

**Opening Floor Statement by Senate Budget Committee Chairman Kent Conrad (ND)
on FY 2010 Senate Budget Resolution
March 30, 2009**

I speak to the matter now before us on the floor of the Senate, the budget.

I would like to start by pointing out what this President has inherited because this President, who has only been in office a few months, has inherited a series of crises almost unparalleled in our country's history. You think about it. Not only does he have a fiscal crisis, he has a housing crisis, he has a financial crisis, he has two wars, and he has a legacy of debt that is truly stunning.

The debt more than doubled in the previous eight years, the foreign holdings of U.S. debt tripled in the previous eight years, and the President inherited an economy in recession for more than a year, an economy which contracted by more than six percent in the last quarter of last year. Of course, when that happens, deficit and debt soar. That is precisely what has happened. In the last years, the deficit and debt have skyrocketed. So this President walks into a very challenging situation.

This shows what happened to just the Federal debt in the past years. It went from \$5.8 trillion to over \$12 trillion. The way we do it, we don't hold Presidents responsible for their first year because they are inheriting a situation. We don't hold George Bush responsible for the first year he was in office. He was working off the previous President's budget. And we do not hold this President responsible for the first year because he inherits the previous President's budget.

But this is what happened in the previous eight years -- more than doubling of the debt. Perhaps even more alarming, there was a tripling of foreign-held debt. President Bush, as we can see by this chart -- it took 42 Presidents 224 years to build up \$1 trillion of foreign-held debt. President Bush, during his period, ran up more than \$2 trillion of foreign holdings of U.S. debt. Last year alone when we went to finance our debt, 68 percent of the funding came from foreign entities.

Some say that is a sign of strength. I don't share that view. To have the Chinese be our biggest financier; to have Japan be number two; to have them financing 68 percent of our newly issued debt -- I don't think that is a sign of strength. I think it is a sign of vulnerability.

Not only did President Obama inherit those very tough fiscal situations, he also inherited a country facing very dire economic conditions, with over 3.3 million private sector jobs lost in the last six months alone.

You can see, going back to September, 300,000 jobs were lost. That jumped up to almost 400,000 in October of 2008; in November of 2008, over 600,000 jobs lost. Then it approached almost 700,000 in December of 2008. In January of 2009 there were nearly 700,000 jobs lost; in February of 2009, another almost 700,000 jobs lost.

We see the unemployment rate rose very dramatically, starting back in March of 2007,

when it was just at about 4.4 percent. Then it started skyrocketing back in March of 2008. You can see it took off at a very rapid rate to a level of 8.1 percent in February of 2009.

This is much more than numbers on a poster. These are real people losing their jobs -- meaning their ability to hold on to their homes was threatened, meaning their ability to provide for their families was diminished. These people are wondering what comes next for them; what are we going to do that is going to make a difference in their lives.

We also see economic growth contracted very dramatically from the third quarter of 2008, when there was a negative one-half of one percent of growth, to the fourth quarter of 2008 where the economy contracted at a rate of over six percent. That is the worst economic performance in decades.

That is the situation this President inherited. But it is more than that. He is inheriting record deficits; a doubling of the national debt; the worst recession since the Great Depression; financial market and housing crises, as I indicated; 3.3 million jobs lost in the last six months; and on top of that, ongoing wars in Iraq and Afghanistan.

I have often thought of the crushing responsibility on the shoulders of this President, but he is equal to it. I can say, in meeting after meeting I have had with him, one of the things that has always appealed to me about Barack Obama, now President Obama -- not only is he a very smart person, but he is remarkably calm. Even in the face of great crisis, this President maintains a coolness under fire. I find it very appealing and very reassuring that with all of these crises he is absolutely calm and he is very clear thinking. That is what we need at this time.

So when the President came with major priorities in his budget, I think many across America thought, those are exactly the right priorities. He is talking about reducing our dependence on foreign energy, one of his three key priorities; excellence in education. If we do not have the best education in the world, we are not going to be the strongest country in the world; for very large major health care reform, because I think everyone understands that is the 800-pound gorilla. That is the thing that could swamp the boat, because we are spending \$1 of every \$6 in this economy on health care, and we are headed for \$1 of every \$3 in this economy going to health care if we stay on the current trend line. Clearly that is unsustainable and the President has called for major health care reform.

