

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Press Conference with Rep. Cooper to Discuss Republican Budget Failures
September 20, 2006**

Representative Cooper and I were visiting last week and decided we really have an obligation to bring to the attention of the country how serious our fiscal condition is. And that's really why we are here today.

We want to communicate that our budget condition – the fiscal condition of the country – is far more serious than is generally acknowledged.

How bad is it? Here is what the Comptroller General of the United States, David Walker, said. He said, and I quote, “The United States government is on an imprudent and unsustainable fiscal path.” General Walker has it exactly right.

To prove his point, we only need to look at the *USA Today* story that ran just before the August recess. *USA Today* noted that the “real federal deficit” is far worse than the amount cited by the Bush administration. For example, while the Bush administration claims a deficit for 2005 of \$318 billion, *USA Today* said, under accrual accounting, which follows generally accepted accounting principles, the deficit was actually \$760 billion. And under what *USA Today* describes as “corporate-style” accounting, the deficit would have been \$3.5 trillion. The point is that whatever measure you choose, our fiscal outlook is really far worse than what is being advertised.

Here is how the *Gannett News Service* described the deficit using accrual accounting. As you know, accrual accounting is what we, by law, require of nearly all other institutions in this country. “If the United States kept its books like General Motors and nearly every other business in the country, the 2005 budget deficit would be \$760 billion and rising, not \$319 billion and falling, as is commonly reported.... How can two reports on the same budget be so different? It's a matter of what's counted. The budget figures usually bandied about in Washington are the amounts the government takes in and spends each year.” That's cash accounting. “The financial report, which has been an annual requirement since the mid-1990s, does what businesses are required to do: include the cost of promised benefits.”

In other words, it not only looks at what you are doing now – that's cash accounting. Under accrual accounting, you also look at what is being promised for the future, and how that impacts your financial condition today.

Another way to look at the budget outlook is to look at what is happening to our nation's debt. I think debt is one of the most important measures of our fiscal condition. We need to remember that the increase in debt in 2006 will be far greater than the \$260 billion deficit. That is because Social Security and Medicare trust funds, which are in temporary surplus, are being used to pay other bills. And those fund have to be paid back in the future. This year alone, \$177 billion of Social Security money is being used to pay other bills. Every dime of it has to be paid back. None of it is part of the deficit calculation, but all of it is added to the debt. When you add

in those funds and other trust fund surpluses that are also being spent, the debt will actually go up by \$557 billion in 2006.

This administration, on whatever calculation, is building a wall of debt. Federal debt has exploded. At the end of 2001, the first year of the Bush administration, the debt was \$5.8 trillion. At the end of this year, the debt is projected to be \$8.5 trillion. And if the President's spending plan is followed for the next five years, the debt is projected to soar to \$11.6 trillion – truly stunning.

The result is that we are becoming increasingly reliant on foreigners to buy our debt and finance our deficits. Last year, the United States was responsible for 65 percent of world borrowing by nations. Let me repeat that because it is truly stunning. Last year, our country accounted for 65 percent of all the borrowing that was done in the world by nations. The country that was in second place was Spain at 6.8 percent. This is a completely and utterly unsustainable course.

Instead of taking action to stop this budget deterioration, the Republican majority has done nothing but make it worse. They haven't even adopted a budget for this year. Let me repeat that because when I tell people they find it quite stunning. The Congress of the United States under Republican leadership has not even adopted a budget for this year. There is no budget.

Ten of the 12 appropriations bills have not been done by the Senate, even though the new fiscal year starts on October first. This is a complete failure on the part of the Republican majority to do its most basic duties.

A budget commentator, Stan Collender, recently noted that the Republican majority is not even trying to be fiscally disciplined. In a column titled "Avoiding Decisions is Not Fiscal Discipline," Collender wrote: "The Republican congressional leadership's decision to delay dealing with almost all FY07 appropriations until after the election, even though they won't be enacted until months after the fiscal year begins, should not be called a 'failure.' 'Failure' implies that an attempt was made. In this case the [Republican] leadership has decided not even to try."

