

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad  
Hearing with Health and Human Services Secretary Tommy Thompson  
on the President's Fiscal Year 2003 Budget Proposal  
February 14, 2002**

Opening Statement

I want to begin by welcoming our witness, Secretary Tommy Thompson, for a return visit to this Committee. Welcome Mr. Secretary. As the Secretary of Health and Human Services (HHS), you manage over 300 separate programs and the largest budget of any cabinet agency – about \$460 billion a year.

Let me just say that as I continue to examine the budget that the administration has sent us, I believe it simply does not add up. That it plunges us back into deficits, not only this year and next year, but for the entire next decade as this chart indicates. We set aside the trust funds of Medicare and Social Security, there is red ink as far as the eye can see.

In addition, let's go to the next chart, it breaks the promise that was made by the President and made by virtually everyone in elected office not to invade the trust funds of Social Security and Medicare. Last year, we were told there were non trust fund surpluses of \$2.7 trillion over the next decade. Now we see, instead of surpluses, \$2.2 trillion of deficits in the non trust funds accounts. That means the trust funds will have over \$2 trillion taken from them to pay for tax cuts and other expenses of the government.

Last night as I examined the budget submission of your agency, I came to the conclusion that someone in the administration has cooked the books and cooked them big time with respect to Medicare. Congressional Budget Office (CBO) says this budget understates the costs of Medicare by \$300 billion over the next decade. The New York Times wrote, and I quote, "Assuming a slower rate of growth for Medicare has the same effect as cutting the Medicare budget; it saves money. But it avoids the political uproar that would surround a proposal for large cuts in Medicare."

Mr. Secretary, I direct your attention to this chart which shows the difference between what others are saying will be the increase in medical costs over the next decade and what this budget is saying. The private health insurance per capita estimate for 2003 and into 2012 says health care costs will increase at 6.1 percent. The CBO Medicare estimate is for five percent growth. The OMB, the Office of Management and Budget, Medicare estimate is for three-and-a-half percent growth. Medical inflation in 2001 was 4.7 percent. I believe the folks over at OMB have cooked the books to make this budget look like it adds up better than it really does.

Mr. Secretary, I doubt very much these are your numbers. I have got strong respect for you and the job you have done especially since the very difficult events of September 11<sup>th</sup> – the pressure that has put you and your agency on, I think you have conducted yourself admirably, and as I have said many times from this podium, the President and this administration have conducted themselves in the best American tradition in responding to the attack on the country.

But I don't have that feeling about the budget that's been submitted by the administration.

As I look ahead I think it is putting us in a position for the future in which a future Congress and a future President is going to face excruciating choices. The Director of the Congressional Budget Office, Mr. Crippen, has come before this committee and said we're going to face either massive cuts in benefits or huge tax increases or massive debt because of the retirement of the baby boom generation.

And the budget that this President has sent up here doesn't deal with it at all. In fact, it abandons the fiscal discipline that virtually all of us agreed to that we would save the Social Security trust fund monies for the purposes intended, not use them for other purposes. And once you go through that line in the sand, there is nothing that stops those who want more tax cuts, and more spending.

And I can tell you after meeting with colleagues the flood gates are wide open, they are wide open. Every tax cutting scheme, every spending idea is being promoted and being promoted with vigor. Because once you cross the line on the question of Social Security, there is no line, there is no line, and that's what I am finding.

And I tell you, the consequences for this country are enormous. And what people don't seem to get is we are in a fundamentally different circumstance in which we've ever faced before. This is a demographic time bomb that's out here. We've never faced anything like this before in our history. And we ought to be getting ready for it. And that getting ready is we ought to be saving Social Security and Medicare surpluses, use that as a line in the sand, and on top of that we ought to do more because saving the trust fund monies is necessary but not sufficient.

But I tell you something, there is very little stomach for what needs to be done here. And because the President sent up a budget that doesn't seem to care nobody else does either. I can tell you colleague after colleague tells me, well, the President has crossed the line, it doesn't matter to him if we use Social Security money, so let's all get in on the party.

