

**Transcript of Remarks by Chairman Kent Conrad (D-ND)
at Senate Budget Committee Hearing
on President Bush's FY 2008 Budgetary Proposals for
the Department of Health and Human Services
with HHS Secretary Mike Leavitt
February 13, 2007**

I want to welcome Secretary Leavitt to the Committee. We thank him for his service. We thank him for his excellent leadership. And we have very much appreciated the opportunity to work with him, and have enjoyed the relationship.

This is an important hearing because our nation's physical health is directly linked to our fiscal health, and the challenge of Medicare and Medicaid and the other health accounts is among the most daunting that we face. I personally believe it really is the greatest challenge; it is the 800 pound gorilla; and together we have to find ways to address it, and the sooner the better.

We know that we face a demographic tsunami. We have this baby boom generation that is poised to retire; they are out there; this is no projection; they are alive; they are going to retire; they are going to be eligible for Social Security and Medicare. This is a chart that shows what happens. Unlike anything we have ever seen before which I think is one reason we find it difficult to cope with. It is just not something in our experience.

We need to remember that Social Security is not the biggest budget challenge confronting us, although it is certainly part of the puzzle. But the biggest part, by far, is Medicare. And we see the comparison here: the 75-year shortfall in Medicare is over \$32 trillion, seven times as much as the projected shortfall in Social Security

The growing cost of Medicare and Medicaid is simply staggering. By 2050, if nothing changes, more than 20 percent of our gross domestic product, 20 percent of our economy, will be spent on just these two programs. That is as much as now goes for all of government. So clearly, we are on a course that is unsustainable if the current trend lines continue.

This next 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 are a significant, but secondary factor. So, the biggest driver of all of this is rising health care costs. The demographics clearly play a role, and an increasingly significant role, but the thing we have to remember is that it is underlying health care costs that are the biggest driver.

The fact is that our health care system is not as efficient as we would like it to be. The United States is spending far more on health expenditures as a percentage of our gross domestic product as any other country in the developed world, those are the leading economies in the world. For example, the United States, we are at 15.2 percent of gross domestic product back in 2003 – these are the latest international numbers, we are making an international comparison here. We know that our spending now has reached 16 percent of gross domestic product. The next highest country, when this was done, was Switzerland at 11 percent of gross domestic product. That difference between 11 percent and 16 percent of gross domestic product is \$800 billion in a year. That would completely take care of not only our on-budget deficit, but our off-budget deficit as

well.

Unfortunately, the budget before us doesn't deal with the underlying problem of the rapid growth in health care costs. Clearly, we are going to have to find savings in the entitlement accounts. The President's Medicare and Medicaid cuts will save \$280 billion over the period 2008 to 2017. But those savings would be more than wiped out by the \$2 trillion in tax cuts the President also proposes, tax cuts that are not paid for.

If all of the 2001 and 2003 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 tax cuts will dramatically worsen an already serious situation. I am talking about tax cuts that are not paid for. I would be delighted to be able to continue all the tax cuts. I have been a significant beneficiary of those tax cuts, many of my constituents have, but we have a very serious problem of making things add up here.

I'm not the only one who believes that changes to Medicare and Medicaid should be done in the context of overall health care reform. Here is what our new CBO Director, Peter Orszag, told us in his recent testimony before the Committee, and I quote: "I think it's a mistake to look at containing costs just within the federal programs themselves, Medicare and Medicaid. The underlying driver of that cost growth, of the costs in those programs, is the underlying rate of cost growth in the health sector as a whole. And tackling that problem is perhaps the fundamental fiscal challenge and an important economic challenge facing the nation."

Let me just say I believe that. I endorse that. I think that is precisely what we have to face up to. And we are delighted, Secretary Leavitt, that you are here to discuss these issues and others.

Let me just conclude by going back to one of the things that I have returned to repeatedly, and my colleagues know it well, is this notion of those who are chronically ill, because there, 6 percent of the beneficiaries are using half of the budget. When I went to business school they told us to focus on that. Anytime you find a statistic like that where you have a small percentage of the population has a disproportionate share of the cost, that is really where we have to first focus our attention. And we'll have more chances to talk about what we might do in that area.