Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing
on Defining Our Long-Term Fiscal Challenges
January 30, 2007

I want to welcome everyone to the Budget Committee today. And I want to particularly welcome our distinguished witnesses; Dr. Robert Reischauer, the President of the Urban Institute and the former head of the Congressional Budget Office; Robert Greenstein, Executive Director of the Center on Budget and Policy Priorities; and Dr. Eugene Steuerle, Senior Fellow at the Urban Institute. I very much welcome you all here. We appreciate your guidance to the Committee.

Let me begin with a quote from the Federal Reserve Chairman (Ben) Bernanke in his testimony earlier this month to this Committee. In describing the urgency of addressing our deteriorating budget outlook, he said: "... [O]ne might look at these projections and say, 'Well, these are about 2030 and 2040 and ... so we don't really have to start worrying about it yet.' But, in fact, the longer we wait, the more severe, the more draconian, the more difficult ... the adjustments are going to be. I think the right time to start is about 10 years ago." I think Chairman Bernanke had it about right.

We are now facing, as this next chart shows, a wall of debt. At the end of 2001, we had a gross debt for the country of $5.8 trillion. Under CBO's adjusted baseline, we can see that gross debt will reach $9 trillion by the end of this year. And if we continue on this course, gross debt is projected to soar to more than $12 trillion by 2012.

All of this really at the worst possible time – right before the baby boom generation retires. The number of Social Security beneficiaries is projected to more than double to some 82 million people by 2050. This is the trajectory that we're on. I call this the demographic tsunami. And you can see, all of these people have been born. This is not a matter of a projection. These people have been born; they are alive today; they are going to retire; they are going to be eligible for Social Security and Medicare; there is no way around that.

And we need to remember that Social Security is not the biggest budget challenge. Because of rising health care costs over the next 75 years, the shortfall in Medicare will be seven times the shortfall in Social Security. The projected 75-year shortfall in Social Security is $4.6 trillion. The 75-year shortfall in Medicare is over $32 trillion.

But we don't just have an entitlement problem. We also have a revenue challenge. If all of the President's tax cuts are made permanent, the cost will explode at the very time the cash surpluses in Social Security and Medicare become deficits. In other words, the President's tax cuts will dramatically worsen an already deteriorating long-term budget picture.

Let me show this chart that I think is extremely important for my colleagues and for the public to understand. The green part of these bars is the Social Security surplus that then turn to deficits. The blue are Medicare deficits. The red is the cost of making permanent the tax cuts from 2001 and 2003. This is not a pretty picture because what it shows is right now the Social Security is throwing off big surpluses, but when those turn to cash deficits, at that very time, the cost of the President's tax cuts explodes. The combined effect takes us right over the cliff.

Since so much of our long-term budget shortfall can be attributed to rising health care costs, health care reform has to be at the heart of any solution. Our health care system is not as efficient as it should be. The U.S. is spending far more on health expenditures per capita than any other country in the developed world. For example, the U.S. spent $5,711 on health care expenditures per capita in 2003, compared to $2,104 in Finland. Despite this additional health care spending, health outcomes in the U.S. are no better than health outcomes in the other OECD (Organization for Economic Co-operation and Development) countries. And you can see, I just picked out Finland; Finland is at the low end. But you can look at all of the major countries of the developed world. And United Kingdom -- they are at just over $2,300 per capita, less than half of what we spend -- all the way up to Switzerland, you can see they are at $3,800, still far below us. The country that is closest to us is Luxemburg at about $4,000 per capita.

We see the same thing when we look at health expenditures as a share of our gross domestic product. For example, the U.S. spent 15 percent of GDP on health care expenditures in 2003. We believe we'll be at about 16 percent of GDP this year, compared to Ireland at 7.2 percent. The next highest to us is Switzerland at 11 percent of GDP – this year we're at 16 percent. The difference, if we were at 11 percent of GDP instead of 16, we'd save $800 billion in one year.

Clearly, just slashing Medicaid and Medicare is not the answer. One area I believe we need to focus on is the fact that about five percent of Medicare beneficiaries use half of the money. That is, I think, a startling and powerful statistic. Approximately five percent of Medicare beneficiaries use half of the money. These are the chronically ill. They are people with multiple, serious conditions. I think we are learning more and more – if we focused on that category we could both improve health care outcomes and save money.

I believe our fiscal problems are not insurmountable. We can put our fiscal house back in order, but it is going to take a good faith effort on everyone's part. And both political parties, and those of us who represent individual states and those of us who have a party label by our name, I think all of us have to be prepared to give up on some of our fixed positions if we are going to make long-term progress.