Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

February 23, 2009

STATEMENT BY ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, AT PRESIDENT OBAMA'S FISCAL RESPONSIBILITY SUMMIT

Mr. President, Mr. Vice President, distinguished guests — I am honored to be here.

I have a lot to cover in just a few minutes with your indulgence, so I'll get right to it.

The Center on Budget and Policy Priorities recently analyzed the fiscal outlook through mid-century, and our results are similar to those of the Office of Management and Budget, the Congressional Budget Office, and others.

Simply put, the long-term fiscal picture is unsustainable.

If we do not change current policies, the national debt, which now equals about 45% of the Gross Domestic Product, will soar to about 300% of GDP by the year 2050. By then, interest payments on the debt alone would consume 14% of GDP – more than we spent last year on Medicare, Medicaid, Social Security, and all other entitlements *combined*.

We must avoid such an explosion of debt. To do that, we must make sure that the debt does not consistently grow faster than the overall economy, which in turn means that, over time, annual deficits should not average more than 2 to 3% of GDP.

But under current policies, even after the economy starts to grow again, deficits will never fall below 4% of GDP, and eventually will go much higher. So, we are on the path to the very debt explosion we must avoid.

What's driving this problem? Let me start with what's *not* driving it.

First, the recent economic recovery package is not driving the problem. That package is temporary, and it increased the size of the long-term fiscal gap by only about one-tenth of one percentage point of GDP. Its costs are dwarfed by the bigger, longer lasting factors I'm about to describe.

Second, entitlement programs *in general* are not driving the problem. Entitlements other than the three big ones — Medicare, Medicaid, and Social Security — have actually been *falling* as a share of the economy and will continue to do so.

So, what *is* driving the problem?

The increases projected in federal spending in coming decades as a share of the economy are due entirely to the projected growth in Medicare, Medicaid and Social Security — which in turn is driven by rising health care costs and the aging of the population.

The single biggest factor is rising health care costs — not just in Medicare and Medicaid, but throughout our health care system. For more than 30 years, costs per patient in Medicare, Medicaid, *and* private health care have all have risen at about the same rate — and much faster than the economy. If health care costs per patient were somehow to rise at the same rate that the economy grows on a per capita basis, rather than growing faster, the vast majority of the long-term fiscal gap would disappear.

So we face a daunting, system-wide health care problem.

Most experts agree that we can *not* hold Medicare and Medicaid costs over time to a significantly *lower* rate of growth than private sector health care growth. The public and private sectors use the same providers and the same treatments.

Holding the growth in just the public sector to a much lower rate would lead either to rationing by income, or, more likely, to lots of cost shifting. Providers would raise prices even more on private health care to compensate for the lower public-sector reimbursements.

Two more points about health care on which most budget and health care experts agree.

First, if we want to slow the rate of growth in health care costs system-wide, then Medicare needs to help lead that effort — to institute payment and delivery system reforms that the private sector then picks up.

And second, because health care costs are rising mostly due to advances in medical technology — many of which do improve health and prolong life — we almost certainly won't be able to slow health care cost growth so much that it rises no faster than the economy. And that means we also need to make *other* significant changes in budget and tax policy to avoid a debt explosion.

What else must we do?

We will need to restore the long-term solvency of Social Security. Some people assume that Social Security benefits are very generous and there's plenty of room to reduce them. And a balanced Social Security solvency plan should certainly look at all aspects of the program.

Yet the room for benefit reductions is likely to be more modest than you may think. Social Security checks now replace about 39% of the average worker's pre-retirement wages, less than similar programs in other Western countries.

And because of the scheduled increase in the retirement age (which operates as an across-the-board benefit reduction) and the projected growth in Medicare premiums (which are deducted from Social Security checks), that figure will gradually fall from 39% to about 32% over the next two decades. In addition we cannot overlook the impact that recent losses in 401(k)s and other retirement plans that supplement Social Security will have on retirees' incomes.

Finally, revenues. The long-term fiscal problem is, of course, the mismatch between spending and revenues.

And with such a large long-term gap, it's hard to see how to avert a debt explosion without major policy changes in both spending and revenues.

Current tax policies would produce revenues somewhat below the historical average of 18.4 percent of GDP. Yet revenues at that level would have fallen short of balancing the budget in every year over the past 30 years. In fact in all four years of that period when we did balance the budget, revenues totaled between 20 and 21 percent of GDP.

So all of this suggests that, to address the daunting long-term fiscal problem, *everything* — on both the spending and tax sides of the budget — will have to be on the table… and that we will need to place a particular emphasis on health care costs and health care reform. It seems inescapable that shared sacrifice is going to be necessary.

In conclusion, we will need to act before mounting debt and interest payments make the challenge of addressing this problem even bigger — and more painful — than it already is.

Thank you.