Opening Statement by Senator Kent Conrad (D-ND)
at Senate Budget Committee Markup of FY 2007 Budget Resolution
March 8, 2006

First, I want to thank the Chairman for his conduct of the Committee, for the many courtesies that he has extended to us on our side of the aisle and to my staff as well. I also want to thank him for the way he has gone about scheduling this markup and the way that I know he will conduct this markup. We have had a long experience with this Chairman and we know that he is extremely fair in the way he has conducted the business of this Committee, and we also salute the professionalism of his staff which are outstanding in every way.

With that, we do have a budget before us. We don't yet have the Chairman's mark because by the tradition of the Committee we will only get the Chairman's mark at the end of today's events. So I will restrict my remarks to the budget that has been presented by the President, which the Chairman has indicated is largely the template for his budget. But since we do not yet have the Chairman's budget, I will go through a critique of the President's budget.

This first chart is a quote from the Comptroller General of the United States in his testimony before the Senate Budget Committee when he said: "Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security."

I believe that is true. I think the Comptroller General has it exactly right.. We are on a course that is utterly unsustainable, and to the extent this is a 'vanilla' budget, that is a mistake because this is a time that calls for bold action to get us back on a fiscal course that is sustainable, and that does not challenge our national security.

The next chart shows the very dramatic deterioration in our budget picture. In 2001, we actually had a budget surplus. Since then, we have had deepening deficits and, in fact, deficits that are the largest in dollar terms that we have ever had in this country's history. For this year, the latest re-estimate indicates the deficit will be $371, a truly stunning amount of money, larger than last year's deficit by some $53 billion.

But that really understates how serious the situation is. It understates it because the debt of the country is going up much more rapidly than the size of the deficits. In fact, for this year 2006, we now anticipate the debt will increase by $654 billion, compared to the deficit of $371 billion. The major part of the difference, of course, is that virtually every trust fund in site is being raided. Certainly, the Social Security trust fund is being tapped for nearly $180 billion this year. That is money that should be used to either pay down debt or prepay the liability that is coming. Instead, those funds are being diverted and used elsewhere. And I think that is a profound mistake that we will pay dearly for in the years ahead.

This next chart shows the relationship between spending and revenue since 1980. The red line is the spending line of the United States. The green line is the revenue line. And you can see for a period in the late 90's, the Clinton administration, we enjoyed budget surpluses. In fact, we stopped the raid on Social Security for a period of time.

And then the Bush administration came in. Spending has gone up markedly, and understandably because we were attacked. Additional funds were required for national defense and homeland security and rebuilding New York and all of us on a bipartisan basis supported those spending increases. But at the same time, the revenue side of the equation, the green line, collapsed. And it is true we had an economic slowdown. It is also true that tax cuts are responsible for a significant part of this dramatic reduction in the revenue of the country. And it is the difference between the spending line and the revenue line that lead us to these intractable deficits and this explosion of debt.

We do have a very significant difference of opinion with respect to what has happened to revenue. I noticed the Chairman's slide was prospective in nature, looked just back to last year and then looked ahead and was a projection. Instead of doing it that way, I like to look at what actually happened since the President came into office.

What it shows is in 2000, the year before the President took office, we had more than $2 trillion of revenue. It took us until 2005 to get back to that level. Now our friends on the other side of the aisle assured us repeatedly that the tax cuts would generate more revenue. I remember so well in 2001 the massive tax cut. We were told, 'Don't you understand you will get more revenue.'

Well, let's see what happened. In 2002, did we get more revenue? No. We got less revenue. How about 2003, did we get more revenue? No. We got even less revenue. In 2004, we were still below the 2000 revenue line. And only in 2005 have we gotten back to the revenue base that we achieved in 2000. So, this notion that you have these massive tax cuts and you get more money, it is a fine theory, but it has not worked in the real world.

Chairman Greenspan has been very clear. He said: "All I'm 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 judgement, in the context of a paygo resolution."

