Transcript of Opening Remarks by Chairman Kent Conrad (D-ND)
at Senate Budget Committee Markup of FY 2008 Budget Resolution
March 14, 2007

I would like to welcome everybody to the Senate Budget Committee's markup of the fiscal year 2008 budget resolution....

We would ask, as in past years, that all amendments, other than full substitutes, be fully offset for the total of the years covered by the budget. Amendments will need to be paid for over the total of that time period to be considered in the Committee. I would encourage members, and I hope Senator Gregg would join me in this, to urge colleagues not to offer sense of the Senate amendments. We have not included any in the Mark that we will present later today. It would be my hope that, like last year, we can avoid sense of the Senate amendments, if possible. On the floor, we all know sense of the Senate will be germane if they relate to the matter in the resolution....

I want to also be clear about what a budget resolution does and does not do. If there is anything there is confusion about I think it is about what a budget resolution actually does. It serves as a fiscal blueprint for Congress. It provides an overall spending and revenue level and allocation to each Committee. It sets budget enforcement rules. But it does not set policy. It does not tell Committees how to meet their spending requirement or allocation. It does not tell the revenue committee how to meet its revenue requirements. Those are the judgements of the committees of jurisdiction. So when we talk about what the budget resolution provides for or allows for, everyone should understand that it ultimately is up to the Committee of jurisdiction to determine how the instructions are met.

Let me begin by describing the highlights of the Chairman's Mark and then provide more detail about each of these items. We attempt in this Mark to restore fiscal responsibility. We reach balance by 2012, in fact, we come very close to reaching balance in 2011. We reduce spending as a share of GDP after 2008. We reduce debt as share of GDP after 2009. We adopt spending caps and restore a strong paygo rule in the Senate.

At the same time, we believe the Mark meets the nation's priorities. It rejects the President's cuts in certain key areas. And it provides important increases in three areas: children's health care, education, and veterans.

The Chairman's Mark also keeps taxes low. It protects middle-class taxpayers with two years of AMT relief. It includes a deficit-neutral reserve fund for new tax relief and the extension of expiring provisions. And it contemplates no tax increase.

The Chairman's Mark also begins to prepare the nation for the long-term fiscal challenges we face. It includes a 'comparative effectiveness' reserve fund to address rising health care costs, which I'll explain in more detail later. And it adopts a budget point of order against long-term deficit increases.

As I noted, the Chairman's Mark returns the budget to balance in 2012. It begins with a $249 billion deficit in 2008 that turns it into a $132 billion surplus in 2012. As I indicated, we come quite close to achieving balance in 2011 – $14 billion short of balance in 2011.

The Chairman's Mark also reduces debt as a share of gross domestic product – dropping from 67.1 percent of GDP in 2009 to 65 percent in 2012. I believe this is a modest, but important, step to prepare for the coming retirement of the baby boom generation.

Although the Chairman's Mark provides increases in priority areas, over the five year period, the overall spending level is very close to the President's proposed level going forward. In fact, we put on a chart our spending level compared to the President's, and you can see, if we put it to scale, there is really very little difference. For this year, we are $16 billion above the President in domestic discretionary spending, plus we have $2 billion of advanced appropriations for a total of $18 billion for this next year.

Under the Chairman's Mark, spending as a percentage of GDP will actually fall from 20.5 percent in 2008 to 18.8 percent in 2012. So, we have been I believe disciplined on the spending side of the ledger – that is total government spending drops from 20.5 percent of GDP to 18.8 percent of GDP.

In the area of defense, the Chairman's Mark fully funds the President's core defense request and his request for additional war spending.

The Chairman's Mark recognizes that providing for our children's health care should be one of the most important priorities of our nation. It, therefore, rejects the inadequate funding level proposed by the President for reauthorization of SCHIP. Under the President's budget, SCHIP would receive only $2 billion, once Medicaid interactions are accounted for. In contrast, the Chairman's Mark provides up to $50 billion for SCHIP, fully offset. This funding level will expand coverage of the estimated six million children eligible but not enrolled in either SCHIP or Medicaid, and maintain coverage for all currently-enrolled children.

The Chairman's Mark also recognizes that education is critically important to maintaining our nation's competitiveness in today's globalized economy and promoting our long-term economic growth. It, therefore, provides $6.1 billion more than the President for the Department of Education. This funding level will allow for new resources for IDEA, where the Federal government has made promises that we have not kept, No Child Left Behind, again where the Federal government has made promises that we have not kept, and Pell grants.

The Chairman's Mark also places a priority on keeping our commitment to those who have served our nation so heroically – our veterans. It therefore provides $3.5 billion more than the President for veterans' care. I think we all reacted similarly with outrage and anger at the events at Walter Reed, and I think all of us believe those needs need to be addressed. We also know of the shortcomings in the Department of Veterans Affairs and we seek to address those in the funding stream that I have just identified.

The Chairman's Mark, most significantly, provides 98 percent of the level requested in the Independent Budget, the budget plan developed by four leading veterans groups. When viewed on an account-by-account level, the Chairman's Mark actually provides more for veterans' medical care than the Independent Budget.