Somebody told me this is like the 80s. Oh no, this isn't like the 80s. This is much worse than the 80s. In the 80s, there was time to recover. We had 20 years before the baby boomers started to retire. There is no time to recover this time. These fiscal mistakes are really going to come home. The chickens are going to come home to roost.

So Mr. Secretary, I'm expressing myself this morning. You're here. I don't think you're really the one that's the culprit here. In fact, I know you're not. But, as we start to write a budget resolution here, I really am worried about the attitude I'm finding and it starts right at the top with the President of the United States. He sent us a budget that doesn't come close to adding up. It isn't in inhaling distance of adding up. That's encouraged everybody else to abandon the fiscal discipline that we all agreed to put in place. That's what I'm finding, and I'm having meeting with individual members everyday. It isn't pretty what I'm finding.

Closing Statement

I want to thank you again for your appearance here. As you know, I have high regard for you. I have high regard for you professionally and personally. But I'd be less than honest if I didn't say I have low regard for this budget. I don't think it adds up. I think it clearly breaks the promise that's been made to protect Social Security and Medicare. I believe that's compounded by this budget for HHS. And I know you don't have a free hand here. I know how it works, I know the role of OMB and the White House.

I believe this understates the cost of Medicare by \$300 billion. I believe it understates the cost of a meaningful prescription drug benefit. I believe it understates the need to adjust payments for providers and that's hundreds of billions of dollars of cost. So I fundamentally believe it misleads Congress and misleads the American people.

My frustration with this overall budget – not your's specifically, I've said what I see as the shortfalls there, but the overall budget circumstance – is growing as I examine more closely the overall budget. And I'd send a message if I could through you to the administration that I think they've put us on a fiscal course that is truly reckless. I believe that. I can see what is happening here.

You know, it used to be that budget deficits were a line in the sand. Then we were able to stop running budget deficits. And then we were able to draw a new line that fenced off Social Security funds. That had tremendous benefits, not just for Social Security, but in imposing fiscal discipline when we were on the brink of an entirely different set of facts with the demographic changes coming to this country. I believe it is absolutely essential for the fiscal future of the country to have those lines. And now the President in, not just his budget submission for this year – I can understand that in a time of economic slowdown but he's got budget deficits on a unified basis for years to come – he's got deficits on a non trust fund basis for the entire next decade.

And I tell you once those lines are gone, the flood gates are open. I can see it in the conversations I've had with my colleagues. I can see that in terms of the consideration of the other body. And it's going to take some dramatic reconfiguration.

It's very clear the tax cut imposed last year – based on an assumption of these big surpluses -- that that fundamental consideration has been just dramatically changed. If we use the President's own formula. He said last year he's taking one of every four surplus dollars for tax cut. That's how he got to \$1.6 trillion out of a \$5.6 trillion projected surplus. He proposed a \$1.6 trillion tax cut and he said he was taking one out of every four dollars -- that math didn't quite work out, but that's what he was talking about. But now we are talking about realistically maybe two or three hundred billion dollars left really. We take the President's proposals, we take CBO scoring of those proposals, we got maybe \$2-300 billion left and every dime of it is Social Security, every dime of it. One-quarter of that would be a \$50 billion tax cut instead of a \$1.6 trillion tax cut.

But the larger amount has been put into law and the result is under the President's plan is that we're going to be taking \$1.6 trillion of Social Security money over the next decade, \$500 billion of Medicare money and using it to pay for tax cuts and using it to pay for other spending.

I think it's a profound mistake with the baby boomers about to start retiring in six years. And I mean it's not just a little mistake. I think it's a huge mistake and the consequences for the nation are enormous because we all know those baby boomers are going to retire and they're going to be eligible for these benefits.

And it's true the money has been credited to the accounts, but there's no money there. There are bonds there that have to be redeemed out of the future earnings, the future revenue stream of the federal government. That's going to compel a future Congress and a future President to propose really draconian steps, massive cuts in benefits, huge tax increases, gigantic increase in debt.