CBO'S LONG–TERM BUDGET OUTLOOK

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, DECEMBER 13, 2007

Serial No. 110–26

Printed for the use of the Committee on the Budget

Available on the Internet:
http://www.gpoaccess.gov/congress/house/budget/index.html

U.S. GOVERNMENT PRINTING OFFICE

39–992 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON THE BUDGET

JOHN M. SPRATT, Jr., South Carolina, *Chairman*

ROSA L. DeLAURO, Connecticut,
CHET EDWARDS, Texas
JIM COOPER, Tennessee
THOMAS H. ALLEN, Maine
ALLYSON Y. SCHWARTZ, Pennsylvania
MARCY KAPTUR, Ohio
XAVIER BECERRA, California
LLOYD DOGGETT, Texas
EARL BLUMENAUER, Oregon
MARION BERRY, Arkansas
ALLEN BOYD, Florida
JAMES P. McGOVERN, Massachusetts
NIKI TSONGAS, Massachusetts
ROBERT E. ANDREWS, New Jersey
ROBERT C. "BOBBY" SCOTT, Virginia
BOB ETHERIDGE, North Carolina
DARLENE HOOLEY, Oregon
BRIAN BAIRD, Washington
DENNIS MOORE, Kansas
TIMOTHY H. BISHOP, New York
GWEN MOORE, Wisconsin

PAUL RYAN, Wisconsin,
Ranking Minority Member
J. GRESHAM BARRETT, South Carolina
JO BONNER, Alabama
SCOTT GARRETT, New Jersey
MARIO DIAZ–BALART, Florida
JEB HENSARLING, Texas
DANIEL E. LUNGREN, California
MICHAEL K. SIMPSON, Idaho
PATRICK T. McHENRY, North Carolina
CONNIE MACK, Florida
K. MICHAEL CONAWAY, Texas
JOHN CAMPBELL, California
PATRICK J. TIBERI, Ohio
JON C. PORTER, Nevada
RODNEY ALEXANDER, Louisiana
ADRIAN SMITH, Nebraska
[Vacancy]

Professional Staff

Thomas S. Kahn, *Staff Director and Chief Counsel*
Austin Smythe, *Minority Staff Director*

CONTENTS

CBO'S LONG–TERM BUDGET OUTLOOK

THURSDAY, DECEMBER 13, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:00 a.m., in room 210, Cannon House Office Building, Hon. John M. Spratt Jr. [chairman of the committee] presiding.

Present: Representatives Spratt, Cooper, Becerra, Doggett, Berry, Boyd, McGovern, Scott, Etheridge, Moore, Ryan, Hensarling, McHenry, Conaway, Tiberi, Smith.

Chairman SPRATT. I call the Committee hearing to order. And welcome to the Committee today once again, Dr. Peter Orszag.

We are fortunate to have Dr. Orszag testify today about the latest report from the CBO on the long-term budget outlook, although I will say that the picture he paints there can get rather apocalyptic.

By my count, this is the ninth time that Dr. Orszag has testified before the House Budget Committee. Fortunately for him and his able staff at CBO, we will be leaving town soon. But when we come back in January, we will be depending on you more than ever as we begin to put together a budget for the forthcoming fiscal year.

Last week, the Budget Committee focused on the short-term economic projections. With the evidence of an economic slowdown or recession mounting, we ask our panelists for their best judgments about where the economy is headed, the implications of the problems in the housing market, and what can be done in our budget to improve the near-term economic situation.

Today's hearing shifts to the long-term outlook. For the past several years, all of the government's fiscal analysts, major departments, the Congressional Budget Office, GAO, the actuaries or trustees of Social Security and Medicare all have painted a pretty gloomy picture of our long-term prospects.

Using recent trend data and policy preferences, what the CBO calls the alternative baseline scenario, CBO projects that the fiscal gap over the next 75 years, between now and 2082, we will reach 6.9 percent of GDP, the fiscal gap, the situation where we are and where we would have to go if we wanted to essentially carry forward the current situation.

At the heart of all of this are healthcare costs. Unfettered and based upon historic averages, CBO projects that public health spending will literally consume the economy over the next 75 years.

Using more realistic projections of public and private healthcare costs, Federal healthcare spending is constrained to reach only 50 percent of GDP in 2082. These are figures that cannot be ignored.

Dr. Orszag has noted that there are significant opportunities to reduce healthcare costs without harming healthcare outlooks. It is important, critical, and vital that we begin to explore these opportunities, particularly in connection with a system-wide look at both private and public healthcare practices. We will talk about more of this in the course of the hearing today.

Dr. Orszag, thank you for your excellent testimony today, for your projection, and for CBO's painstaking and path-breaking work throughout the year. We very much appreciate the quality of your work and your forthcoming willingness always to tackle these tough topics with us.

