Opening Floor Statement by Senate Budget Committee Chairman Kent Conrad (D-ND) on FY 2009 Senate Budget Resolution
March 10, 2008

We come to the floor with a budget resolution that came out of the committee last week. I think it is important to set the stage in recognition of the fiscal condition of the country as we present this budget.

We have seen a dramatic deterioration in the budget situation under this President. As we all know, he inherited a budget that was in surplus; in fact, a budget that was estimated to have a future of surpluses so large that the head of the Federal Reserve said we were in danger of paying off the Federal debt. That is a danger I would like to have.

The President then took us on a fiscal course that has produced four of the five largest deficits in our history. In fact, it may turn out to be five of the largest deficits in our history, depending on how events unfold this year.

We can see in the previous years we were having budget surpluses, and then the President took us into deficit and deepened those deficits until we reached a record deficit in 2004 of $413 billion. Now we see those levels being challenged in this year and perhaps next as well.

The result of these massive deficits is this President has built a wall of debt that is unprecedented. When President Bush came into office in 2000, the debt at the end of his first year -- we do not hold him responsible for his first year because he is working on the budget he inherited -- the debt stood at $5.8 trillion. At the end of last year, the debt had reached over $9 trillion. And by the end of 2009, which will be for the eight years for which he is responsible, we will see the debt will have risen to over $10 trillion. This President will almost have doubled the debt of the United States in just eight years.

Not only will he have almost doubled the debt of the country -- the gross debt, all of the money we owe -- but he will also have more than doubled what we owe to foreign nations. It took 42 Presidents, all the Presidents pictured here, 224 years to run up a $1 trillion of U.S. debt held abroad. This President has more than doubled that amount -- much more than doubled that amount -- in just seven years. The result of that is we now owe Japan almost $600 billion. We owe China almost $500 billion. We owe the United Kingdom over $150 billion. We owe the oil exporters almost $140 billion, and so it goes.

That is a warning sign to all of us about the fiscal condition of our country. The long-term projections are sobering as well. Partly as a result of this tremendous buildup of debt, the value of the dollar has shrunk rather dramatically. This chart shows the dollar against the Euro. It has gone down 40 percent since 2002. Anybody who has traveled has seen that in what they buy abroad. We see it in the prices of goods that are being imported. We also see it in terms of the kinds of reactions we are getting in the marketplace to further American indebtedness. We are hearing warnings from people who are saying: United States, you have to get your fiscal house in order. You cannot keep running up these massive debts and deficits.

We see that during this period of the Bush administration that economic growth has lagged previous recoveries. We have gone back and looked at all of the major recoveries since World War II. There have been nine previous recoveries. At the same point in the business cycle, the economy had typically grown at an average pace of 3.4 percent a year during those previous recoveries.

Look at what is happening here. In this recovery, the average GDP growth is only 2.5 percent, well short of what we have seen at the same point in previous economic cycles.

Now we have a new element to consider, and that is a housing slump with new home building falling dramatically. We have seen this pattern which comes to us from the Census Bureau, U.S. Department of Commerce. This is monthly data through January 2008. These are housing starts in millions of units, and we can see that housing starts have plunged, and plunged dramatically. We also have word that inventories of unsold homes are growing, and growing dramatically; that foreclosures are running at a very alarming rate. And all of this signals trouble in the economy.

There are other indicators as well. If we look at business investment in this economic period versus what we have seen in the nine previous recoveries since World War II, that growth of business investment is lagging in this business cycle by 52 percent. That should tell us there is something amiss in the economic policy of this administration. Something is not working. Certainly by comparison with previous business cycles, the nine significant business cycles since World War II, this one is showing much more weakness than the previous nine.

That is also true in job creation. If we look at the nine previous business cycles -- that is the dotted red line on this chart, and this business cycle is the black line -- we are now 9.6 million private sector jobs short of the typical business cycle, going all the way back to World War II.

There are a lot of alarm bells that are ringing, warning signs to which we need to pay attention and need to respond to in a budget. We have seen real median household income decline by almost $1,000 under President Bush, from $49,163 in 2000 to just over $48,000 in 2006, the last year for which we have complete statistics.

