.

We can look at it in a different way. This chart looks back to 1980, the relationship between spending and revenue of the United States expressed as a share of gross domestic product. Why do we do it that way? Why do we do it as a share of gross domestic product? Because every economist says that is the appropriate way to compare spending over time and revenue over time because it takes out the effects of inflation and growth, so we are comparing apples to apples.

Here is what the line shows: Spending in the 1980s was between 21 and 23.5 percent of gross domestic production. During the 1990s, interestingly enough, during the Democratic administration, the spending came down as a share of gross domestic production each and every year, the 8 years of the Clinton administration. So at the end of that time we were below 19 percent of gross domestic production on spending. Since that time, spending has gone up to approaching 20 percent of gross domestic production now.

My colleagues on the other side of the aisle want to blame Democrats for spending. But Democrats have not been in charge during this period. During this period, Republicans have controlled the White House, the Senate, the House. They are responsible for every dime of this increase.

Let's look at the revenue side. When President Bush came in, revenue -- as he correctly stated -- was at a very high level historically, about 20.6 percent of gross domestic production. It was substantially above where it was in the 1980s and 1990s.

But look what has happened since. Revenue has collapsed. Last year it was the lowest it has been as a share of gross domestic production since 1959. Some of my friends on the other side want to concentrate on this uptick. And it is true, revenue has increased over the last year. But it is still way below where it has been historically and way below where it was in 2001. The result is the increased spending, the reduced revenue -- by the way, about half the reduction in revenue is from tax cuts -- the combination of increased spending and reduced revenue has opened up a chasm. That is why we have massive deficits and why we are going to have massive deficits going forward -- and, I might add, at the worst possible time.

Why is it the worst possible time? Because the baby boomers are going to start to retire in 2008. Right here the baby boomers are going to start to retire. That is going to change everything in a dramatic way.

The President assured us when we embarked on this course that there would not be deficits.

Then, the next year, he told us the deficits would be small and short term. Then, the next year, he told us they would be small by historical standards. Now he says he is going to cut them in half over the next 5 years.

Let's compare rhetoric to reality. Here is what has happened. In 2001, the first year he was in office, inheriting surpluses from the Clinton administration, we had a $128 billion surplus. The next year, we were back in deficit. The next year, 2003, we had the biggest deficit ever, only to be exceeded, in 2004, by an even larger deficit. And this year, again, we have the third largest deficit in our history but somewhat of an improvement.

Let me say to my colleagues, this modest improvement is largely illusory because it focuses just on the deficit. I say to my colleagues, what we ought to be thinking about, what is really far more important to the fiscal future of the country, is not the growth of deficits, but the growth of the debt. Why do I say that? Because if you look at what happened to the increase in the debt last year, you see that it increased far more than the deficit figure that is quoted in the news media.

Why is that? Well, the biggest reason is because under the President's plan, $173 billion of Social Security money was taken to pay for other things. That all gets added to the debt. It all has to be paid back. But it is not included in the deficit calculation. Very frankly, these deficit calculations are increasingly irrelevant to understanding the true fiscal condition of the country.

Now, last year, instead of the debt increasing by what was the advertised deficit of $319 billion, the debt of the country actually increased by $551 billion. I find that this is largely not understood. When I do presentations, most people think, in kind of a commonsense way, that the debt must increase by the amount of the deficit. But that is not the case. The fundamental reason it is not the case is because under the President's plan money is being taken from every trust fund in sight to cover the spending, and it all gets added to the debt, but it is not included in the deficit calculation. So last year, the debt of the country increased by $551 billion.

This is so important to understand historically. I see the news media, very frequently, say: Well, as a share of GDP the deficit is not as big as the deficits were in the 1980s. That is true. But it is totally misleading. Why? Because back in the 1980s, there was virtually no Social Security surplus to be used to pay for other things. In fact, until 1984, there was no Social Security surplus -- none. Then, in the 1980s, the Social Security surpluses were very modest. But look what has happened over time. The Social Security surpluses have exploded, masking the true size of what is being added to the debt of the country -- masking the true size of the deficits is probably a better way to say it.