You know, I have said before that this city and this government is utterly disconnected from the reality that we confront. The fact is that these deficits and debt are mounting. They are not being improved. If we had any kind of fair standard, if we had accrual accounting, if we were looking at the buildup of debt, what we would see is this country is in very serious financial condition, and, in fact, is deteriorating.

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We're happy to take questions. And let me say, just before we do that, if I could. We decided to take this step because we believe it is critically important for the American people to know what would happen if the government had the same accounting standards applied as does

private business, as do most private institutions. You know, they have to take into account their future commitments, and when you do it, these are the kinds of conclusions one reaches, that the deficit is far beyond what is being admitted to by this government. If you stay on a cash basis, and just look at the growth of debt, that too shows that instead of a deficit this year of \$260 billion, the debt is going to go up by almost \$560 billion. We are headed for a cliff here. That is the truth of the matter. And it is not being faced up to. In fact, the American people aren't even being told what the real considerations are.

Question: How come the Democrats have not been more aggressive and creative in terms of highlighting what the plan is on the spending bills? Why don't you just do UCs to call up spending bills and have Frist object to that being called up?

Conrad Answer:

You mean the appropriations bills?

Question: Yes, or the budget resolution?

Conrad Answer:

I think because what you have seen is in recent weeks the focus has been on security, and I think there is a reluctance to interrupt that discussion because obviously that is critically important to our nation as well. But I must say I have a growing frustration that the American people aren't being told the truth about our financial condition. Some have asked, do you think we should switch to accrual? I think we should provide both. This is what a business would do in terms of information to its shareholders and information to its investors. You would have cash accounting so you would see exactly where you stand in the current day, and you have a requirement to provide accrual accounting to demonstrate what your overall fiscal condition is in light of future obligations.

Question: Would you want some changes in the budget resolution or budget rules based on certain trip wires or triggers based on accrual accounting?

Conrad Answer:

Frankly, I think if there were an honest depiction to the American people of our financial condition that they would require – they would require – that public officials respond to our real condition. So, as you know, both Congressman Cooper and I strongly favor paygo. We believe we ought to re-institute the budget disciplines that worked so well in the 90's. Those budget disciplines that say if you are going to have more spending, you have to pay for it. If you are going to have more tax cuts, you have to pay for them, or at least you have to get a super majority vote. So, that's an added budget discipline that I think would have even more legs if we had real information before the American people on where we stand.

You know when the President came in he talked about us having all these surpluses, the truth is there never were any surpluses. If we were on an accrual basis, there never were any surpluses.

Question: Do you believe that some of these issues about mounting debt, about deficits, about fiscal responsibility should be talked about more openly even in the discussion of security (related legislation)?

Conrad Answer:

Yes I do. Thank you for that question because it really goes to a question of security, not only economic security, but the military security of the country. I just met this morning with the Air Force Chief of Staff and we are talking about the long-term budget needs of the United States Air Force and the other military services. Those are very, very serious. And all of this has to be considered together.

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One thing we should say is the theory that is guiding the exclusion of those amounts (the cost of future Social Security & Medicare promises) is that Congress could end Social Security and Medicare on 30 days notice. You know, I suppose that is possible, but does anyone think that is serious? That's the only way these numbers are excluded from the accounting reports to the American people of our financial condition.

I must say the more I am involved in this process the more alarmed I have become at what I think is massive misinformation being given the American people. And you know the Congress and the President are the ones responsible for telling the American people what our true fiscal condition is. The language that is used here has badly misled the American people. They were told by this administration and frankly by virtually everyone in a position of responsibility that we had surpluses. The truth is we never had any surpluses.