These numbers cry out for a response. And the first way that we respond is in a budget because the budget sets the policy priorities for the coming year. And we have attempted to do that in this budget by emphasizing strengthening the economy and creating jobs by doing the following: investing in energy, education, and infrastructure.

Those are the top three priorities to help strengthen the economy. Invest in energy. Why? To reduce our dependence on foreign oil. We are now spending $1 billion a day buying foreign oil. How much better off would our country be, how much stronger would the economy be if we were generating our own energy rather than importing it from around the world?

So part of this budget is designed to reduce our dependence on foreign energy and to strengthen our education and our job training because if we are not the best educated and best trained, we are not going to command the strongest economy for very long.

Also, to build our infrastructure. We all remember the incredible sight of the 35-W bridge collapsing last year. I think we all recognize that our airports, our rail lines, our highways and bridges need serious investment if we are going to be competitive globally.

We also need to expand health coverage for our children, provide tax cuts for the middle class, and restore fiscal responsibility by balancing the budget in four years and maintaining balance in the fifth.

We also want to make America safer by supporting the troops, by providing for veterans health care, by protecting the homeland, and rejecting the President's cuts in law enforcement. For example, he eliminates the COPS Program. He cuts first responders' grants by 78 percent. We don't think that makes sense, and we reject those cuts in this budget.

We now anticipate that economic growth is going to slow sharply in this year. We can see it all around us -- more job layoffs announced today, dramatic slowing of the economy. Economists today are saying they believe our country is already in recession. Of course, we will not know for several months, but it has all the appearance of a reduction in economic growth.

The Congressional Budget Office is forecasting for this year an economic growth of only 1.6 percent, down from the 2.5 percent pace over the course of 2007 and 2.6 percent in 2006. And, by the way, these were already weak economic growth numbers. 2006 was weak, 2007 was weak, and CBO is expecting even weaker growth in 2008.

So in this budget resolution we provide for a second stimulus package. We have already had one stimulus package to try to increase aggregate demand in the economy, to give a lift. We believe it is prudent to provide the room in the budget for a second stimulus package, some $35 billion of standby authority, so if this economy does continue to shed jobs and to weaken that we are prepared to respond and prepared to respond in these ways:

- Housing relief. We have legislation on the floor now to provide relief for what is happening in the housing market. That package is a $16 billion or $17 billion package that could be accommodated in this $35 billion of standby stimulus relief.
- Also, we may need to extend unemployment insurance and provide for additional funding for food stamps or perhaps State fiscal relief. We know 21 of the States are increasingly in difficult financial straits, so we may need to extend some relief to them.
- This budget also provides room for additional funding for low-income heating assistance and the WIC Program, the women, infant, and children's feeding program, and/or infrastructure spending in 2008.

When we did the last stimulus program, we asked the agencies of the Government if they had construction projects that were ready to go -- where the engineering has been done, the design has been done, the land acquisition is finished -- and all they need is money to begin construction and to begin hiring people. And they told us, yes, they do have projects like that. So we have provided for taking up some of those projects as part of the stimulus package.

Why? Because we know in road building, highway construction, and bridge construction that for every $1 billion, there are about 45,000 jobs created. And, we think it is very important that standby authority be ready to go if indeed this economy weakens further.

We also provide for tax relief in this budget resolution: the alternative minimum tax. If something is not done, it will affect 20 million more American families this year -- the alternative minimum tax. So we provide an additional year's relief from that levy.

We also provide the energy tax incentives necessary to reduce our dependence on foreign oil, education tax incentives to make college more affordable for American families, and we provide the stimulus package, where I previously described some of the provisions, and they help the housing industry. Our tax provisions would fit in that $35 billion package; for example, extending net operating loss provisions to home building companies so they aren't buffeted by further write-downs of their assets at the worst possible time.

And, of course, the important tax extenders, those permanent provisions that are about to expire that provide for the research and development credit, the wind energy credit, and the like, those are provided for in this budget resolution as well.

