

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND) at
Hearing on the Long-Term Outlook and Sources of Growth in Health Care Spending
January 31, 2008**

Opening Statement:

I want to welcome our witness, CBO Director Peter Orszag. You have been very busy. Yesterday, in the Finance Committee, with the stimulus package. I think we all know the jobs data out this morning provides more evidence of the critical need for us to take action on fiscal stimulus. And we hope that that can be done expeditiously.

Turn out is not as strong as it might otherwise be because the leadership called a special caucus for ten this morning to discuss the stimulus package, so we apologize for that. But, we thought it was important to proceed given what we're trying to do in terms of schedule on this committee this year.

Let me take a moment to inform colleagues and their staffs that it will be my intention to complete action on the floor on the budget resolution before the March break. And that is an ambitious schedule, but I think it is imperative that we do that. That would mean mark-up would occur the week before, and it would be our intention to do it on the Wednesday and Thursday in the Committee, then go to the floor the next week before the March break. So you might inform your members that that is the schedule and I had visited previously with Senator Gregg about that. He wants to move the work of this Committee in an expeditious way as well, so that will be our intention.

With that, we want to turn our attention to the health care circumstance that we confront that is really the 800 pound gorilla. We have said it many times in this Committee – that is where we have the biggest disconnect between the commitments that have been made and the resources that are available, and this requires our urgent attention. This is a matter of not only Medicare and Medicaid, but also veterans' health care and all of the health care accounts in the federal government are jumping dramatically in cost.

Let's turn to that first slide. This shows CBO's Long-Term Budget Outlook from December of last year. This takes their scenario, makes the tax cuts permanent, provides for an indexing of the alternative minimum tax, and Medicare physician payments growing with the higher MEI rate. This is all to reflect some notion of what the President has called for, coupled with CBO's Long-Term Outlook, and this is what it shows. This is a total runaway train in terms of debt.

We all know that one of the key drivers is the demographic tidal wave. We're going to have roughly 80 million retirees in 2050, up from about 40 million now.

That coupled with this next factor, which is health care cost – a point that the Director of CBO has made to us repeatedly, that this is not just a demographic phenomenon, although that is certainly a component. The even larger component is rising health care costs, and you can see

that with Medicare and Medicaid alone we're heading toward nearly 12 percent of GDP by 2050, if the current trend lines continue. That is almost incomprehensible, but that is the course we are on, and we simply cannot permit that to play out.

If we look at spending on health care as a percentage of GDP, including Medicare and Medicaid, but also adding in all other health care spending, we would be approaching 40 percent of gross domestic product, just on health care. I know that Senate Enzi is working on an initiative in this area, Senator Wyden is as well, Senator Whitehouse is deeply engaged in this. This is going to require our attention because clearly we're on a course that is unsustainable.

This is what the Comptroller General [David Walker] said to the House Budget Committee in February of 2005: “[F]ederal health spending trends should not be viewed in isolation from the health care system as a whole.... Rather, in order to address the long-term fiscal challenge, it will be necessary to find approaches that deal with health care cost growth in the overall health care system.” I think he got it exactly right.

Health care reforms that have potential for long-term savings, even though they may have upfront costs, include:

- Expanding comparative effectiveness research – something that I believe is critically important because we see this tremendous variance across the country in terms of approaches toward health care. We see in some treatment regimes a five-to-one difference and no improvement in health care outcomes – five-to-one difference in terms of expenditure with no evidence of better outcomes;
- Number two, widespread adoption of health information technology and e-prescribing – the Rand Corporation has told us the overall health care system could save as much as \$80 billion a year if that were appropriately deployed;
- Coordinating care for the chronically ill – this is something that jumps out to me as being a key factor. Roughly five percent of beneficiaries are using roughly half of the budget. Now, in business school I was taught when you have that kind of statistic you better focus on it like a laser;
- Fourth, changing provider incentives and beneficiary cost-sharing; and,
- Fifth, promoting healthy lifestyles and preventive care.

The Chairman of the Federal Reserve, on the budget outlook, told the Senate Budget Committee last year: “... [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'll end on that note.

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Additional Comments:

This is pretty sobering, isn't it? I mean you look at these things and it is really sobering. So, the question is what can we do about it? As you know Senator Gregg and I have a proposal to have a task force that is given the responsibility to come up with a long-term plan.

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I hope the word gets out. Our colleagues have got to join us in this effort. There is no sitting on the sidelines this time. I don't think. So, I am calling on my colleagues through their staffs that are here. I hope they are paying very close attention to what we've just heard here and I hope this moves them to support the proposal that Senator Gregg and I have made. If they have ideas for change, let's hear them.

But I want to once again state that we are going to go to markup on this proposal. This, to me, cannot be kicked down the road anymore. We have got to have the beginning of facing up to this. I don't pretend for a moment that we're going to solve all the problem on the first bite of the apple, but it needs to be a big bite and it needs to be very serious, and it needs to be bipartisan.