Last year, the amount of Social Security funds that were taken to pay for other things reached $173 billion, and not a dime of it got counted in the deficit calculation. It all got added to the debt. It is all going to have to be paid back, but you don't read about it anywhere in the news media. They don't talk about how much the debt increased.

This is a shell game of enormous proportion that is going on here. I say to my colleagues, if any private sector entity tried to do what we are doing here, they would be headed for a Federal facility. But it would not be the Congress of the United States, it would not be the White House, they would be headed to Federal prison because any private sector entity that tried to take the retirement funds of its employees and use them to pay for current expenses, they would be guilty of Federal violations of law. They would be guilty of fraud. You cannot take the retirement funds of your employees and use it to pay current expenses. That is exactly what we are doing here, every year.

Under the President's plan, over the next 10 years, at the very time he says Social Security is short of money for the long term, his budget plan and the budget plans that passed here in the Congress of the United States, are going to take $2.5 trillion from Social Security and use it to pay the operating expenses of the Federal Government.

Is anybody paying attention? Is anybody paying attention to what is going on here? Over the next 10 years, $2.5 trillion of Social Security money is going to be taken to pay for other things. We are headed for a train wreck. The President says: Don't worry. We are going to cut the deficit in half over the next 5 years.

Our problem is not a 5-year problem. In fact, that is the sweet spot of the budget cycle. That is the sweet spot because that is before the baby boomers have retired. In addition, the only way the President gets to his claim of reducing the deficit, over 5 years, in half, is he just leaves out things. He left out war costs past September 30 of this year. That is $300 billion, according to the Congressional Budget Office. He left out the cost of fixing the alternative minimum tax. That costs $700 billion to fix. There is not a dime of it in his budget.

When you add back the things he left out, here is the picture we see emerging, and this is just the deficit calculation. The debt calculation, as I have described previously, is far worse. We are going into a circumstance in which the next 5 years -- these are the good times; it is before baby boomers retire -- we are headed for an extraordinarily serious set of circumstances if the budget plan of the President is maintained. Why? Because many of the proposals he has explode in cost right beyond the 5-year budget window. For example, the cost of his tax cuts absolutely explode right beyond the 5-year budget window. So does the cost of dealing with the alternative minimum tax. It explodes beyond the 5-year budget window.

We have had a lot of talk on the floor of the Senate about this being a deficit reduction package. No, it is not. This is not a deficit reduction package, this reconciliation package. This reconciliation package has three parts: spending changes that save $35 billion over 5 years, these additional tax cuts that cost $60 billion over 5 years -- so you put the two together, that adds to the deficit; it does not reduce the deficit -- and the third chapter is the chapter they do not want you to read in this book because the third chapter is to increase the debt of the country by $781 billion. It is all in one fell swoop.

As we look ahead to the 5-year budget that has been adopted by our colleagues -- not with my support; I voted against it -- but this is what is going to happen to the debt of the country over the next 5 years under this plan.

By the way, these are not my numbers. These are their numbers. These are the numbers in their budget documents about what happens to the debt -- not the deficits, the debt.

It is something the news media -- it is interesting, the news galleries are absolutely empty. Oh, no, there is one lone soul there -- one lone soul. The news media does not want to report on this. Why don't they want to report on it? Because it is a little bit complicated. You actually have to read. You actually have to do a little studying. It is not like covering the latest scandal. They love to cover scandal because that is easy to write about. Budget stories and what is happening to the fiscal condition of the country, that is much more difficult because you actually have to get your numbers right.

No one is paying attention. I have not seen a single national story on the growth of the debt. They are writing about the deficits because that is what they have written about for 20 years. They don't get the whole thing has changed dramatically since the 1980s because of how the policy of our Government has changed to raiding the Social Security trust funds for every dollar that is in them for the next 10 years.