In fact, let me just go category-by-category. On medical care, the Budget Resolution is $36.9 billion, in comparison to the Independent Budget of $36.3 billion. This was done at the request and the urging of the Veterans Committee. On information technology, the Budget Resolution is also above the Independent Budget proposed by the veterans' organizations. We are at $1.6 billion in the Resolution compared to their proposal of $1.3 billion. On medical and prosthetic research, we are at $481 million compared to their budget of $480 million. On operating expenses, we match them at $2.23 billion. There is only one place we are below the Independent Budget, and that is on construction. We are at $960 million. Their proposal was $2.14 billion.

The reason we are below them in that area is that the Committee has advised us if they were given that money for this next year they could not spend it. They do not have the ability to make the commitments to get the money spent in this next year. And it did not seem wise to us to be allocating money that could not be spent constructively.

The Chairman's Mark also restores the President's proposed cuts or puts additional resources into certain other key priorities, such as law enforcement, heating assistance, community development, and transportation.

Here are the highlights of the revenue provisions in the Chairman's Mark. It protects middle-class taxpayers with two years of AMT relief, which is fully offset. It provides a deficit-neutral reserve fund for new tax relief, including the extension of expiring provisions. We have a reserve fund that says you can extend the expiring provisions if they are paid for. It calls for new measures to close the tax gap, to shut tax shelters, and address offshore tax havens. It calls for and sets the stage for tax simplification and reform. And it includes no tax increase.

Some of my Republican colleagues are no doubt going to say that our resolution assumes a tax increase. It does not. Over the five-year period, the Chairman's Mark has revenues that are only three percent above the President's level, as estimated by CBO. This additional revenue, we believe, can be achieved by closing the tax gap, shutting illegal tax shelters, addressing tax havens, simplifying the tax code, and without raising taxes.

Another way to look at our revenue proposal is to look at the total revenues assumed under the Chairman's Mark, which is $15 trillion for the five years, and compare that to the total revenues in the President's budget, as estimated by OMB, which is $14.8 trillion. The President put forward a budget that he thought would raise $14.8 trillion. Our budget raises $15 trillion. That is a difference of only 1.2 percent.

As I noted, the Chairman's Mark protects middle-class taxpayers by providing two years of AMT relief – a year more than the President. That relief will prevent more than 20 million middle-class taxpayers from being thrown onto the AMT – the alternative minimum tax which is rapidly becoming a middle-class tax trap.

I want to take a moment to highlight a comment last year by Comptroller General David Walker of the Government Accountability Office. In a speech to the American Institute for Certified Public Accountants, he stated: “If we look into the future and face the facts, we’ll see that our problem is not just on the spending side and entitlements. It’s also on the revenue side.”

What we are trying to do is to create a series of incentives for tax reform. We have no revenue, or virtually no new revenue the first three years of the Chairman’s Mark, virtually no new revenue the first three years. We are trying to be serious about encouraging the kind of fundamental tax reform that is needed to go after the tax gap, to go after the abusive tax havens, to go after abusive tax scams that are encouraging right now, and I’ll have more to say about that momentarily.

The Chairman’s Mark requires that new tax relief and the extension of expiring tax provisions must be offset. Failure to offset that tax relief would severely damage our nation’s finances just at the time it is trying to grapple with retirement of the baby boom generation. In fact, according to the Center on Budget and Policy Priorities, extending all of the President’s tax cuts without offsets would double the nation’s debt burden in 2050.

I believe the place that we should look for additional revenue is not to a tax increase, but first to the tax gap – taxes that are owed that are not being collected. According to the IRS’s latest estimate, the tax gap in 2001 was $345 billion. In the years since 2001, it is likely that the tax gap has grown even larger, perhaps substantially so. Closing the tax gap is not about raising taxes on anyone. It is simply collecting taxes that are already due under current law. While we will never be able to completely close the tax gap, it is clear that much more can and should be done.

We also must do more to address the growing abuse of offshore tax havens. Let me just say during Committee deliberations we had hearings on this matter, and the information that has come to us as a result of those hearings and as a result of contacts by citizens has truly been a gusher. Far too many big corporations and wealthy individuals are moving assets to tax havens to avoid taxes they owe here in the United States. For example, this one five-story building in the Cayman Islands is now home to over 12,700 companies. I say this is the most efficient building in the world. All of these businesses claim they are doing business out of this one building. They are not doing business there. They are engaged in a massive tax dodge. There is clearly no business being conducted for all of these companies out of this building.

What is really disturbing is how aggressively these tax havens are now targeting U.S. taxpayers. I asked my staff to launch an investigation on the internet and they pulled up site after site after site after site. In fact, you go to the internet you will get over 1.2 million hits on how to avoid U.S. taxes by putting your money in these offshore tax havens. Here is just one called “EscapeArtist.com.” This site says: “Your money belongs to you, and that means that it belongs offshore.”

This one is really interesting if you read it. It is an index of offshore investment resources. Down here, it says, "Live tax free and worldwide on a luxury yacht -- moving offshore and living tax free." You know, it says, "Exciting stuff!." Well, indeed it is. I urge you to ask your staff just to go on the internet and see what is there. They say without any reservation, keep your money, put it in our economy, and you won't pay anymore taxes in the United States. And unfortunately, many people are taking them up on their offer.

