

**Transcript of Remarks by Senator Conrad (D-ND)  
at Press Conference on President Bush's FY 2007 Budget  
February 6, 2006**

We now have the first look at the President's budget for 2007. We wanted to bring a couple things to your attention, and then we'd be very happy to answer questions. I'm joined by Congressman Spratt, the ranking member of the House Budget Committee, my very able colleague who does really a superb job on his side of the Capitol.

I wish I could say that this budget represents doing a superb job, but I don't believe it does represent that. In fact, I think this budget represents an absolute failure to face up to the country's fiscal condition.

When we look at the President's numbers, I want to alert you that these are the things left out. He leaves out the full 10-year numbers. He leaves out ongoing Iraq costs of beyond fiscal year 2007. He leaves out the need for alternative minimum tax reform, the old millionaire's tax that is now a middle class tax trap. He also leaves out spending policy details beyond 2007 on discretionary spending.

Here is what we see as the differences between what the President is talking about and what more objective analysis would conclude. The long-term war costs are substantially underfunded in the President's budget. He has \$120 billion for fiscal years 2006 and 2007. CBO estimates that number should be \$298 billion [more] for the years 2007 through 2016. So the President has significantly understated the ongoing war cost.

He has also basically hid from view the full effects of his tax proposal. The President says extend the tax cuts, make them permanent. This dotted line is how much the President is showing the American people. He's not showing them anything beyond the dotted line as the effects of this proposal, because he has just looked at the first five years. And, of course, the cost of his tax proposal explodes beyond the five-year budget window. So, again the President is not being level with the American people on how significant the fiscal chasm is that he has created.

And, alternative minimum tax reform – that also explodes outside the five-year budget window. Beyond that the President doesn't provide any funding for AMT reform beyond fiscal year 2006. So, he doesn't have anything for AMT reform beyond 2006 – here's what it costs. The 10-year cost is a trillion dollars – not in the President's budget past fiscal year 2006. So, all of this, the President has just left out.

When the President tells us he's going to cut the deficit in half in the next five years, he only gets there by leaving out things. He leaves out extending his budget plan. That would add all of this as red ink. He leaves out the need to fix the alternative minimum tax, so that's an additional amount. And he leaves out the ongoing war cost as fully expressed by Congressional Budget Office. So, this is what you see as a pattern when you put back the things the President is not telling us about. That is just red ink as far as the eye can see, getting a little bit better in the five-year window, but then getting much worse. That's the story the President is not telling

the American people.

Back in 2001, you will recall the President told us, "...[M]y budget pays down a record amount of national debt. We will pay off \$2 trillion of debt over the next decade. That will be the largest debt reduction of any country, ever. Future generations shouldn't be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren."

That's what the President told us. You will recall he said you adopt this budget plan, everything is going to be fine, we'll be able to pay down a record amount of debt. Now, we are able to look back and see exactly what's happened since then. The debt at the end of 2001 was \$5.8 trillion. Every year, the debt has gone up, up, up until at the end of this year, we now anticipate the debt will be \$8.6 trillion. But it doesn't stop there. These are our estimates of what will happen to the debt if the President's policies are adopted. We'll be up to \$12 trillion in 2011.

On the President's watch, the debt of the country will have been more than doubled – more than doubled, and at the worst possible time before the baby boomers retire. This will be a legacy of deficits and debt that this President will leave behind. And the budget he is proposing does nothing about this problem except make it much, much worse. That is the conclusion one has to reach. And I regret that. I regret the President is not providing the leadership that is desperately needed in this country to face up to our long-term fiscal imbalances. But at some point we will all pay the bill. At some point, this will all come due, and the American people will find that this has been a time of absolute denial. I think Congressman Spratt said it well. This is a time of debt, deficit, and denial.

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I will just outline, as Congressman did in part, some of the more serious reductions proposed by the President.

- Medicaid – \$13.7 billion over five years, as Congressman Spratt indicated.
- Removal of hundreds of thousands of people from food stamps.
- Medicare reduction of \$36 billion over five years, and \$105 billion over ten years.
- Social Security, the President proposes eliminating the \$255 lump sum Social Security death benefit payment to survivors. I can tell you many low income people in my state count on that very modest death payment to bury their relatives.
- On education, Congressman Spratt has indicated \$2.1 billion cut in discretionary spending, a 3.8 percent reduction.
- Amtrak, 30 percent less than what was enacted last year.
- The Byrne Justice grant program, he proposes eliminating the funding. States like mine that are facing a major threat from methamphetamines, eliminating those law enforcement grants is a serious blow.
- Firefighter grants, cut 55 percent. No new net funding for the COPS program.
- It provides on Community Services Block Grant, an elimination of Community Services Block Grant funding.