But do you know what? It does not matter they do not write the story. It does not matter because the reality is coming in on us, and it is coming in on us much sooner than people understand because what really affects the strength of America, the fiscal strength of America, is the debt that is being built up, and the budget that has passed both Houses of Congress is going to increase the debt. It started at $7.9 trillion this year. It is going to go up to $8.6 trillion, then to $9.2 trillion, then to $9.9 trillion, then to $10.6 trillion, then to $11.3 trillion over the 5 years of this budget.

Again, these are not my numbers. These are not my numbers. These are the numbers in their own budget documents about their prediction about what will happen to the debt with the budget that has been adopted.

The debt is exploding before the baby boomers retire. What are the implications? Well, here is one of them. Foreign holdings of our debt have doubled in the last 5 years. It took 42 Presidents, pictured here, 224 years to run up $1 trillion of external debt. This President has exceeded them all. He was able to double foreign holdings of our debt in just 5 years. It took 42 Presidents 224 years to run up $1 trillion of external debt. This President has added more than $1 trillion of external debt in 5 years.

To whom do we owe the debt? Well, here is the latest scorecard. We owe Japan $687 billion. We owe China $252 billion. We owe the United Kingdom $182 billion. And my favorite, the Caribbean banking centers, we owe over $100 billion. We owe South Korea over $60 billion. I submit to my colleagues, that does not make America stronger. That makes America weaker.

So now we turn to the legislation before us. One would expect that the Congress would be about reducing the deficit, reducing the debt, in light of what has happened. In light of the fact that the debt during this Presidency has gone up $3 trillion already, in light of the fact that under the 5-year budget before us, the debt is going to go up another $3 trillion over the next 5 years, you would think we would be here trying to reduce the explosion of debt. Surprise, surprise. No. This reconciliation process, a fast-track process that was devised to circumvent the rules of the Senate, was put in place to reduce deficits. That is the whole purpose of reconciliation. But it has been hijacked, and now it is being used not to reduce deficits but to expand them.

I tell you, I go home some nights and I pinch myself thinking I am caught up in some surreal comedy. This has to be a comedy: The debt is exploding before the baby boomers retire, and in the Congress, the reconciliation process that was adopted to reduce deficits has been hijacked and is being used to increase deficits.

What is wrong with this picture? I submit what is wrong with this picture is, it is utterly and completely disconnected from reality. Now we have before us a bill that is going to cut taxes over the next 5 years by $60 billion. It is going to make the deficit worse by $60 billion.

This is what Chairman Greenspan has said about the notion of cutting taxes by borrowing. Federal Reserve Chairman Greenspan opposes deficit-financed tax cuts. He said: "[W]e should not be cutting taxes by borrowing."

He is right. That is what we are doing. We are borrowing every dime of this, borrowing it from Japan, China, Caribbean banking centers.

Here is the effect of the reconciliation package, $35 billion of spending savings over 5 years, completely and totally wiped out by $60 billion of tax cuts not paid for. The net result is to increase the deficit, to increase the debt by $25 billion, but that is right in line with the fiscal policies that have been adopted by this President and by this Republican majority, because this is their record.

This is where they took over. The debt limit had not been increased for 5 years in this country. In 2002, in one year, they increased it by $450 billion. In 2003, they increased it by $984 billion. In 2004, they increased it by $800 billion. Now, with this reconciliation proposal, they want to increase the debt by $781 billion. Add it all up, and this President will have increased the debt in these 5 years by $3 trillion. Over the next 5 years, according to their own estimates, they are going to increase the debt another $3 trillion. That is real money.

The Chairman of the Federal Reserve has said this: "All I'm saying is that my general view is I like to see the tax burden as low as possible." Don't we all. I would like nothing better than to have my tax burden reduced. "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 PAYGO resolution." What is pay-go? Pay-go says you can have more tax cuts, but you have to pay for them. You can have more spending, but you have to pay for it. Because if you don't, you add to the debt and deficit burden.

That brings me to the amendment that I send to the desk at this time....

What does this amendment do? It provides for the extension of the expiring tax provisions that expire this year to be effective next year. It extends all of them. It does not extend provisions that expire next year for 2007 or 2008 or 2009. It is completely paid for over the 10 years. It provides for hurricane disaster relief identical to what Chairman Grassley has included in his provision.

