

**Transcript of Remarks by Senator Kent Conrad (D-ND)  
at Senate Budget Committee Hearing on President Bush's FY 2007 Budget Proposal  
with Secretary of State Condoleezza Rice  
February 16, 2006**

*Opening Statement*

Thank you, Mr. Chairman, for holding this important hearing, and welcome Secretary Rice. It is good to see a fellow Stanford alum here. I had a much less distinguished career there than you did. We very much appreciate your service to the country, and we know this is an incredibly challenging time for our nation, and for many parts of the world.

With that said, this Committee is responsible for budget decisions and allocating resources. And this is going to be a difficult and challenging year. Let me just say I have already heard more from my constituents about this budget than any budget in the 19 years I have been in the Senate and serving on this Committee.

I am going to go through in a moment what I am hearing about, but let me first put up a slide that talks about the overall priorities of the budget. What we see here is that international affairs, which you have preeminent responsibility for, is getting the biggest increase, 9.4 percent over the baseline. Defense, 3.4 percent. Homeland security, a little less than 3 percent. Other domestic spending down almost 5 percent.

Let's go to the next slide because these are the kinds of things I am hearing about, and it is important for you to hear it as well. And I know you are not responsible for putting together budgets, and you are not responsible for domestic priorities, but I think it is important for you to know the kinds of feedback we are getting.

Let me just say in my state Byrne Justice grants are for local law enforcement. The President's budget eliminates those. He eliminates money for Safe and Drug Free Schools. These first two are especially sensitive in my state at this time because we are facing an epidemic of methamphetamines, the worst illegal drug I have ever seen. It is absolutely destroying families in my state.

He eliminates funding in the budget for vocational education, also something very much valued in my state. Rural health care is cut 83 percent in this budget. The COPS program, which has put some 200 police officers on the street in my state, is cut 78 percent. The Essential Air Service, which is critically important to the transportation needs of my state, is cut more than 50 percent. Amtrak cut 30 percent, which will endanger passenger rail service to my state. And the RUS electrification loans, which are almost religion in my state, cut 29 percent. You can see that these priorities create real conflict, and I can tell you this budget submission is unpopular in the constituency that I serve.

I've shown this to my colleagues many times. As we look ahead, we see the deficits with some small improvement over the next few years, but then getting much worse if the President's policies are adopted. And the debt of the country, and this is an area that I hope is of direct concern to you, the debt of the country growing very dramatically, \$5.8 trillion at the end of the

President's first year to now, the end of this year, \$8.6 trillion. Our projections are that in the next five years it will reach \$12 trillion.

And more than that, increasingly, we are relying on foreigners to finance this debt. In five years, we have doubled the amount of debt held by foreigners, doubled it. These are the countries that we know owe money. Japan, we owe almost \$700 billion. China, more than \$250 billion, and on it goes. This is of increasing concern in terms of our vulnerability to others making decisions about our financing. If these people pulled away from financing our debt, then most economists tells us interest rates would rise significantly in this country, which would create economic slowdown.

The Comptroller General said this on February 15 in a hearing in this Committee: "Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security."

That is really the final point I want to make because it goes right to the heart of what makes a strong country. If we're not financially strong, we cannot be militarily strong. And so the question of how we arrange the priorities of the country in the work of this Committee is critically important, and we welcome your insights.

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*Additional Comments by Senator Conrad*

This is from the New York Times on February 9, and this was testimony from the Special Inspector General for Iraq reconstruction before the Foreign Relations Committee. And in that story, the lead paragraph is, "Virtually every measure of the performance of Iraq's oil, electricity, water and sewerage sectors has fallen below preinvasion levels even though \$16 billion of American" money on Iraq reconstruction. Specifically, on percentage with drinking water before the war, according to the Inspector General, 50 percent had it before the war. Now only 32 percent do. On percentage with sewerage service, 24 percent before the war. Only 20 percent now. So who are we to believe?

*Secretary Rice:*

Let me give you the numbers. And the inspector general, of course, I've worked with and I actually went over his briefing before he gave that briefing. He came and gave the same briefing to me. On potable water, millions of persons served pre-war, 5.5. 2005 average, 8.6. We hope by the end state that 12.5 will be the case. Sewage, millions of persons served, pre-war, about 500,000. Average 2005, 5 [million]. So the numbers have been going up on water and sewage. The problems, you are absolutely right, Senator, have been on oil and electricity.