The first amendment that will be offered to this budget will be to extend the middle-class tax provisions previously enacted. Those provisions are about to expire, and we want to extend them. Those are the marriage penalty relief, the child tax credit, and the 10-percent bracket. There is room in this budget to extend them all and still balance the budget in four years.

There is also room in this budget for estate tax reform along the lines of what we advocated last year. As you know, we faced this unusual situation where the exemption per person, the $3.5 million next year but the year after, in 2010, there will be no estate tax. In 2011, the estate tax comes back with only $1 million per person exemptions. So we provide the continuation of the $3.5 million exemption per person and have that indexed for inflation.

There is not an American family who doesn't know what is happening to gas prices. I was just talking to my staff this morning about what they are experiencing. One of my staff -- who was caught up in a horrendous traffic jam recently coming from Baltimore and took 2 1/2 hours to get here -- filled up, and it cost $3.18 a gallon. I filled up the other day, and it was over $3.20 a gallon. There are some projections now that gas is going to go to $4 a gallon.

Look what is happening just since 2001 when gas was less than $1.50. It has more than doubled in just those seven years, and we see it continuing to jump. I am told oil prices today are also rising on world markets. There was some speculation that oil might reach $108 a barrel today on the world market.

So to address this continuing problem of energy dependence, we are proposing in this budget to invest in energy, to create green jobs, to reduce our dependence on foreign energy, to strengthen our economy, and to help with high home heating costs. We have to do that a package of energy tax incentives of over $13 billion, $3.5 billion over the President's budget in discretionary funding for energy, and an energy reserve fund for investing in clean energy and the environment.

We all know there are global climate change initiatives coming before Congress. If any of those are adopted, we are going to need a reserve fund like this to prepare for it.

Education is also a great challenge to us. We see from the National Science Foundation a chart that compares what is happening to bachelor's degrees in engineering in the thousands in China versus what is happening here. You can see we are pretty well flat, with about 75,000 engineers a year being produced. But look what has happened in China. China is now up to a rate of producing more than 350,000 engineers a year. That should serve as another alarm to us because we know engineering is critical to economic growth. And if you are producing many more engineers, you are laying the foundation for stronger economic growth in the years ahead.

I chose that as just one example. We know there are many others where we face global competition for doing the best job of educating our young people. So this budget resolution invests in education. It does it to generate economic growth and jobs, to prepare the workforce to compete in the global economy, and to make college more affordable and to improve student achievement.

We seek to do that by providing some $13 billion in education tax cuts, some $5.7 billion in funding over the President's budget in discretionary money for the Department of Education and Head Start, and a $2 billion education reserve fund for school construction and higher education reauthorization.

But it doesn't end with energy and education. It also extends to the challenges in infrastructure. We all remember this very striking picture from last year when the bridge on 35-W collapsed between Minneapolis and St. Paul. That is a bridge I traveled over many times when my wife was in medical school at the University of Minnesota, and I think all of us, our hearts went out to those people. Imagine the horror of driving home from work and having the bridge fall out from under you. We know there were lives lost and people injured. That should not happen. That should not happen anywhere in America. It shouldn't happen anywhere in the world.

We know there are deficiencies in the infrastructure funding for highways, for bridges, for airports, and for rail, and all of those are going to have to be strengthened and improved. This budget begins the process. It begins the process by creating a reserve fund to allow for major infrastructure legislation.

We have had a group of the country's business leaders come to us and tell us they have a plan they think could generate a multiplier effect in terms of matching public sector investment with private sector investment to build infrastructure in this country. We have created a reserve fund to allow for the adoption of such legislation if the committees of jurisdiction proceed, and if they pay for it, if they provide offsets for it.

We also provide $3.9 billion more than the President for key discretionary transportation accounts in 2009, and we provide another $6.5 billion to fully fund highways, fully fund transit, increase funding for airport improvement, and fund ready-to-go infrastructure projects. Those are projects that are ready to be built; they only lack the money. We also fix the highway trust fund shortfall that exists. I think that is roughly $1.4 billion that needs to be dealt with.

