Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at Hearing on CBO Long-Term Budget Outlook
July 16, 2009

Opening Statement:

I want to welcome CBO Director Elmendorf back to the Budget Committee.

I also want to thank him and his very capable staff at CBO for shouldering one of the most crushing workloads that has ever been put on CBO as we consider so many different consequential measures that have enormous fiscal effects, including health care, climate change and the normal appropriations process.

Dr. Elmendorf and his team should be commended for the extraordinary public service they are rendering. Whether we agree with every one of their scoring issues or not is not the point. There is always room for disagreement on scoring matters. What is critical is that we have an objective scorekeeper here that is respected, and Dr. Elmendorf and the team at CBO is that independent scorekeeper, and they certainly have my respect.

This hearing will focus on CBO's Long-Term Budget Outlook, which was released last month. We have deferred this hearing so that the committees of jurisdiction working on health care would have the full attention of CBO, but we did not believe that this hearing could be further delayed given the importance of the message and the information that is contained in it.

This first chart, updated with data from CBO's new report, shows the outlook for federal debt under CBO's alternative fiscal scenario. It shows that we are on a completely unsustainable course. Over the next 50 years, with rising health care costs, the retirement of the baby boom generation, and the permanent extension of the 2001 and 2003 tax cuts, federal debt will climb to more than 400 percent of the gross domestic product of the Untied States.

While the long-term debt trajectory is generally unchanged from CBO's report in 2007, we can see that the debt explosion has been moved up in the intermediate term. This is primarily due to the financial crisis and recession, and the federal response to them. Debt held by the public is now projected to reach 100 percent of gross domestic product by 2023, seven years earlier than previously projected.

Rising health care costs remain the biggest threat to the federal budget. These rising health costs are exploding the cost of federal health programs. And private sector health spending is also exploding. According to CBO's report, taken together, public and private health care spending will reach 38 percent of GDP by 2050. That's more than one in every three dollars in this economy just going for health care, and that is a completely unsustainable trajectory.

We can reform our health care system without harming the quality of care. The Dartmouth study found that as much as 30 percent of health spending may not contribute to better health outcomes. Here is what they found: "...Americans believe more medical care is better care, (but the) evidence indicates otherwise. Evidence suggests that states with higher Medicare spending levels actually provide lower quality care.... We may be wasting perhaps 30 percent of U.S. health care spending on medical care that does not appear to improve our health."

Senator Gregg and I asked the Congressional Budget Office to provide its best analysis of reform options that get at this long-term cost issue. Here are the key findings:

1) Without fundamental changes in the organization and delivery of care, expanding health insurance coverage will worsen the nation's long-term budget outlook.
2) Paying for reform over 10 years does not guarantee long-term savings. CBO noted that the planned expansion of coverage would be phased in over the 10 years, so the full cost would not be apparent until later.
3) The focus should be on savings within the health care system that will grow over time. CBO emphasized that any offsetting savings enacted outside the health system will likely fail to keep up with the rising cost of health care.
4) The government has two powerful levers for controlling costs: changing Medicare payment rules and limiting the tax exclusion for employer-sponsored insurance.
5) And, finally, identifying savings "game-changers" will take time and experimentation.

I hope my colleagues are paying attention to these important findings as we move forward with health care reform.

In addition to health care costs, we also face a demographic challenge that is undeniable. According to this year's Social Security Trustees Report, the number of beneficiaries is projected to rise from roughly 40 million people this year, to roughly 82 million in 2050. That is a doubling over the next 40 years.

And we also face a revenue challenge. The fact is that our revenue system is outdated and inefficient. We are suffering from tremendous leakage from the tax gap, offshore tax havens, and abusive tax shelters. I believe we are now collecting less than 80 percent of what is owed. We need comprehensive tax reform to bring clarity, efficiency, and fairness to the tax code, and to improve our competitive position in the world. We have a tax system that was designed at a time we did not have to worry about our competitive position – we now do.

The former head of the Government Accountability Office, General Walker said about the need for more revenue: "...[Y]ou're going to need additional revenues – 18.2 percent of GDP won't get the job done, even if you end up making entitlement restructuring and spending constraint (effective). The gap is just too great."