What is he talking about? He's saying you can have more tax cuts if you pay for them. You could have more spending if you pay for it. That's what paygo is about, and that will be the first amendment that we offer tomorrow -- an attempt to get back to the basic budget disciplines that served this country well in previous years that have been eliminated by our colleagues on the other side of the aisle.

Now let me talk about going forward with respect to the Chairman's slides showing the deficit going down if the budget is adopted. Let me just say the only way they get there is they leave out things, and I was very pleased to hear the Chairman indicate he is going to budget for more of the war cost. I applaud him for that. That is exactly the right thing to do. For too long now, we have basically engaged in a circumstance in which we don't face up to what the war costs are really going to be. So I applaud the Chairman for his initiative.

But I am commenting on the President's budget because that's the only budget we have before us until the end of this meeting today. And in the President's budget, he continues to underfund the long-term war cost. In his supplementals for ‘06 and ‘07 he has $118 billion, but nothing beyond 2007. The Congressional Budget Office tells us we would need $312 billion more during the 2007-2016 period. So the President is not squaring with the American people with respect to the war cost.

He has been funding, as the Chairman remarked, the President has been funding the war with supplemental after supplemental. In 2003, $63 billion; 2004, $65 billion; 2005, jumped up to over $100 billion; 2006, $118 billion; now 2007, the President’s budget says we’re going to drop down to $50 billion. That’s not credible. It’s not credible with me, and it’s clear that it’s not credible with the Chairman.

The President’s budget also hides from the American people the full effect of his tax cut proposal. The dotted line here is the end of the five year budgeting of the President. But if you get beyond that dotted line, you can see the effect of his tax cut proposals. They just explode when you get to actually the fourth year of this budget. The cost of the President’s tax cuts explode, and much of that is simply shielded from view in the President’s budget.

But it’s not just the cost of the war and the cost of the tax cuts that are not correctly displayed or described in the President’s budget, he also has left out the cost of alternative minimum tax reform. The alternative minimum tax – the old millionaire’s tax is rapidly becoming a middle class tax trap – has an enormous cost attached to fixing it, over a trillion dollars over the next ten years, and the President doesn’t have any of that money in his budget.

In the long-term budget outlook, again the dotted line shows the five years of the President’s budget, and the President says the deficit is going to get cut in half in this period. But he only gets there by leaving out things. And when you put back the true war cost, when you put back the cost of alternative minimum tax reform, when you put back other items that have been left out, what you see is a very different portrayal of where we’re headed with budget deficits. And instead of an improvement, over the next ten years we see a lapsing back into record deficits, deficits for as far as the eye can see, deficits at the worst possible time before the baby boomers retire.

The result of all this is that the debt of the country is mushrooming. The President promised us in 2001 that if we adopted his fiscal plan that we would have maximum paydown of the debt. In fact, he said he would virtually eliminate publicly held debt. But that is not what has happened. Instead, the debt has grown dramatically. At the end of his first year it was $5.8 trillion. At the end of this year, we now anticipate it will be $8.6 trillion. And if the President’s budget is adopted by the end of 2011, it will be approaching $12 trillion, truly a stunning turn of events for this country, and something that weakens this country, something that makes us financially vulnerable, something that I think is a threat to the national security of the country.

One result of these massive budget deficits and trade deficits is that foreign holdings of U.S. debt have skyrocketed. This chart shows it took 42 Presidents, all of them pictured here, 224 years to run up a trillion dollars of debt held by foreigners. This President has doubled that amount, more than doubled it, in just five years. That is an utterly unsustainable course. There is nothing there that strengthens the country. In my view, I believe this weakens our country. I believe this threatens our national security. It certainly threatens our economic security.

We have heard that the economy is doing well. That's not what we see. We've gone back and looked at this economy and compared it to the nine other times in our history, since World War II, where we have recovered from recession. And each of those recoveries, when we take the nine previous recoveries and averaged them, every one of them is far stronger on every measure than this recovery: far stronger on business investment; far stronger on economic growth; far stronger on job creation; and, when we look at real median household income, it has declined four straight years under this administration's plan.