*Senator Conrad:*

Wait. This is the Inspector General's testimony before the Foreign Relations Committee. He says, yes oil is down, daily crude oil production down from 2.6 million barrels to 2.1. Daily heating oil production down from 5,000 tons to 1,700. But he says specifically drinking water

50 percent had it before the invasion, now only 32 percent do. Percentage with sewerage service 24 percent had it before the war, now only 20 percent do.

*Secretary Rice:*

I think this may be an issue of whether we are talking about delivery or capacity. We have increased the capacity for clean water for several million Iraqis and for 4 million Iraqis in sewerage.

*Senator Conrad:*

Can I say to you though, what matters to people is getting it. And what the Inspector General said very clearly is that in virtually every measure of the performance of Iraq's oil, electricity, water and sewerage sectors, it has fallen below preinvasion levels. You know, we can improve capacity, and that's great. But at the end of the day what matters to people is that they get it.

*Secretary Rice:*

That's true Senator, but without improved capacity more Iraqis are not going to get it. We have concentrated, you are right, we have concentrated on improving the capacity to deliver these services. The reason that we now have moved from rather large scale reconstruction projects, as I say reconstruction with a large R, to smaller scale or local reconstruction projects is to make certain that there is also better delivery for Iraqis.

*Senator Conrad:*

Let me stop you there if I can because in this article it goes on to say, "In one sense, focusing on the plummeting performance numbers 'misses the point'...the real question...is whether Iraqi security forces will ever be able to protect the infrastructure from insurgent attack."

That leaves me to this question. This is an article that appeared in the Washington Times on December 3 saying that "Funds may be lacking for ample Iraqi army....The U.S. general in charge of shaping an Iraqi army raised the prospect yesterday that the new Baghdad government will not have sufficient money to fund" the army envisioned by our administration.

Let me ask you this because this is a budget committee, as much as we are interested in foreign relations here – I think every Senator is – our primary responsibility to our colleagues is budget matters. These things raise two questions in my mind that are directly budget related. We have the Inspector General saying things are getting worse there across a broad metric of delivering services to people, even though we provided a lot of money .... The American people have been very generous already, and they are saying in this article, that according to the Inspector General and other witnesses before the Committee that they will need [more than] \$56 billion for reconstruction. What of that amount do you think the American taxpayers will be asked to finance?

*Secretary Rice:*

Senator, let me say, first, that the taxpayers' dollars that we have spent have modernized aspects of the Iraqi infrastructure. For instance, creating more capacity will allow us to deliver more. The first is to create more capacity. Then you can deliver services. And what we're now

really focusing on is how to make that delivery work, which is why I think you will see -- both in our budget request and in what will be a supplemental request -- that the focus is actually not on large funding for reconstruction projects, but rather on funding for provincial reconstruction efforts that will be more decentralized, that will allow us to work with local governments to deliver services. It will focus more on creating capacity in the Iraqi ministries so that they can also deliver services. In effect, we have given them a real boost in the infrastructure itself -- in helping to modernize it, in helping to create its capacity.

We are now going to have to work with others. And there are pledges from other countries that have not yet been paid -- not yet been actually handed over to the Iraqis for infrastructure -- that I think we will use to help them to continue the infrastructure modernization. But you will see in these budgets that you don't see large numbers in our requests for further infrastructure projects. What you see is maintenance. You see that we want to spend down the remaining money in the IRF-2. We've committed that money. And third, that we want to have provincial reconstruction efforts that will allow us to help the Iraqis to deliver services.

*Senator Conrad:*

You need to mark me down as a skeptic. According to the Inspector General, he says by virtually every measure things are going in the wrong direction, not the right direction, with respect to delivering services to people there. And they say the \$56 billion is not going to be enough -- this is the testimony before the Foreign Relations Committee. I tell you, I am very concerned that we are going to be asked for a boatload of additional funding. And as I have pointed out, things that are terribly important to my constituents, including essential air service being cut more than half, rural utility service being cut 30 percent. There is an enormous challenge in the Middle East; we also face big challenges in our own Midwest.

And I'd say to you that this trajectory -- this doesn't look good to me. And this notion that there's going to be a tremendous need for additional money, including for the Iraqi army -- and we seem to be the ones that keep ponying up.

We have to find a way to share this burden, because I can tell you, patience is wearing thin.