Putting the nation back on a sound fiscal footing is not going to be easy. If it were easy, it would have already been done. But we have to act. CBO's report summed it up well. It stated, and I quote: "The difficulty of the choices notwithstanding, CBO's long-term budget projections make clear that doing nothing is not an option: Legislation must ultimately be adopted that raises revenue or reduces spending or both. Moreover, delaying action simply exacerbates the challenge..."

I'm going to end on that point, and simply say that Senator Gregg and I have made a proposal about how to tackle these long-term issues. And I am also announcing today that we are calling back the Deficit Reduction Caucus to action. We had our first meeting yesterday and are inviting members of both parties to join the Deficit Reduction Caucus. We are going to reinvigorate that effort which was effective over a very long period of time at getting us back to balance in the 1990s. I think it is timely that we restore our focus to deficit and debt reduction, and that will be the work of that caucus. So, I invited members of both sides to join. Our intention will be to meet monthly and to develop a plan to address these long-term issues. The time for doing nothing has passed.

Questions and Answers:

Conrad Question:

Dr. Elmendorf, I am going to really put you on the spot because we are in the middle of this health care debate, but it is critically important that we get this right. Everyone has said, virtually everyone, that bending the cost curve over time is critically important and one of the key goals of this entire effort. From what you have seen from the products of the committees that have reported, do you see a successful effort being mounted to bend the long-term cost curve?

Elmendorf Answer:

No, Mr. Chairman. In the legislation that has been reported we do not see the sort of fundamental changes that would be necessary to reduce the trajectory of federal health spending by a significant amount. And on the contrary, the legislation significantly expands the federal responsibility for health care costs.

Conrad Question:

So the cost curve in your judgement is being bent, but it is being bent the wrong way. Is that correct?

Elmendorf Answer:

The way I would put it is that the curve is being raised, so there is a justifiable focus on growth rates because of course it is the compounding of growth rates faster than the economy that leads to these unsustainable paths. But it is very hard to look out over a very long term and say very accurate things about growth rates. So most health experts that we talk with focus particularly on what is happening over the next 10 or 20 years, still a pretty long time period for projections, but focus on the next 10 or 20 years and look at whether efforts are being made that are bringing costs down or pushing costs up over that period.

As we wrote in our letter to you and Senator Gregg, the creation of a new subsidy for health insurance, which is a critical part of expanding health insurance coverage in our judgement, would by itself increase the federal responsibility for health care that raises federal spending on health care. It raises the amount of activity that is growing at this unsustainable rate and to offset that there has to be very substantial reductions in other parts of the federal commitment to health care, either on the tax revenue side through changes in the tax exclusion or on the spending side through reforms in Medicare and Medicaid. Certainly reforms of that sort are included in some of the packages, and we are still analyzing the reforms in the House package. Legislation was only released as you know two days ago. But changes we have looked at so far do not represent the fundamental change on the order of magnitude that would be necessary to offset the direct increase in federal health costs from the insurance coverage proposals.

Conrad Question:

And what about the Finance Committee package, as it stands?

Elmendorf Answer:

I can't speak to that Mr. Chairman. We have been working with the Finance Committee and the staff for a number of months on proposals that they have been addressing. But our consultations with them have been confidential because they have not yet released the legislation, and I don't want to speak publicly about that.

Conrad Question:

All right. In terms of those things that are public from other plans, what are the things that are missing that in your judgement prevent a bending of the cost curve in the right way?

Elmendorf Answer:

Bending the cost curve is difficult. As we said in our letter to you, there is a widespread consensus, and you quoted some of this, that a significant share of health spending is not contributing to health. But rooting out that spending without taking away spending that is beneficial to health is not straightforward.

Again, the way I think experts would put it – the money is out there, but it is not going to walk in the government's door by itself. And devising the legislative strategies and the regulatory changes that would generate these changes is not straight forward. But the directions that have widespread support among health analysts include changing the preferential tax treatment of health insurance. We have a subsidy for larger health insurance policies in our tax code, and that like other subsidies encourages more of that activity. Reducing that subsidy would reduce that. And on the other side, changing the way that Medicare pays providers in an effort to encourage a focus on cost effectiveness in health care and not encourage, as a fee for service system tends to, for the delivery of additional services because bills for that will be paid.