Before turning to you for your testimony, I want to yield to our Ranking Member, Mr. Ryan, for any opening statement that he would like to make.

Mr. RYAN. Thank you, Chairman.

First of all, I want to thank you for going ahead with this hearing today, and this is going to be a challenging week. By my count, we have had nearly ten hearings on this subject this year and I do not think there is any other issue on which our time could have been better spent.

So this is something we should be talking about here in the Budget Committee. Long after today's tax and spending economic issues have been resolved, this problem will still be with us and getting worse each year if we fail to address it.

So I want to thank you sincerely, Chairman. I think you are doing us a great service by having these hearings.

As this Committee knows too well and as Director Orszag is going to remind us today, the single largest threat to our nation's long-term economic health is the unsustainable path of Federal spending and particularly entitlement spending. So I just want to review a couple of facts and then hopefully we can move forward with some common principles.

Spending by the Federal Government consumes about one out of every five U.S. dollars. Left on its current path, by 2050, Federal spending will absorb nearly one out of every two dollars, about half of our entire economy.

Now, every dollar the government spends is a dollar that is no longer available for generating growth in the economy. So if we get to that level of spending, whether it is financed by taxes or borrowing or some combination of the two, it will cripple the U.S. economy and any hope we have to compete, let alone lead, in the world market.

That is why those of us who call ourselves conservatives want to leverage more of our economic strengths to fulfill our most important domestic priorities rather than relying solely on costly government programs that we know right now cannot keep their promises.

As we know, the core problem consists of three major programs, Social Security, Medicare, and Medicaid, very important programs. And as currently structured, assuming no new programs or benefits, these three programs alone by mid century will consume as much as the entire Federal Government does today.

And, of course, that does not account for any of the massive entitlement expansions, healthcare or otherwise, currently being considered by Congress. This will happen at a time when nearly 80 million baby boomers are retired or retiring, meaning they will be drawing resources from the economy rather than contributing to it and there will be a shrinking number of workers in the system to support this ballooning number of retirees.

None of this is news. We have all heard this before. We have been aware of this problem for decades.

A couple of years ago, we passed the DRA which saved $40 billion over five years. I am glad we took the necessary step. I was proud of that accomplishment, but it was a small drop in the bucket.

Now, the problem really should be a major part of our national debate right now. And I really hope that as our presidential campaigns heat up, I hope that this becomes a centerpiece issue to be discussed in our presidential campaigns. This is something we need to address.

And at this point, I think we all understand that, number one, we have a problem; and, number two, it is our largest entitlements that are unsustainable and they need to be reformed. And for my money, I think there are three things we need to keep our eye on.

Number one, how do we continue meeting the mission of these entitlements? The mission of health and retirement security is something we all agree with, that we all believe in. So how do we meet the mission of these entitlements?

Number two, how do we stay globally competitive? How do we make sure that our kids and grandkids can get good careers and maintain a high standard of living?

And, number three, how do we see to it that we leave our kids with a debt-free nation?

Those three goals are not necessarily mutually exclusive goals, but they could be mutually exclusive goals if we do not do this right.

So if we want to have a debt-free nation, if we want to give our kids and our grandkids the American legacy of a higher standard of living by getting America competitive in the 21st century and give them a competitive economy to grow up in and we want to meet the mission of these entitlements, we are going to have to think outside the box, we are going to have to reform these programs, and they are going to have to be done a lot differently than they are now if we are going to make right by our kids and our grandkids.

And that is what I think this Committee ought to be talking about. And that, Chairman, is why I thank you for having this hearing and the others you have had like it.

Chairman SPRATT. Thank you, Mr. Ryan.

Dr. Orszag, before turning to your testimony, let me ask that all members be allowed to submit an opening statement for the record at this point if there is no objection.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF HON. ADRIAN SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Good morning and thank you, Chairman.

Fiscal discipline is one of my greatest concerns. By serving on this Committee, my goal is to add restraint to the budget process. Congress must use the budget process to promote reforms which will make government programs sustainable for the long-term.

At this point in time, no one in Congress—and certainly no one on this Committee—can claim ignorance of the entitlement spending crisis facing our nation. We know these safety net programs must be reformed in order to survive; and we know the reforms must be substantive and immediate.

We have an obligation to exercise accountability and fiscal responsibility in government spending. As this Committee plans for future federal budgets, the warnings and information expressed to us today are of utmost importance. We should heed the advice of these experts, and take action accordingly.

I appreciate the Committee for holding this hearing today. Thank you to Dr. Peter Orszag for highlighting the Congressional Budget Office's Long-Term Budget Outlook before the Committee.

Chairman, I look forward to continuing to work with you on real entitlement reforms, and I thank you for your time.