We not only have challenges and opportunities in education and energy and infrastructure, but we also have them in health care. We can see the number of uninsured children in our country has jumped by 700,000 just in the year 2006. We went from 8.7 million uninsured children to 9.4 million. So this budget seeks to make wise and careful investment there to improve health care, to expand coverage, to increase health research, and to promote food and drug safety. We do that by again providing for a reserve fund that will allow the $35 billion children's health insurance compromise that was adopted last year but vetoed by the President to once again proceed this year.

We also provided $4.4 billion over the President's budget in discretionary funding for health and a reserve fund to address the cut in Medicare physician payments and make other improvements to Medicare. We know the doctors of the country are scheduled for a very sharp cut in Medicare payments. I think that is rejected here virtually universally. But we have to do something about it. We provided a reserve fund to address that, so later this year Congress will be able to act.

The budget resolution also provides $3.2 billion above the President's for our veterans. We know that veterans funding in the President's budget is $44.9 billion. We have provided $48.2 billion in funding for our veterans. This is focused on veteran health care, primarily in terms of veterans because we all recognize that is an area in which we simply must do better if we are going to keep the commitment that was made to our veterans.

In terms of war funding and defense funding, we match the President's request. He has asked for $2.9 trillion over the next five years, and we matched that amount in this budget -- $2.9 trillion.

The budget also provides $2.3 billion more than the President's budget for law enforcement and first responders. This is an area which I find utterly inexplicable in the President's budget. President Bush sent this Congress a budget that eliminates the COPS Program -- eliminated it. He did not just cut it, he eliminated it. The COPS Program has put 100,000 police officers on the streets in this country, put over 250 police officers on the street in my State of North Dakota. Why the President would eliminate the COPS Program eludes me.

He has also proposed cutting the first responder grants; that is for emergency medical personnel, that is for our firefighters and our other first responders. He has proposed cutting these grants 78 percent. We have rejected those cuts in this budget at a cost of $2.3 billion.

While we have restored funding in certain key priority areas and made targeted investments in reducing our energy dependence and promoting education and in building our infrastructure, we have also sought to be fiscally responsible by balancing the budget by the fourth year and maintaining balance in the fifth.

Those are the numbers that are in the budget resolution, but this is before we extend the middle-class tax cuts. When we extend the middle-class tax cuts, these numbers will drop dramatically, but we will still be in surplus, we will still be balancing by 2012, by the fourth year, and be maintaining balance in the fifth. But we do think it is critically important to extend the middle-class tax cuts and to reform the estate tax, which previous legislation has left in a chaotic state, I think would be a fair way to say it.

We also, under this budget resolution, bring down the debt as a share of gross domestic product each and every year. Again, this is before the amendment to extend the middle-class tax cuts, but you will see the same pattern after we extend the middle-class tax cuts -- the debt as a share of GDP going down each and every year of the five years -- because we think that is critically important for the long-term economic health of the country.

This is a comparison of spending under the resolution and the President's budget. The red line is the President's spending line, the green line is ours. You can see there is very little difference. That is a difference of 2.1 percent in overall spending over the 5 years. So we do have some additional spending to meet these priorities in education and energy and infrastructure and reducing the cuts the President proposed for law enforcement, weatherization, and other priorities.

Spending as a share of GDP under the resolution goes down each and every year, from 20.8 percent of GDP in 2009 to 19 percent of GDP in 2013, applying the spending discipline that I think is necessary, that I think most of us would say is necessary if we are going to address these problems of deficit and debt. The first thing we have to do is bring down the deficit, and this budget seeks to do that.

We also, for this year, for 2009 -- this shows the overall spending difference for this year. I have showed the spending comparison for five years showing that we are spending 2.2 percent more, but I think it is also important to look at 2009, the first year of this five-year budget, on overall spending. We are spending one percent more than the President -- one percent more.

Some say: Well, you should not spend more than the President did. But the problem is, he had cuts that I do not think are broadly embraced by the American people. I do not think they think we should eliminate the COPS Program. I do not think they think we should eliminate weatherization. I do not think they believe we should cut the grants to first responders, our emergency personnel, by 78 percent. I do not think the American people think we should fail to invest in reducing our dependence on foreign energy. I do not think that is what the American people want. I do not think they believe we should continue to dramatically underfund infrastructure, which leads to bridges collapsing in our country. So we have spent more than the President -- in total for 2009, one percent more. That one percent will go to those high-priority areas of energy, education, and infrastructure.