Those are just some of the highlights of this budget.

But I really want to focus on the debt because I think it has received too little attention. So much of the focus is on the deficit -- has been for many years. But what has changed, and changed dramatically, is the debt is growing much more rapidly than the size of the deficit. Last year, the deficit was \$318 or \$319 billion, but the debt increased \$551 billion. You know, the President indicates this year's deficit is going to be \$423 billion. I think it is going to be somewhat less than that. I think it will be in the \$360 to \$380 billion range. I think once again he is somewhat overstating it so that he comes back later in the year and says progress is being made.

But the debt is going to increase – I believe – by over \$630 billion this year, and every year for the next five years of this President's plan, the debt is going to increase by \$600 to \$700 to \$750 billion each and every year. And, again that's just before the baby boomers retire. With that we're happy to take questions.

*Question:* (regarding Medicare cuts in President's budget)

*Conrad Answer:*

There is no question we have to address entitlements. The question is how is that best done. Some of the proposals the administration are making will hit things like home healthcare very hard. They're going to freeze the money there. It's going to have a very serious effect, I can tell you, on rural hospitals. Already, rural hospitals are getting dramatically less than their more urban counterparts. The President is going to have less of an increase for hospitals than what would be required under the formula. The result will be diminished margins. In many cases, these rural hospitals are operating without any margin. They're not making any money. And I think the unfortunate result of the President's proposals will be to reduce and in some cases, in some rural communities, eliminate access to care.

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If I could just follow-up on that point. There is a multi-billion dollar slush fund at CMS to entice plans to provide coverage in areas that they weren't anticipated to cover otherwise. There's no coverage gap anywhere in the country. In my state -- it was thought there might not be coverage – there are 41 different plans. On top of that, the whole idea of private plans is that they were going to cost less than traditional Medicare. Surprise, surprise, they cost more. There's billions of dollars of potential savings there. In the prescription drug benefit bill, they say Medicare can't negotiate for lower drug prices. If Medicare were allowed to negotiate for lower drug prices, many of us believe there would be tens of billions of dollars of savings there. None of that is in the President's budget. There is no question that there has to be savings. The question is where should they come from?

*Question:* Are you saying that there are in fact circumstances under which you could support cutting Medicare this year?

*Conrad Answer:*

Let me be clear. There are places where we could save money in Medicare, not just this year, but in the years ahead. I've specified three. I think there are other areas as well. First of

all, the places are number one, the slush fund at CMS for enticing plans into areas that they clearly don't need any enticement to provide coverage. Number two, the differential between private plans and traditional Medicare. Private plans are costing much more. Third, the prohibition on Medicare to negotiate lower drug prices. Those are three places.

Number four, I believe you can also have savings by more closely coordinating the care, especially of the chronically ill. As many of you know, you have heard me say before, we've done a test with 22,000 patients where we provided more close coordination of their care. We reduced their hospitalization substantially and as a result of that had significant savings. We got money savings as well as better health care outcomes by doing a more effective job of coordinating care. Those are areas that don't have an adverse effect on people. It actually would be positive in terms of health care outcomes.

*Question:* In his State of the Union address, the President talked about a bipartisan commission on entitlements. Have you heard from the White House on this idea, and if so, what is your reaction?

*Conrad Answer:*

I have not. I would be eager to have the President step forward and say that our current course is utterly unsustainable as it clearly is, and call on all of us to come together with everything on the table, with everything on the table. That means the revenue side of the equation, as well as the spending side of the equation. And let me hasten to add when I say the revenue side of the equation, don't translate that immediately into a tax increase as his people are so eager to do. The first place we ought to look is the tax gap, which is over \$300 billion a year, and I believe substantially greater than that. That is the difference between what is owed and what is being paid. I think there is an enormous opportunity there. If it is true, as the Revenue Service estimates that the tax gap is now roughly \$350 billion a year, that's the first place we ought to look for additional revenue. There are people out there that owe that aren't paying. There are companies out there that owe that aren't paying. There are a whole series of tax scams that are going on as I outlined on the floor of the Senate the other day. I put up a picture of a building in the Cayman Islands where 12,400 companies are operating out of. A five story building and 12,400 companies are operating out of. They're operating out of there because they're engaged in an enormous tax scam.