A continuation of middle-class tax cuts, the 2001 and 2003 tax cuts. The President added additional middle-class tax cuts in his budget. All the while the President called for these major initiatives, but to do it and cut the deficit in half over the five years. We have tried our level best to meet the President's major priorities, understanding that we were going to have to make some changes, because the Congressional Budget Office, who did their forecast of revenue available, had done their forecast several months after the President's forecast was done. In the meantime, the situation, as I have already shown, had deteriorated. So we were left with a circumstance in which we had \$2.3 trillion less to write a budget than did the President when he wrote his.

When I say \$2.3 trillion, I want to emphasize that. I am not talking about "million," I am not talking about "billion," I am talking about "trillions" of dollars. Trillions of dollars. A

trillion dollars is 1,000 billion dollars; 1,000 billion dollars.

So when we say \$2.3 trillion was lost in the forecast of revenue available, that is a big deal. I was given the responsibility of telling the President that we were faced with that very changed circumstance, because the Congressional Budget Office does not report to the President, it reports to the Congress. So when we learned of this very significant change, I and Chairman Spratt, the chairman of the Budget Committee in the House, were given the responsibility to meet with the President and to inform him of these very significant changes.

As you can imagine, the President was not very happy. But I can tell you he is a realist, and he understood immediately the implications. He understood immediately that we would have to make some changes in his budget. But he asked us to preserve his key priorities, and that is what we have attempted to do.

Again, we need to reduce our dependence on foreign energy. I think everyone knows, or nearly everyone, that this is one of the major fundamental threats to the United States. Our dependence on foreign energy, back in 1985, we imported 27 percent of the oil we use. By 2008, that had increased to 57 percent of the oil we are using being imported from abroad, much of it from unstable parts of the world, some of them not very friendly to the United States.

So this poses a fundamental long-term economic and security threat to our country. The President has rightly identified, even though the pressure is off right now because oil prices are way down, that this is something we have got to face up to if we are going to have a strong America in the future.

So in this budget we have responded with a reserve fund that reduces dependence on foreign energy, creates green jobs, helps preserve the environment, and helps with high home energy costs. We do it through a reserve fund to accommodate legislation, to invest in clean energy, and address global climate change.

We also provide the President's level of discretionary funding for the Department of Energy for the year. We build on the economic recovery package investments in renewable energy, efficiency, and conservation, low-carbon coal technology, and modernizing the electric grid. That process had been started in the economic recovery package. It is in the budget; critically important to the economic future of the country.

In terms of a focus on excellence in education, there are lots of warning signs out there that we are starting to lose the battle to be the best educated people in the world. But what are the indications? Here is just one. We are now dramatically lagging China in producing engineers. You can see, in 1985, each of our countries produced about the same number of engineers. We produced, each of us, about 75,000 engineers.

But look at what has happened since in the United States. The number of engineers we are producing has declined to about 65,000. Look at what has happened in China. They have increased from about 75,000 to more than 440,000 engineers. Now, why is that important? I think we know it is important because you have got to have engineers if you are going to be

building a strong infrastructure. If you do not have a strong infrastructure, you do not have a strong base for competition in this globalized world economy.

We have done everything we can to capture the President's priority of emphasizing excellence in education. We generate economic growth and jobs, prepare the workforce to meet the global economy, make college more affordable, and improve student achievement. We do it with a higher education reserve fund.

To facilitate the President's student aid increases, we extend the simplified college tax credit providing up to \$2,500 a year, and we also focus on the President's requested level of \$5,550 for Pell grants and fully fund his education priorities, such as early education.

Now, I was raised by my grandparents. My grandmother was a schoolteacher. She was five feet tall. We called her Little Chief. We called her Little Chief because she commanded respect. And in our family, she would tell us there are three priorities: Education is No. 1. Education is No. 2. And education is No. 3.

I tell you, we got the message, my generation. I have 13 cousins. Every one got advanced degrees. We were not a family of any special means, a middle-class family. But we understood that education was the way to secure a better future. She made it very clear to us that was the expectation. We need to reemphasize excellence in education in this country.

But we also face an enormous challenge in health care. As I indicated in my opening remarks, \$1 in every \$6 in this economy is going for health care. This chart shows 16 percent of our GDP, and we have just gotten updated numbers that show now we are over 17 percent of our gross domestic product going to health care. If we stay on the current trend line, by 2050, 37 percent of our gross domestic product will be going for health care. That is utterly unsustainable. It is the biggest threat to our long-term deficits and debt. It is the biggest threat to our economic competitive position. It is the biggest threat to the economic viabilities of families and companies and communities. So this is something that must be addressed.