On the revenue side, this is the comparison when the middle-class tax cuts are extended. We will have 2.6 percent more revenue than in the President's budget -- 2.6 percent more revenue than in the President's budget.

Now, this shows that difference in revenue. The President's budget has $15.2 trillion over the five years, and our budget is $15.6 trillion -- a 2.6-percent difference. Because we have more revenue, of course, we have the ability to fund in those high-priority areas but still balance the budget in the fourth year and maintain balance in the fifth. According to the Congressional Budget Office, the President's budget does balance in the fourth year but then promptly falls back out of balance in the fifth year. Our budget not only balances by the fourth year but stays in balance in the fifth.

Now, this is where we get into the question of, Well, how do you come up with 2.6 percent more revenue than the President has? I believe you can come up with the 2.6-percent more revenue than the President has by looking at three areas: the tax gap -- that is the difference between what is owed and what is paid. The Internal Revenue Service tells us that for 2001 the tax gap was over $300 billion; that is, the vast majority of us pay what we owe, but some do not. Before we ask for a tax increase from anyone, I think we ought to go to those who are not paying what they owe. Now, I think that is the first thing we ought to do before we ask for a tax increase from anyone.

But it is not just the tax gap, it is also those offshore tax havens that are proliferating and costing us a lot of money. There is a report from the Permanent Subcommittee on Investigations from February of last year. This is what they said: "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."

Shame on us for allowing this kind of abuse to occur. Let me say, there have been some in this Chamber who have made a serious effort to close this kind of scam down, and I would be the first to recognize the ranking member of the Finance Committee, Senator Grassley of Iowa, who has been very serious about going after not only abusive tax shelters but offshore tax havens.

Here is an example of what is going on. There is a little five-story building in the Cayman Islands called Ugland House, a nice little building; 12,748 companies call it home. 12,748 companies say they are doing business out of this little five-story building. Can you imagine having 12,000 companies conducting business out of that little building? Of course they are not conducting business; the only business they are conducting is monkey business because what they are doing is cheating all of the rest of us who pay our taxes. They are engaged in very ambitious tax scams and tax schemes to avoid paying what they owe in this country.

Here is a picture of a building that was in the *Boston Globe*. Let's put up the *Boston Globe* story. This was a building that is also in the Cayman Islands where shell companies allowed KBR to avoid Medicare and Social Security deductions. This story says, "Kellogg, Brown and Root, the nation's top Iraq war contractor and until last year a subsidiary of Halliburton Corp., has avoided paying hundreds of millions of dollars in federal Medicare and Social Security taxes by hiring workers through shell companies based in this tropical tax haven."

So what they were doing is hiring people paid for by American taxpayers, hiring them for contracts, and they were running them through these shell operations down in the Cayman Islands, and by doing that they were avoiding paying their Medicare and Social Security taxes to this country and saved hundreds of millions of dollars, according to this story in the *Boston Globe* from March 6 of this year. This is just days ago that this story appeared.

They point out, "More than 21,000 people working for KBR in Iraq," including 10,000 Americans, "are listed as employees of two companies that exist in a computer file on the fourth floor of a building on a palm-studded boulevard here in the Caribbean. Neither company has an office or phone number in the Cayman Islands."

They do not even have a phone number. They do not even have a real office. What they have is a scam. This is the kind of scam we ought to shut down. Here is the building, a very nice building. On the fourth floor of this building, apparently 21,000 people are supposedly employed, at least for the purpose of records.

Now, it does not stop there. This is a story from late last month in the *New York Times*, "U.S. Among Countries Investigating Tax Evasion." This is in Liechtenstein. I have never been to Liechtenstein. I am sure it is a lovely place. But the article explains the Internal Revenue Service is "beginning enforcement action against 'more than 100 U.S. taxpayers' on suspicion of evading taxes through investments in Liechtenstein."

They have the Deputy Director of the Center for Tax Policy and Administration at the OECD saying, "Liechtenstein is the tip of the iceberg." Indeed, it is.