Question: Isn't part of the problem your own Democratic colleagues? You all criticized the tax cuts under President Bush, but the vast majority of those tax cuts you have endorsed. Extending those would cost something like \$2.8 trillion over the next decade. If you repeal the extension of the top three brackets and didn't do estate tax at all, you save maybe \$800 billion. You still would have a \$2 trillion revenue hole you have to deal with. Isn't this your fault also, you being the Democratic party also?

Conrad Answer:

You know, let's face it. There's plenty of blame to go around. But there is a special responsibility on those who are in charge and who are in control. The fact is when Democrats were in charge and in control they converted record deficits into record surpluses. In fact, on an accrual basis, in 1999 and 2000 we would have been in surplus. So Democrats, to their credit, when they were in charge took a very serious fiscal situation, incredibly serious, and turned it around completely. Now, these folks have taken charge and they've taken us right back to record deficits, only far in excess of anything we had before, on a nominal basis and as a percentage of GDP if one includes what is being taken from Social Security and Medicare. They're right back at near record deficit levels on that measurement.

Even more important to understand for the American people is a statistic that

Congressman Cooper just used. It took 42 Presidents 224 years to run up a trillion dollars of U.S. debt held abroad. This President has more than doubled that amount in five years. Look, Democrats have not been in control during this period. Republicans have controlled the White House, they controlled the House of Representatives, they control the U.S. Senate. They've got no budget this year. They had no budget in 2004. They haven't dealt with the appropriations bills. They're telling the American people everything is getting better. It isn't true. Everything is not getting better in terms of the fiscal condition of this country.

Question: What do you think we need to do? If you do your paygo stuff, the bulk of the tax cuts getting extended....how do you make up what is a huge hole...how do you make up that difference?

Conrad Answer:

Let me give you two ideas, one on the revenue side, one on the spending side. On the revenue side, and I don't ask Jim to endorse these ideas, these are things that I have focused on that I think would make a big difference. One is the tax gap which is now conservatively estimated at \$350 billion a year. That is the difference between what is owed and what is being paid. And we've just under this administration just let it grow like topsy. The difference between what is owed and what is being paid. I'm not talking about any tax increase here, just collecting what is legitimately owed under the current law.

On the spending side of the equation, the fastest growing part of federal accounts, other than interest on the debt, are the health care accounts. In Medicare, five percent of the people use 50 percent of the money. Five percent use 50 percent of the money. That same calculation holds true in Medicaid. That same calculation holds true in veterans' health care benefits. We have got to focus like a laser on that five percent.

What could we do? We've done an experiment with 22,000 patients, did a study, and found that if you more closely coordinated their care you could reduce the hospitalization of those people by 50 percent, and produce very dramatic financial savings and get better health care outcomes. This is one place we have to focus, I think, like a laser. So, one idea on the spending side, one idea on the revenue side. Obviously, many more things need to be done. Energy is also a key part of this. As you know, we spent as a nation hundreds of billions of dollars last year importing energy from abroad. We cannot continue that dependence.

Question: On the tax gap issue, you talk about being more aggressive, would you be willing to consider, since a good deal of that seems to be offshore issues, expanding use of the SWIFT program that's used for terror financial surveillance into tax issues?

Conrad Answer:

I wouldn't want to mix the two. The terror surveillance, which as you know, there are things we probably can't talk about there. But in general terms, we all know we are pursuing the financing of terrorism through a whole expanded effort worldwide. But I wouldn't want to mix those two.

But I would say to you that it is absolutely essential that we go after this tax gap. I think it is going to require a combination of an increased effort on going after those who aren't paying their fair share, coupled with tax reform. The fact is the world has changed, and in a globalized world it is increasingly possible for people to avoid what they legitimately owe through a whole series of tactics including offshore tax havens. I showed a building in the Cayman Islands that is the home to 12,000 companies, a five story building. I said it really is one of the most productive buildings in the world. It is amazing how much business is being transacted out of that little building in the Cayman Islands. Of course, there is no business being transacted there. It is just a tax scam.