President Obama has called for major health care reform, and we have sought to preserve that priority in the budget resolution. We invest in health care in an attempt to bend the health care cost curve to save money, reduce long-term costs, reduce the buildup of deficits and debt, also to improve health, to expand coverage, to increase research, and promote food and drug safety.

We do it in three fundamental ways. First, a reserve fund to accommodate the President's initiative to reform the health care system. What does a reserve fund mean? It means simply this: The committees of jurisdiction are given full flexibility to write legislation to accomplish the President's goals. But they have certain requirements, and the requirement is that they pay for what they produce, that it be deficit neutral.

The administration has said all along, that is their intention, and we try to match that intention in this budget. The reserve fund also addresses Medicare physician payments. It is already scheduled in law that doctors will take very significant reductions. We do not want to see that happen. So, again, we are saying to the committees of jurisdiction: Fix it and pay for it.

Fix it and pay for it, because we cannot add to the deficit and debt to do it.

Finally, we continue to invest in key health care programs such as the National Institutes of Health and the Food and Drug Administration.

On defense, which is always of great interest in terms of a budget resolution, we actually provided \$45 billion more in funding for defense than President Bush's final defense plan. You can see the final defense plan of President Bush is this red block. The hatch lines here are the additional funding we have provided over the years 2010 to 2013, because that is as far as the Bush defense plan goes. We provided \$45 billion more. Frankly, President Obama came forward and said: Look, let us more honestly account for war costs than has previously been done. In the previous administration, all too often they did not put in the budget funding for war. This President did, and we do in the budget resolution.

Now, the President also gave us a charge to cut the deficit by more than half over the five years of the budget resolution. You can see that we have done, that this year we project the deficit at \$1.7 trillion under this budget resolution, and we step it down every year. We will reduce it by \$500 billion the first year, by \$300 billion the second year, by another \$300 billion the third year, by a little bit the fourth year, and by another about \$60 billion the final year, to get down to \$508 billion. That is a reduction of more than two-thirds over the five years, as a share of gross domestic product, which is what the economists like to look at, because that takes out the effect of inflation.

You can see we are reducing the deficits from 12.2 percent of gross domestic product in 2009, down to less than three percent in 2014. That is the magic goal, less than three percent of gross domestic product. Because at that level the economists tell us you stabilize the growth of the debt. That is the goal the President set, getting down to three percent of GDP or less in a deficit in the fifth year, and we beat that goal by a little bit.

There has been a lot of talk about the spending in this budget resolution. I want to make clear here is what happens. The spending again is a share of gross domestic product. Again the economists say that is the most fair comparison over time because it takes out the effect of inflation. You can see in 2009, we are spending 27.6 percent of GDP in this budget. That is a very high level historically. And, of course, the reason for it is the tremendous economic downturn, the need to provide stimulus to the economy, to provide lift. So spending is at a high level as a share of the gross domestic product in 2009.

You can see each and every year we step it down until 2012, and then basically it stays at that level for 2013, 2014, at about 22 percent of GDP. So we are going from 27.6 percent of GDP this year to 24.5 percent in 2010, down to 23.3 in 2011, and then basically stabilize at 22 percent of GDP through 2014, again getting down to our target of a deficit of less than three percent of GDP in the fifth year.

Again, on spending, to go into some additional detail, breaking down discretionary spending, as you know, in the budget we have mandatory spending, things such as Social Security and Medicare. Those are mandatory programs, mandatory in the sense that if you

qualify, the Federal Government pays for what you have coming.

Discretionary programs are programs that are open for the Appropriations Committee to adjust every year. If we look at the discretionary side of our budget, we can see, on defense, we are providing the full request by the President, a 3.8-percent increase. Internationally, we are not providing the President's full request because of the diminished resources available to us. So we cut the President's request by \$4 billion. We are still providing an increase of almost 18 percent. Why are we giving such a large increase to international accounts? The reason is quite simple. We are engaged in two wars.

The Secretary of State called me the weekend before this weekend at home. The Secretary of Defense called me at home. Both delivered the same message. They were a little unhappy, disappointed that I was cutting international accounts by \$4 billion from the President's request. They emphasized the importance of these increases because what has been done before is to make supplemental requests outside the budget. This President said no more of that. We are going to be direct. We are going to be open in the money we are requesting. These funds are needed to deal with Iraq and Afghanistan and Pakistan and other threats we are facing around the world.

