Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Finance Committee Hearing on Social Security
May 25, 2005

Let me just say I have grave doubts, very serious doubts, about the underlying assumptions made by everybody here. Let me show why.

Under the assumptions by the Social Security actuaries and by CBO, they're saying economic growth over the next 75 years is going to be 1.9 percent a year. That is an incredibly pessimistic forecast. Looking at the past 75 years, economic growth has been 3.4 percent.

What happens if future economic growth was the same as past economic growth? Here's what happens. Eighty percent of this problem goes away. Eighty percent of the shortfall disappears if we just have the same economic growth in the next 75 years that we have had in the past 75 years.

This is more than an academic question about projections because I have gone back now and looked at what the actuaries told us in 1994. My colleagues, in 1994 they told us there were 36 years of solvency left. That's what their report says. In 2005, guess what? They tell us there is 36 years of solvency left. How can it be? Eleven years ago there was 36 years of solvency left. Eleven years later there is 36 years of solvency left. It is because they completely underestimated economic growth.

Now, does this mean we don't have a problem? No. I wish it did. We've got a problem. We've got a big problem. I just think we've been asking, frankly, the wrong questions.

The problem we've got to me is a budget problem.

The budget problem we've got is first of all that the shortfall in Medicare is seven times the shortfall in Social Security, and this is much less prone to these kinds of misassumptions than is Social Security, at least as I look at it, because it is driven by two things that are very likely to continue: ...baby boomers are going to retire, they've been born, they're out there; and.... medical inflation is running far ahead of other inflation and technical changes are likely for that to continue.

Second, we have record budget deficits now before the baby boomers retire.

Third, the President is proposing a tax policy that has the cost of the tax cuts explode at the very time the baby boomers retire. This is totally disconnected from any reality.

In addition, Social Security, those bonds that we talk about, which are backed by the full faith and credit of the United States, they are real assets, but they have to be redeemed out of current income. This is missing from this discussion. Yes, it's true Social Security is solvent long into the future. It is also true that it is solvent because of assets that are held in the trust fund. Those assets are a call on the general revenues of the United States and when those bonds come due, they must be paid for out of current income.

So you connect the dots for the American people. Massive shortfall in Medicare, record budget deficits now, baby boomers retiring, Social Security has to be redeemed out of current income and we're headed for a train wreck.

But I must say I think the assumptions on Social Security are extremely pessimistic, very likely to be just wrong. And I would hope that we'd go back to a much more fundamental question of the problems and challenges facing us which are, to my way of thinking, a budget crisis, and all of these elements contribute to it.