**Transcript of Remarks by Senator Kent Conrad (D-ND)**
**at Senate Budget Committee Hearing**
**on Exploring Solutions to Our Long-Term Fiscal Challenges**
**January 31, 2007**

*Opening Statement*

I want to welcome the really outstanding witnesses we have here today: Robert Bixby, the Executive Director of the Concord Coalition that does such good work on trying to alert the nation as to the risks of our fiscal imbalances; Dr. Joseph Minarik, the Senior Vice President of the Committee for Economic Development, with a distinguished background in dealing with these issues; Dr. Jason Furman, who is the Director of the Hamilton Project at the Brookings Institution, who has just taken over for Peter Orszag who has now become the head of the Congressional Budget Office; and Dr. Stuart Butler, the Vice President of the Heritage Foundation. We look forward to the testimony of all of you.

Let me just say we have had a series of hearings now in which we have tried to lay the groundwork about the seriousness of our long-term fiscal imbalances. We started with the head of the Government Accountability Office, and we will put up one of his statements from that hearing. Comptroller General David Walker said: "We are on an imprudent and unsustainable long-term fiscal path, and while the short-term deficits have improved in recent years, the long term is getting worse every second of every minute of every day and the time for action is now."

And next we had the Chairman of the Federal Reserve come and testify before the Senate Budget Committee. And this is what Chairman Bernanke had to say: "... [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 the Chairman of the Federal Reserve had that exactly right.

Even in the short-term, our outlook is worse than some have claimed. It is important to remember that the debt is growing far faster than the size of the deficit. While CBO estimates with omitted costs that the deficit will fall to $218 billion in 2007, that number only tells part of the story. The increase in the debt will actually be over $500 billion for this year. And as I have said to my colleagues over and over, the debt is the threat.

We are now facing a wall of debt. At the end of 2001, the first year of this administration, the gross debt was $5.8 trillion. Under CBO's most recent estimates, the gross debt of the United States will reach $9 trillion this year. And we're headed, by the year 2012, for a gross debt of the United States of over $12 trillion.

This increase in debt is happening at the worst possible time – just before the retirement of the baby boom generation. As this slide shows, the number of Social Security beneficiaries is projected to climb to 82 million people by 2050.

And we need to remember that Social Security is not the biggest budget challenge that we face. Because of rising health care costs, over the next 75 years, the shortfall in Medicare is seven times the shortfall in Social Security.

Since so much of our long-term budget shortfall can be attributed to rising health care costs, health care reform must 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 15.2 percent of GDP on health expenditures in 2003. This year, we're expecting we'll be at 16 percent of gross domestic product. That means about one in every six dollars in this economy is going for health care. And if we compare that to the rest of the world, we see that we're spending about twice as much as other industrialized countries. In fact, the next highest country is at 11 percent of GDP. That difference – the difference between the 16 percent of GDP we're spending and the 11 percent of the next highest country – that difference represents $800 billion per year in our country.

This chart from the Center on Budget and Policy Priorities shows that rising health care costs are by far the biggest factor driving Medicare cost growth. Demographic changes from the retiring baby boom generation are only a secondary factor, nonetheless, a powerful driver as well.

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

We can see that the nation's gross debt explodes if all the tax cuts are extended without offsets. In fact, according to the Center on Budget and Policy Priorities, we will more than double our debt level as a share of GDP by 2050 if all of the tax cuts are extended without paying for them.

Our fiscal problems are not insurmountable. We can put our fiscal house back in order, but only if we have the will to do so. Make no mistake, it is not going to be some automatic mechanism that is going to save us. It's going to require us to act. The sooner we act, the better. We've asked all of you to be here today to give us your ideas as to what we might do to address these challenges. I especially appreciate your taking your time to prepare testimony and to be here to give it.

I believe these are incredibly difficult challenges. If these were easy things to address, we would have done it. My own conviction is that it is going to take both parties giving up on some of their fixed positions in order to resolve this. I don't believe either party can do this on its own. I think it is going to take working together to arrive at solutions. And I do believe it is going to require compromise. Compromise means both sides have to give in – both sides. Anybody who thinks that it is just going to be one side I think is not living in the real world.

*Additional Comments*

To me, the notion of just doing it on the spending side of the equation is not going to work. Just doing it on the revenue side is not going to work. It is going to take some combination of additional revenue and spending restraint.

I come to these meetings and I sometimes wonder if there is any possibility of getting these two sides together because on one side they say no benefit reductions, period. On the other side, they say no additional revenue, period. You know, pretty soon you have no solution, period.

And I think that's where we are right now. And everybody is dug in. It is our way or no way – no compromise, no revenue, no cuts. Well, that's what got us here, and that attitude is going to continue to prevent action, in my judgement, because then neither side compromises. Anybody who thinks that one side is going to give in on their position and not the other side to me is just detached from reality. This is going to take both sides giving up on their fixed position.

With that said, I would also say it is very clear to me the spending side of the equation is going to have to shoulder most of the effort here because the baby boom generation is a reality. It is not a projection.

*Closing Remarks*

If the public doesn't understand [the long-term fiscal imbalance], there is going to be no sense of urgency and no pressure on our colleagues or the White House to act. I think everybody in this room knows, certainly everybody on this panel knows, this is a situation that is unsustainable. It just is. And the faster we deal with it, the better, and the less draconian the solutions will have to be.

And it is extremely difficult to get a sense of urgency when the roof is not caving in. You know, you've got relatively good economic news, deficits are going down somewhat. Of course, nobody mentions the debt is going up.

And it is very hard, and I guess it is deep in human nature to put off making unpleasant choices when there is no crisis. The problem is, by waiting, by failing to act, we make the crisis to come worse. That has been the overwhelming testimony before this Committee. It is as clear as a bell, and I don't care what projection you use. Anybody who thinks this is a matter of projections, fundamentally it is not, because the baby boom generation is not a projection. They have been born; they are alive today; they are going to retire; and they are going to start retiring soon. And it fundamentally changes what we have had as an experience in the past.

I think that is one reason why it is very hard for our colleagues to get their minds around this. It is different than past experience. So I think an awful lot of people are hoping against hope this is going to go away. It is not going to go away. You can say, when does it really start crimping? You can debate that. But the fact is we're on an unsustainable course.