I think it is clear that offshore tax haven abuse is getting worse, much worse. It is placing an added and unfair burden on honest taxpayers. The Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations has been looking into this problem. The Committee stated: "Experts have estimated that the total loss to the Treasury from offshore tax evasion alone approaches $100 billion per year, including $40 to $70 billion from individuals and another $30 billion from corporations engaging in offshore tax evasion. Abusive tax shelters add tens of billions of dollars more."

I believe that Committee of Congress has it right. We must also do more to stop the use of illegal tax shelters. These are complicated transactions – cooked up by highly-paid accountants, lawyers, and bankers – designed entirely to avoid paying taxes. I want to take a moment to commend Senator Grassley, who has just arrived, and Finance Committee Chairman Baucus for their efforts to close some of these tax shelters. They have done an aggressive job and a productive job of doing just that.

This is a picture of the Dortmund subway system in Dortmund, Germany. In this tax shelter, a U.S. company bought the subway system, depreciated the subway on its U.S. taxes, and then leased the subway back to the city of Dortmund. Similar transactions were carried out with European sewer systems and municipal buildings. The Senate has taken steps to do away with this type of activity, but more can and must be done. This kind of abusive tax shelter should not be tolerated.

This is truly egregious. Companies buying sewer systems from European entities, depreciating them on their books for U.S. tax purposes, and leasing them back to the foreign cities that built them in the first place. I mean that is just intolerable, and again, I want to commend Senator Grassley and Senator Baucus for the leadership they have displayed in going after these operations. But I think we all know there is more of this that needs to be addressed.

I also want to address the long-term fiscal challenges we face with the coming retirement of the baby boom generation. When we look at the projected growth of our entitlement programs, we see that the single largest factor is the rising cost of health care.

To address that challenge, the Chairman's Mark includes a 'comparative effectiveness' reserve fund. This reserve fund is designed to jumpstart an effort to bring down health care costs. It allows for a new initiative to provide research on the comparative effectiveness of different treatments, medical devices, and drugs. This research will lead to savings over the long-term by allowing health care providers and patients to avoid treatments that may be ineffective or overly expensive, while at the same time improving health care outcomes.

As another cost-saving measure, the Chairman's Mark also takes steps to crackdown on waste, fraud, and abuse in Medicare, Medicaid, and Social Security. Specifically, it provides several discretionary cap adjustments for program integrity initiatives in these areas, including $200 million more than the President's budget in 2008 to go after Medicare fraud – for a total of $383 million. These are 'good government' initiatives and this additional funding is clearly needed.

In fact, in testimony before the House Appropriations Committee, Health and Human Services Secretary Mike Leavitt said, and I quote: "It's evident that there is substantial fraud going on in the Medicare program and we need to be able to root it out, to prosecute it and to make certain that it stops... [I]t's a desperate need, we have to have more resources for enforcement."

In fact, in his testimony before this Committee, Secretary Leavitt told a remarkable story about some of the Medicare abuse that is going on. He described how he recently joined department investigators on an unannounced inspection of a group of durable medical equipment providers operating out of this strip mall. The Office of Inspector General provided us with this picture. I can't tell you exactly where this is, and the names of the businesses have been whited-out, because this is still an ongoing investigation.

Suffice it to say, the Secretary told us there were hundreds, hundreds, of companies operating out of these strip shopping malls engaged in durable medical equipment scams against Medicare, billing typically a million and a half dollars a year, a total scam. Hundreds and hundreds of these operations in this one city alone.

This building is two stories tall and about 20,000 square feet in size, but houses dozens of these businesses. Secretary Leavitt described how there was no business going on in most of these offices. This is during business hours. He'd go to them and they were basically closed, but they were billing, and they were billing a lot. Again, I want to commend Senator Grassley and Senator Baucus for their attention to this. The Secretary has indicated they need more resources to go after these kind of scams, and we provide it in this budget.

Finally, I want to conclude. I want to review the budget enforcement provisions included in the Chairman's Mark. While budget process provisions can't replace a real bipartisan commitment to fiscal discipline, they can help put us back on a more fiscally responsible path.

As I noted, the Chairman's Mark provides discretionary spending caps in 2007 and 2008. It restores a strong paygo rule – requiring that any new mandatory spending or tax cuts are paid for, or get 60 votes in the Senate. It establishes a new budget point of order against long-term deficit increases. And it allows a reconciliation process for deficit reduction only.

I believe the Chairman's Mark provides a fiscally-responsible budget plan for our country. While no single budget resolution can solve all of our budget challenges, this plan will begin to put the nation back on a more sound fiscal path. I believe that is true about this resolution. It certainly does not solve all our problems. I believe the long-term entitlement challenges can only be addressed by the kind of bipartisan working group or some other similar device that Senator Gregg and I have outlined. But I believe this is a beginning, and I believe it is a responsible beginning. I hope my colleagues will consider this carefully when they decide whether to vote yea or nay.