It provides for alternative minimum tax relief, but in an even better way than what is in the

chairman's mark. Because while the chairman's mark says it is a hold-harmless provision, in fact, 600,000 more American taxpayers will pay the alternative minimum tax than paid it this year. We will go from 3 million people paying the alternative minimum tax to 3.6 million. Remember, the alternative minimum tax, the old millionaire's tax, has now become a middle-class tax trap.
My amendment is a real hold harmless on alternative minimum tax. There will be no increase in the number of Americans paying the alternative minimum tax -- none. Instead of a 600,000 increase of American taxpayers paying the AMT, we will only have the same number paying next year as this year.

In addition, we extend the R&D tax credit, the State sales tax deduction, the college tuition deduction, the welfare-to-work and work opportunity tax credits, the teacher classroom expenses deduction, the leasehold improvement and restaurant depreciation, and all other traditional tax extenders that expire this year to be effective next year.

We pay for those provisions. Instead of putting it on the charge card, instead of running up the debt, adding to the deficit, shoving it off on our kids, we pay for it.

How do we do it? First, we use the same offsets that are in the chairman's package with the exception of the charitable revenue raisers because we don't have the charitable package here. They include the provisions that he has to close the tax gap by shutting down abusive tax shelters. I applaud the chairman for having those in his mark. He is exactly right to have them there. We adopt those same provisions.

In addition, we end the loophole for oil companies that lets them avoid taxes on their foreign operations. That is $10 billion. We end the tax benefit for leasing foreign subway and sewer systems. That saves $5 billion.

I want to explain this one to my colleagues. Here is what is going on. This is one of the biggest scams ever cooked up by accounting firms. Most accounting firms don't engage in this kind of activity, but there are a few who do. Here is what they are doing. They are buying foreign subway and sewer systems in U.S. shell operations, depreciating their assets for U.S. tax purposes, and leasing the subway and the sewer systems back to the foreign cities. I know this sounds unbelievable, but that is what is going on. This is a scam.

Some of my colleagues say: Senator, you are increasing taxes in order to pay for this tax cut package. I suppose you could say that. But is this a tax break anybody thinks should be in place? Do you think we should allow companies to buy foreign subway and sewer systems, depreciate them on their books, reduce their U.S. taxes, and then lease them back to those European cities? Does anybody believe that is not abuse?

We also require tax withholding on Government payments to contractors such as Halliburton. Why shouldn't they have withholding, just as working Americans have withholding on their tax obligations? That saves $7 billion.

We renew the Superfund tax so that polluting companies pay for cleaning up toxic waste sites. That tax is 9.7 cents a barrel. Oil right now is going for close to $60 a barrel. It seems entirely reasonable to me that we ask those who have contributed to these sites that need to be cleaned up to pay for it, 9.7 cents a barrel.

We close other tax loopholes as well. That is how we pay for this package. Why would we not pay for this package? Why should we not prevent the deficit and debt from being increased?

Some of my colleagues argued in the Finance Committee: Senator, you are raising taxes to pay for the tax cut. Here is what the chairman said: “We've found $180 billion over the last few years in things that are examples of loophole closings and abusive tax shelters. And that's what they are, people...that are avoiding taxes” – I would amend that to companies as well – “now that ought to pay taxes without changing the rate of taxation.”

The chairman had it exactly right. We now know the tax gap in this country, the difference between what is owed and what is actually being paid, is $350 billion a year. Let's close down these scams. Let's close down these loopholes. Let's close down these abuses and use a portion of it to pay for extending these very worthy tax provisions that are in this package. That is what my amendment is about.

For those who say they care about fiscal responsibility, for those who say they are concerned about the explosion of deficits and debt, here is a chance to prove it. Here is a chance to vote for this amendment that will extend the tax provisions that are expiring, those that are expiring this year for next year's taxes, and to pay for it by closing abusive tax shelters.

I yield the floor.