Interestingly, I have never before, in my 22 years in the Budget Committee, had the Secretary of Defense call me to support the budget for the State Department. Why would the Secretary of Defense call me and ask me to increase what I have provided for in the international accounts? He told me: There is a lot that is being spent out of the Defense Department budget that should be spent out of the State Department budget for activities in Afghanistan and Iraq. President Obama has put those categories of spending where they belong, and it ought to be supported. Of course, I have great respect for them both. I had to tell them: When you lose \$2.3 trillion, you have to make a lot of changes to make it add up. So I felt compelled to reduce these accounts from the President's request.

Domestic spending, we increase by six percent. The President asked for more in that category. Again, we simply could not make the numbers work without making reductions.

So the total in this area, \$1.03 trillion, is from last year. This year it is \$1.08 trillion, for a combined increase in discretionary spending of 5.3 percent. We can see on nondefense discretionary, that combines international and domestic, we are giving a seven percent increase. The President asked for over ten. Again, I know there are people who are disappointed. I am sorry, but my responsibility is to deal with the reality with which I am presented. The reality I was presented with was \$2.3 trillion less in revenue. I have had to make reductions in the discretionary accounts. I have had to make reductions in mandatory accounts. I have had to make changes on the tax side of the ledger in order to get the deficit down to a sustainable level.

Revenue changes in the budget resolution: I have heard some say we have all these tax increases. That is not what the Congressional Budget Office says, when they look at my budget and look at all the proposals and compare it to current law. They conclude that I am providing \$825 billion of tax reduction. That is a different story than we hear coming from some quarters. That is not my claim. This is what the Congressional Budget Office finds when they look at my

budget and compare it to current law. Why the difference? First, we have extended all the middle-class tax relief provided in 2001 and 2003; including the 10-percent bracket, the child tax credit, the marriage penalty relief. All that is continued in this budget, as well as education incentives.

On top of that, alternative minimum tax reform costs \$216 billion to prevent 24 million Americans from being subjected to the alternative minimum tax. We also have estate tax reform; estate tax reform at \$3.5 million an individual, \$7 million a couple. Those people who have estates of less than that amount will pay zero in estate tax. Over 99 percent of the estates in America will pay zero, nothing, not a penny. That is a reform that needed to be made. It is included in this budget. The President called for it, and we have adopted it.

We also have a series of business provisions and the so-called tax extenders, things that need to be adjusted every year. We do it in this budget for a subtotal of tax relief of \$958 billion. We have an offset to that, certain loophole closures, shutting down abusive tax havens, abusive tax shelters, offshore tax dodges that will raise \$133 billion for total tax cuts of \$825 billion.

In the President's budget, he has recommended that we not continue all the tax relief contained in the 2001 and 2003 acts for people earning over \$250,000 a year. We have adopted that recommendation in this budget. All of the middle-class tax relief from 2001 and 2003 is here. It is funded. It is provided for.

In addition, the President called for additional tax reductions for middle-class people, the so-called make work pay provisions. Two years of that is already funded in the economic recovery package. So that will continue for the next two years. The President wanted to make that program permanent. Again, we could not do that in light of the new forecast. So we have provided that those make work pay provisions can be extended, if they are paid for. They will continue for the next two years, but after that, if they were to be extended, they would have to be paid for.

We also provide for important budget enforcement in the budget resolution. We have discretionary caps for 2009 and 2010. We maintain a strong pay-go rule. We have a point of order against long-term deficit increases, a point of order against short-term deficit increases. We allow reconciliation for deficit reduction only, which was the original purpose of reconciliation. We provide a point of order against mandatory spending on an appropriations bill; no backdoor stuff that used to go on, people raiding the Federal Treasury by coming in here and changing mandatory spending on an appropriations bill.

The budget resolution also addresses our long-term fiscal challenges in these ways. Number one, we have the health reform reserve fund. That is absolutely the key element to dealing with our long-term buildup of deficits and debt. That is the part of our spending that is absolutely out of control. The only way to get it back under control is fundamental health care reform which is provided for in this budget on a deficit-neutral basis. We also have program integrity initiatives to crack down on waste, fraud and abuse and a long-term deficit increase point of order to require 60 votes to increase the deficit long term.

President Obama has said this about the need for further work on our long-term fiscal situation. Let me be clear: The first five years -- this budget is a five-year budget -- we do quite a good job, a credible job of getting the deficit down. We reduce it by more than two-thirds. We get it down to less than three percent of GDP. But the second five years of the President's plan, even if we extended our budget for five years, is going to require much more effort. We are on an unsustainable course for the long term. In the next five years, I think we have done a credible job of moving in the right direction, reducing the deficit by two-thirds. But beyond the five years, we have big problems on the horizon.

