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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Long-Run Budget Deficits and Debt**

The Chicago columnist Sydney J. Harris once wrote: “An idealist believes the short run doesn’t count. A cynic believes the long run doesn’t matter. A realist believes that what is done or left undone in the short run determines the long run.”

Today, we will look at the long run. We will examine the huge Federal budget deficits that economists project for the decades to come. And we will look at the causes of those deficits.

CBO projects that, unless we act, in 2030, the Federal budget deficit will grow to more than 10 percent of the economy. In 2050, it will be more than 22 percent of the economy. And by 2082, it will exceed 54 percent of the economy. These deficits would dwarf the post-World-War-II record of 6.3 percent in 1983.

Why are these projected deficits so high? Until a few years ago, people would often point to the retirement of the baby-boom generation. The increased number of older people eligible for Social Security, Medicare, and Medicaid would dramatically drive up expenditures for the Federal Government.

But beginning a few years ago, CBO, GAO, and others demonstrated that the primary source of high long-run deficits is the rapid growth in healthcare costs. The bigger problem is not that we have too many enrollees in Medicare and Medicaid. The bigger problem is that healthcare costs per enrollee are growing so rapidly.

Healthcare costs are growing faster than the economy. And the same problem is occurring in the private-sector.

Since 1975, per-capita Medicare costs have grown 2.4 percent faster a year than the economy. Medicaid costs have grown 2.2 percent faster. And all other healthcare spending has grown two percent faster.

Unfortunately, we have no good reason to expect these high rates to abate. There’s no reason, except, of course, that we won’t be able to afford them.

As a result of rapid healthcare cost growth, CBO projects that between 2007 and 2082, Medicare’s and Medicaid’s annual costs will grow from four percent of the economy to more than 19 percent. Of that growth, 86 percent will come from rapid healthcare cost growth, and 14 percent comes from demographic changes.

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For comparison, Social Security's costs will grow from four percent of the economy in 2007 to about six and a half percent of GDP in 2082.

If you add together the costs of Medicare, Medicaid, and Social Security, more than three-fourths of the increase between 2007 and 2082 is due to rapidly-growing healthcare costs.

Thus, if we want to prevent huge Federal budget deficits in the long run, then we need to significantly lower the rate of growth in healthcare costs.

If we control healthcare costs, then along with prudent policies for the rest of the budget, we will be able to control Federal budget deficits. But if we fail to control healthcare costs, it won't matter what else we do in the rest of the budget. We will have no hope of keeping Federal budget deficits under control.

And we will succeed. Why? Because we must.

If we as a society do not control healthcare costs, then people will not have enough income left to buy the other things that they need to live.

Many of the solutions that will control healthcare costs in the private sector will work in Medicare and Medicaid. And the reverse is true, as well.

The problem that we face is a healthcare problem in both the private and public sectors. And to beat that problem, we need a solution that works in both the private and public sectors.

How are we going to control healthcare costs without reducing quality? We need to reform the system.

And with regard to costs, reform will involve several elements.

We need a greater focus on improving the quality of care, on improving health outcomes, and on increasing prevention and wellness.

We need to reduce unnecessary utilization of health care. And we need to increase efficiencies in the system, both without reducing quality.

And we need to build in more patient safety measures to avoid medical errors that drive up costs.

We need to thoroughly explore all potential areas of healthcare cost reduction.

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Some of this work is occurring already. I commend Peter Orszag and the Congressional Budget Office for the work that they have been doing. And I encourage them on the work that they are planning, to find ways that we can reduce healthcare costs without sacrificing quality.

Healthcare reform will not be easy. But I have made it a priority for the Finance Committee. Already this year, we have had three hearings on healthcare reform. And we will continue with more next month. And yesterday, we had a day-long summit on healthcare reform.

I know that if we work together, we can find answers to the tough questions about healthcare reform. I know that we can deliver high-quality, affordable health care to all Americans. I know that we can bring down the overall cost of providing that care.

A cynic might say that we can never succeed at healthcare reform. An idealist might say that we have to wait for the perfect solution. But as a realist, I say that what we do, or leave undone, on healthcare reform next year may well determine our future, for a long time to come.

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