

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at  
Hearing on Health Reform with CBO Director Douglas Elmendorf  
February 10, 2009**

*Opening Statement*

Senator Gregg is not going to be with us this morning for obvious reasons. He is the President's designee to be the next Secretary of Commerce. And I want to say in this Committee what I have said elsewhere publicly, and that is that Senator Gregg's nomination to be the Commerce Secretary represents a great loss for the United States Senate and a great gain for the Obama administration. But it also represents a significant loss for this Committee. It is going to be very hard to replace Senator Gregg's knowledge, his understanding of economics and his dedication to getting America back on track fiscally. And so when I heard the news, I had very mixed feelings. I thought the Obama administration is certainly doing itself a favor, but I will very much miss the partnership we've had on this Committee with Senator Gregg. And I think all members on both sides feel that same way.

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I am asking Senator Sessions to come join me here. Senator Gregg, as I announced earlier, is not going to be here today. Senator Sessions, as I understand it, will succeed him in the role of the ranking member of this Committee. We want to welcome Senator Sessions – it is a little bit premature to do it, because Senator Gregg is still a member until his confirmation. But in an anticipation of the change, I think it is appropriate that Senator Sessions sit in the ranking members chair and participate and we appreciate very much his contributions to this Committee.

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This morning I want to welcome CBO Director Elmendorf back to the Budget Committee. Today's hearing will focus on health care reform. Specifically, we will examine some of the key issues and budget options that CBO presented in two reports on health care released last December. The reports represent the culmination of more than a year of work by the strengthened CBO health care team assembled by our former CBO Director, Dr. Orszag, who is now the Director of OMB. I want to commend the CBO staff for their outstanding work. And I want to thank Director Elmendorf for presenting the agency's findings to us today.

Let me begin by providing a brief overview of the challenges that we face.

The news that we received in January from CBO about the deficit was dramatic and serious. We face one of the worst budget forecasts that I have ever seen. CBO's estimates showed that the deficit in 2009 would be approximately \$1.2 trillion, and that is before any policy changes, before any economic recovery package or other changes in policy. And frankly, I have stated, and I believe, that that forecast is overly optimistic. That is I think increasingly the conclusion of others as well, that this fallout from the economy has intensified in the last several weeks. We saw in the January jobs numbers that nearly 600,000 people lost their jobs in the last month along.

I have shown this chart many times because I think it is so important to make the point that we are building a wall of debt. The debt of the United States doubled over the last eight years. It is set to, I believe, double again in the next eight unless we change our long-term policy. I believe it is absolutely essential that once we have economic recovery underway that we pivot and take on our long-term imbalances, created largely by the entitlements, but also contributed to by the revenue base.

Our long-term budget outlook is extremely serious. This is the Congressional Budget Office's long-term debt outlook, as it was released in December of 2007. It shows just how serious our long-term outlook was before the current economic downturn and before adding in all of the government's economic recovery measures. The combination of the retiring baby boom generation, rising health care costs, and inadequate revenues is projected to absolutely explode federal debt – to more than 400 percent of GDP by 2058. That is completely unsustainable.

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There is not a single economist that I know of that believes 400 percent of GDP as a debt level as tolerable. This is not just a demographic issue. Rising health care costs are exploding the cost of federal health programs. And private sector health spending is also exploding. Taken together, public and private health care spending will reach 37 percent of GDP by 2050, if we stay on the current trend line.

Here are some of the key sources of growth in health care spending:

- There is limited evidence on what works and limited adherence to best practices.
- There is a lack of care coordination.
- Advances in medical technology, including prescription drugs, medical devices, diagnostic tools, and surgical procedures, are driving up costs.
- There is widespread geographic variation, sometimes as much as five times the use of a particular procedure in one part of the country versus another part with absolutely no evidence that they get improved outcomes as a result.
- And there is an increased demand for health care, with a higher prevalence of diseases like obesity and diabetes; and more advertising directly to consumers. I can't turn on the television without being bombarded with drug ads for various things.

I am encouraged that we are beginning to address the sources of growth in health care spending. The Administration has made very clear that they want to tackle this problem. In fact, the economic recovery bill includes an important downpayment on health care reform, with investments in health information technology, comparative effectiveness research, and prevention and wellness efforts.

But we all know it is going to take much more. There are more steps that must be taken to truly bend the cost curves of health care. For example, CBO's reports identify a number of payment reforms that could be taken to slow the spending growth in Medicare and other federal health programs: One, bundling payments for hospital and post-acute care to improve

coordination; Second, reducing Medicare payments to hospitals with high readmission rates; Third, incentivizing physicians, hospitals, and other providers to better collaborate; Fourth, using bonuses and penalties in Medicare to promote the use of health information technology; and finally, setting payment benchmarks for Medicare Advantage plans equal to traditional Medicare.

It is important to remember that making these reforms does not mean lowering the quality of health care. In fact, research suggests that some areas of the country that spend less on health care actually provide better health care. My own state is an example. We are in the top five percent in health care outcomes. We are at the very bottom in reimbursements. Interestingly enough, that is pretty consistently the case on northern tier states.

A study by Dr. Elliott Fisher at Dartmouth found that an astonishing 30 percent of health spending may not contribute to better health care outcomes – a stunning calculation. Here is what Dr. Fisher wrote in a health journal: “Although many Americans believe more medical care is better care, evidence indicates otherwise. Evidence suggests that states with higher Medicare spending levels actually provide lower quality care.... We may be wasting perhaps 30% of U.S. health care spending on medical care that does not appear to improve our health.”

Thirty percent of U.S. health care spending translates into \$700 billion a year – that is real money. We cannot eliminate all of the unnecessary spending, but we have to try.

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One final point I want to make to the colleagues who are working on health care reform. I think they have a heavy burden to carry to make the argument that we should add substantial cost to health care when we are already spending 16 percent of our gross domestic product in this country – that is one in every seven dollars in this economy – already in health care. That’s nearly double most other industrialized countries. So those who advocate spending hundreds of billions of dollars more I think have a very heavy burden to carry and I hope that message is heard outside this hearing room.

### Closing Statement

I want to end this hearing as I began it. I want to send a message to those who believe the answer is putting a lot more money into the system that they have a very heavy burden to bear. And I understand that maybe to change the system is going to require some front-end costs. Okay, I can accept that.

But the notion that we are going to go from 16 percent of GDP to 18 to 20 percent of GDP – we’re on a track now by 2015, we’re going to be at 20 percent of GDP – one in every five dollars of this economy for health care. That will be double any other industrialized country in the world on the current trend lines. Double. Now if we were getting by far the best results, that would be one thing. But we aren’t – we aren’t even close. I don’t think in the last analysis we are in the top 20 in health care outcomes. So being twice as expensive and not getting the very highest quality tells you we have a system failure. And it is of enormous proportion, and it

makes our country less competitive, it makes our people less affluent, and to the extent we have a health care system that does not deliver quality outcomes, it makes our people less healthy than they would otherwise be.

My goodness, we've got to be able to do better than this, and we very much need your help and the help of your associates to point the way in terms of what we try to do. And we have got to be very humble about this, because the truth is there is not certainty about changes that could be made here that would make a difference. So let's be humble about it, but let's not let humility prevent us from acting, because the course we're on is completely and utterly unsustainable. So that's our challenge.