We start in this budget to deal with health care reform because it is the 800-pound gorilla. But it is going to take more than that. It is also going to take tax reform because we have a tax system that is hemorrhaging to these offshore tax havens, abusive tax shelters and, frankly, a system that is very inefficient at collecting the revenue that is due. If we collected the money that is due under the current Tax Code, we would have no structural deficit. We wouldn't need any tax increase. If we just collected the money that is due under the current tax levels, we would have no structural deficit. The problem is, we aren't collecting the money that is due under the current code. We are only collecting about 75 percent of what is due. A big reason for that is the explosion of offshore tax havens, abusive tax shelters, the tax gap. All those things are rendering the tax system very ineffective.

The President recognizes the need for further action to address the long-term fiscal imbalance as well. He said, "Now, I want to be very clear. While we are making important progress towards fiscal responsibility this year, in this budget, this is just the beginning. In the coming years, we'll be forced to make more tough choices, and do much more to address our long-term challenges."

That is the truth. We are going to have to do much more in those years beyond the five years of this budget.

Finally, I would like to address the question of a five-year budget versus a 10-year budget. The President sent us a 10-year budget. We have written a five-year budget. Some have said that is an attempt to conceal the effect of the second five years. The President sent us a 10-year budget. It has been fully scored by the Congressional Budget Office. There is no hiding of anything. The President provided us a 10-year budget. I was critical of the previous administration for not providing a 10-year budget because I was concerned they were hiding the effect of their tax cuts in the second five years. This President has made no attempt to conceal his 10-year plan. He sent it to us. It has been scored by the Congressional Budget Office. We know what it is.

But Congress, when it writes budgets, has almost always written a five-year budget. In fact, of the 34 budgets Congress has written under the Budget Act, 30 have been five-year budgets. Why? Because the projections for year six through year 10, the projections for revenues and expenditures for years six through 10, have been woefully inaccurate. They have been notoriously unreliable. But never have I seen them more unreliable than right now. That's because of the extraordinary uncertainty we're facing in the near term. Inaccuracies in the forecasts for the next several years will compound into huge difference in years six through 10.

So we wrote a five-year budget that fully discloses the spending and revenue for the five years. We did not write a 10-year budget. Congress almost never has. But the President did. And the President's 10-year plan is fully disclosed.

We have done our level best to make changes that were necessary in what the President sent us in order to address his key priorities and at the same time to reduce the deficit in the way that he called for and to reach a deficit that was less than three percent of GDP in the fifth year.

I am proud of what we have done. Is it a perfect document? The work of men and women is never perfect. We are flawed. I will confess to that. To me, the greatest flaw is we still have not fully coped with the long-term deficit and debt challenge to this country. Much more will have to be done.

Senator Gregg and I have one proposal. We have a proposal for a task force that would require Members of Congress and the administration -- 16 of them -- to be given a responsibility to come up with a plan to get our long-term deficit and debt condition in order. If 12 of the 16 could agree, that plan would come to Congress for a vote. I believe it is going to take some special effort, some special structure to deal with these long-term deficits and debt threats.

I want to say for myself, I do believe the long-term debt accumulation does fundamentally threaten the economic security of America. While we have a good start in this first five years, much more must be done.

I will yield the floor. Before I do it, I thank Senator Gregg, the ranking member of the Budget Committee. There are many policy issues that divide us. There are some where we are joined at the hip. But Senator Gregg has been a thorough professional in all of the work of the Budget Committee this year. His staff is outstanding as well. I recognize Senator Gregg as somebody who has credibility.

He may say some things that are somewhat uncharitable about the budget I am presenting today. I understand that. That is his job. He has strong feelings, and I applaud him for them because that is what we need. If everybody in the room thinks the same thing, nobody is thinking very much.

I will tell you one thing, Senator Gregg is thinking. He cares deeply about the economic future of this country, and he is doing his level best to get us on a path that makes more sense. I applaud him for it. But I would be remiss if I did not recognize the professionalism and leadership he has exhibited in the work of the Budget Committee this year. In no way does that mean he endorses this plan. He will make very clear he does not. He strongly disagrees, as is his right. But I do want to recognize the very good working relationship we enjoy.

I thank the Chair and yield the floor.