This kind of scam is going on down in the Cayman Islands, going on in Liechtenstein, going on in other tax haven places, but it is also happening with abusive tax shelters. Last year, I showed pictures of European sewer systems. People might ask: What does a European sewer system have to do with revenue in the United States? It turns out it has a lot to do with it because it turns out U.S. companies are buying European sewer systems.

Later on in this debate I will show a picture of one of those. It may not be the most welcome picture on the Senate floor, of a European sewer system, but, nonetheless, this is part of an incredible scam that is going on in which U.S. companies buy European sewer systems, write them off on their books in the United States for tax purposes, and lease them back to the European cities that built them in the first place. That should not be allowed. That is not fair to the rest of us who pay what we owe.

Last year, when we went after some of these scams, the President threatened a veto. He said that would be a tax increase. I guess it would be a tax increase on those who are getting away without paying what they fairly owe, but I don't consider it a tax increase to make people pay what they already owe. I don't consider it a tax increase to shut down a tax scam. I don't consider it a tax increase to shut down these abusive tax shelters.

We tried to codify economic substance, prohibiting transactions with no economic rationale, done solely to evade taxes. We tried to shut down schemes to lease foreign subway and sewer systems and depreciate assets. We tried to end deferral of offshore compensation by hedge fund managers trying to evade current taxation. We tried to expand broker reporting. We tried to tax people who use expatriation to evade taxes. Over and over the President said: No, I will have to veto because that would be a tax increase.

I think the President has it entirely wrong. Those are not tax increases. Those are just making those folks pay what the rest of us are already paying.

In this budget we provide a number of enforcement mechanisms to try to help restore some fiscal discipline. We have discretionary caps for 2008 and 2009. We maintain a strong pay-go rule. We have a point of order against long-term deficit increases. We allow reconciliation for deficit reduction only, and we have a point of order against mandatory spending on an appropriations bill. These are important enforcement mechanisms that ought to be part of any budget resolution. They are part of ours. I hope they are adopted by my colleagues.

Finally, this budget resolution has provisions addressing long-term challenges. More daunting than any of our short-term problems is where this is all headed. We can't pay our bills now; that is, before the baby boomers retire. What is going to happen then? What is going to happen to the commitments that have been made in Social Security and Medicare? What is going to happen with this tremendous imbalance between spending and revenue? We have offered these three elements as part of an approach, understanding that the larger plan to deal with our fiscal problems is going to have to come in some sort of special process, a process that Senator Gregg and I have offered our colleagues to create a task force with 16 Members -- eight Democrats, eight Republicans -- and ask them to come back with a plan as to how to deal with long-term imbalances.

But in this resolution, we have comparative effectiveness reserve fund and cap adjustment to deal with health care. One of the things we know is that lots of different health modalities are being used across the country to address illness. Some of them work and some don't. We have to know which ones work.

Second, we have program integrity initiatives to crack down on waste, fraud, and abuse in Social Security and Medicare. In fact, I received a letter from the Secretary of Health, Secretary Leavitt, thanking us for the program integrity funds that we have included so that he can continue his important investigations to shut down these Medicare fraud operations that he found in Florida and other parts of the country last year and that he is continuing to crackdown on.

He found a circumstance in which you go to these strip malls, and half of the offices in the strip malls are front organizations collecting Medicare payments. You go to the door and nobody is there during the day, during work time. They are just billing mills. They are sending out Medicare bills. Goodness knows if any service is actually being extended or not. But these are scams that are operating that need to be shut down.

We also have a point of order against long-term deficit increases which is important to any strategy to contain burgeoning deficits and debt.

Before yielding the floor, I want to ask our colleagues for their cooperation. This is going to be an especially challenging budget. The numbers are very close on the two sides. We have two Presidential candidates on this side. They have a Presidential candidate on the other side. We know they may not be here for all of the deliberations. That means we are going to have to coordinate and cooperate. We also have a Member on our side who is ill. That means we will have a special challenge getting the budget done this year, but we must do it. We must get it done. I will be asking for all of our colleagues' cooperation as we proceed.