Real gross domestic product growth lags substantially behind the typical recovery. In the nine previous recoveries since World War II, GDP growth at this stage of the recovery has averaged 3.2 percent, and we're seeing real GDP average growth since the first quarter of 2001 at 2.8 percent.

Finally, the President's budget fails on the question of priorities. We know that port security has been a hot issue of late. In 2006, there was $173 million of port security grants. Under the new program the President is suggesting, port security is lumped into a broader grant program where it must compete with rail, trucking and bus security for funds. There is no assurance that any money would emerge for port security.

When we talk about priorities, it strikes me that the President's priorities just have it wrong. I don't think they are the priorities of the American people. The President proposes cutting education $2.2 billion. And at the same time, the cost of the tax cuts for those earning over a million dollars a year cost $41 billion in 2007 alone – 20 times as much as the cuts in funding for education.

The same is true in an area like fire fighter grants – first responders – they're being cut. It would only take $355 million to restore their funding, but the President says tax cuts for those earning over a million dollars a year are more important, not just a little bit more important, a hundred times as important because that's the priority in his budget.

Veterans – there are a whole series of proposals that affect veterans in terms of increasing their drug co-payments, in terms of imposing an annual enrollment fee. It would only take $800 million to restore veterans in a way that would be commensurate with last year, $800 million – one-fiftieth of the cost of the President's tax cuts for those earning over a million dollars a year.

Finally, a matter dear to my state's heart, rural health. Rural health programs are cut in the President's budget by 83 percent. It would only take $133 million to restore those programs which are critically important to people having access in rural areas to health care. And again, the President's priority is tax cuts for those earning over a million dollars a year.

Let me just say that while we do have a very strong difference of opinion with respect to this budget, I see it as a staying the course budget when the course is radically off the track with burgeoning deficits and debt at the worst possible time before the baby boomers retire, and a set of priorities that I don't think match the needs of the American people. I have just mentioned a few. There are many others that are perhaps even more startling. The President says cut the COPS program – that puts police on the street – over 70 percent. The President says eliminate Byrne law enforcement grants that are critically important in the war on meth. He doesn't say just cut it. He says eliminate it. Now, I don't think those are the priorities, certainly not the priorities of the people I represent.

Finally on the question on revenue, I say to my colleague, this problem we have is so big it is going to take both discipline on the spending side – and one place the Chairman and I agree is clearly we have to deal with long-term entitlements, clearly that has to be part of the strategy – but I also believe revenue has to be part of the strategy. And by that, I don't mean that the first place we ought to look is tax increases. I believe very strongly that the first place we ought to look on the revenue side of the equation is the tax gap.

The revenue service has estimated that's over $350 billion a year. That's the difference between what people and companies are paying verses what they actually owe. And while the vast majority of us pay what we owe, there are unfortunately a growing number of people and companies who aren't paying what they owe. Just think if we actually just collected the revenue under this tax base we would virtually eliminate the deficit.

Finally, my conclusion chart is this. This is from the *National Catholic Reporter* of February 17, 2006: "But what has become cliché during five years of the Bush administration is now glaringly apparent in the easily discerned outlines of its proposed 2007 budget: Cuts in vital programs that benefit the poor and middle class, continuing tax relief for the very wealthy... If budgets are, as some contend and we would agree, moral documents, then this one suggests we have abandoned a basic sense of right and wrong and any notion that we are at our best when we strive to make life better for all, not just those who manage to accumulate wealth."

Mr. Chairman, we await with interest your budget. And I have, as I indicated, restricted my commentary to the President's budget because until we have your mark the President's budget is all we have before us.

I want to end as I began, by again thanking the Chairman of this Committee for the way he's conducted this Committee. I wish every committee in the United States Senate could be conducted in the way this one is because I think it is professional, nonpartisan in the sense of the administration of the Committee, and certainly it is absolutely fair.

With that I thank the Chairman.