*Question:* (whether Senator Conrad would support a spending reconciliation bill that Senator Gregg might propose)

*Conrad Answer:*

It depends very much what constitutes the package and whether or not we're included in developing the package. There is an opportunity here. I have talked to colleagues of mine on the Republican side. I have talked to the President. There is an opportunity to come together to seriously address our fiscal shortfalls. It only will be accomplished in a significant way, I believe, if it is done in a bipartisan way, but it requires Presidential leadership. The President has got to step up. He's got to acknowledge that we are on a course that is utterly unsustainable.

And he's got to be prepared to talk about everything.

*Question:* (follow-up on whether Senator Conrad could support a clean reconciliation savings package)

*Conrad Answer:*

It is impossible to answer that question because I have no idea what it means. What is in the package? Did we have an ability to participate in producing the package, and what is in it? Without knowing that, it is impossible to say whether we would support it or not.

Beyond that, I don't think this jiggering around the edges thing....look at the chart I put up on the debt. That's after the reconciliation package, a package that is suppose to reduce deficits and debt. It didn't touch it. The tax cuts were bigger than the spending cuts. The result was that the deficit got bigger. But most of all, the thing that is getting lost in this conversation is what is happening to the debt in our country. The debt is skyrocketing. The debt is growing far faster than the deficit. Unless we talk about really bold things, we're not going to have much impact on this trajectory. This is what happened since the President took office. This is where we are today. At the end of this year, \$8.6 trillion, on our way to \$12 trillion of debt. Foreign holdings of our debt have doubled in five years. That's a combination of budget deficit and trade deficit, but this is utterly unsustainable course. I would urge the President to bring us all together, perhaps it can't be done, a big job that needs to be done this year, but the homework for getting it done could be done this year, so it could be enacted next year.

*Question:* (regarding defense spending and whether the increase should be cut back)

*Conrad Answer:*

I would predict the President will get everything he asks for in defense. We're at war. The Congress of the United States is going to stand shoulder-to-shoulder with the President on providing the funds he believes are necessary as Commander-in-Chief for our troops in the field.

*Question:* (regarding baseline measurement and how mandatory spending keeps going on but tax cuts don't...and if there is a proposal to change the baseline what would you do)

*Conrad Answer:*

Again, it matters entirely what the proposals are and what the justifications are. It is just very hard to answer a technical question like that without knowing the specifics.

Frankly, let's look back at what the projections have been, and what's actually happened in the real world. In 2001, we were told we could expect \$5.6 trillion of surpluses over the next ten years, \$5.6 trillion of surpluses. Now, instead, we're facing trillions of dollars of debt. So if there is a problem with the baseline, it is that when there is a turning point the turning point gets missed in the ability of the experts to predict it. What is clear is the reality. The reality is that the debt of the country has gone up dramatically under this President's watch, and it's headed for

a doubling during the period in which he is responsible for.

*Question:* (regarding Medicaid cuts)

*Conrad Answer:*

Well, \$13.7 billion over five years. It is very hard to know because there is so little detail in the budget. Most of it is attributed to what they call regulatory changes. And then they have a whole series of things that they label as reform. It is very hard to pierce the veil and understand what constitutes those changes.

*Question:* On a larger financial scale, Katrina funding, war funding, permanent tax cuts...is the President operating on a different financial planet?

*Conrad Answer:*

I don't know what planet. I think he's here on earth. I just say this - that this budget is utterly detached from any financial reality. That is just as clear as can be. This is not sustainable and what flows from this is not sustainable.

It took 42 Presidents 224 years to run up a trillion dollars of debt held by foreigners - our debt held by foreigners. This President has doubled that amount in five years. It is no wonder that virtually every budget expert, objective budget expert, has said we're on a course here that cannot be sustained. There has got to be bold change, and the President proposes basically stay as you go, just keep running up the debt, just keep adding it to the card charge, just keep mortgaging the future, sending the bill to our kids.

*Question:* That's the financial reality Senator. What about the political reality here in Congress....several key Republicans are already questioning the ability to find offsets like for health savings account tax cuts...how do you see the political reality in an election year of accomplishing this budget?

*Conrad Answer:*

Well, there is not much of an accomplishment in this budget. You know, I suppose they'll have a tough slog, but it doesn't much matter. All of that is kind of a side show, frankly, because this President is absolutely failing in his responsibility to the American people to explain honestly and directly the dimensions of our financial problems and then proposing solutions. What he has proposed is no solution. If you look at it in combination, it just makes things worse, actually much worse.

Thank you very much.