Chairman SPRATT. And, secondly, as to your own testimony, you have filed a written copy. We will make that copy a part of the record and you can summarize it any way you see fit.

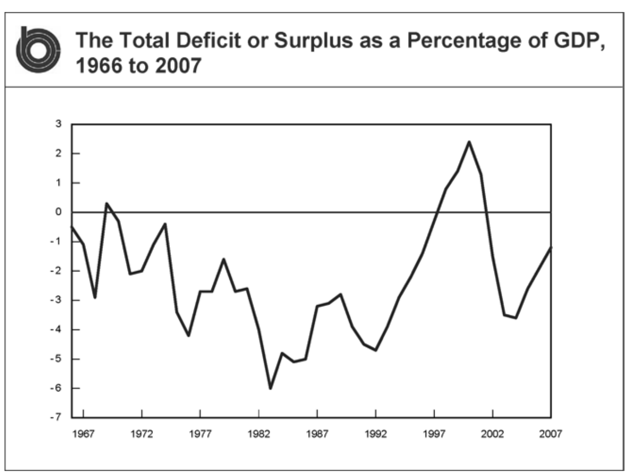
You are the only witness today, so I would encourage you to take your time when you are plowing through. And your efforts to explain these new concepts like excess cost growth, I think, would be useful as part of your briefing.

Thank you for coming. Thanks for your testimony. We look forward to your presentation.

STATEMENT OF PETER ORSZAG, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. ORSZAG. Thank you very much, Mr. Chairman.

And before I begin, since, as you noted, we are nearing the end of the calendar year, let me just recognize and thank the outstanding work that CBO staff has put forward through the year which makes reports like the one that we are discussing today possible.



In the very short run, over the past few years, as the first chart shows, there has been an improvement in the nation's fiscal deficit, a reduction from roughly three and half percent of GDP to just over one percent of GDP or the size of the economy last year. That improvement may generate some sense of complacency about the nation's problems.

And the strong conclusion from the report that we issued today is that under any plausible scenario, the Federal budget is on an unsustainable path over the long term and that is, as both Mr. Spratt and Mr. Ryan have noted, driven primarily by rising healthcare spending.

Let me describe the two scenarios that we present in this report and the next chart summarizes the outcomes from them.

Projected Spending and Revenues Under CBO's Long-Term Budget Scenarios

Percentage of Gross Domestic Product

	2007[a]	2030	2050	2082
		Extended-Baseline Scenario		
Federal Spending	20.0	22.4	28.1	43.6
Primary Spending	18.2	21.8	25.7	32.5
Revenues	18.8	21.4	23.5	25.5
		Alternative Fiscal Scenario		
Federal Spending	20.0	29.0	41.8	75.4
Primary Spending	18.2	24.2	28.3	35.3
Revenues	18.8	18.9	19.4	20.9

a. Fiscal year actual

The first scenario is an extended baseline, one in which we adopt the assumptions that are embodied in our ten-year budget baseline and then extend those same concepts out over time after the tenth year.

Under the scenario, we take a literal interpretation of current law. And so, for example, the alternative minimum tax is not indexed for inflation and it gradually takes over a significant part of the Tax Code. And the 2001 and 2003 tax legislation expires as scheduled in 2010 and various other parts of literal current law are implemented.

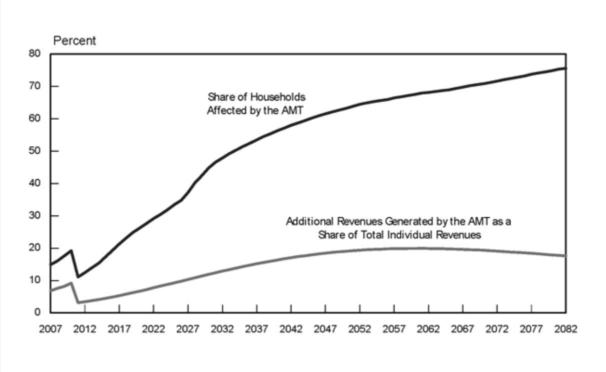
The alternative fiscal scenario represents one interpretation of what observers may believe is the underlying thrust of current Federal policy. So, for example, it indexes the alternative minimum tax to inflation to avoid the AMT taking over the Tax Code.

And I think you can actually see the big difference between these two scenarios is on the revenue side, reflecting the factors that I was just describing.

In particular, under the extended baseline scenario, revenue rises from a little under 19 percent of the economy last year in 2007 to 25.5 percent of the economy by 2082. Under the alternative fiscal scenario by contrast, revenue is roughly flat as a share of the economy.

On the spending side, there are some differences, but the major differences between the scenarios or the most important ones are on the revenue side. So let me start with the revenue projects.

The Impact of the Alternative Minimum Tax on Individual Income Tax Revenues Under CBO's Extended-Baseline Scenario

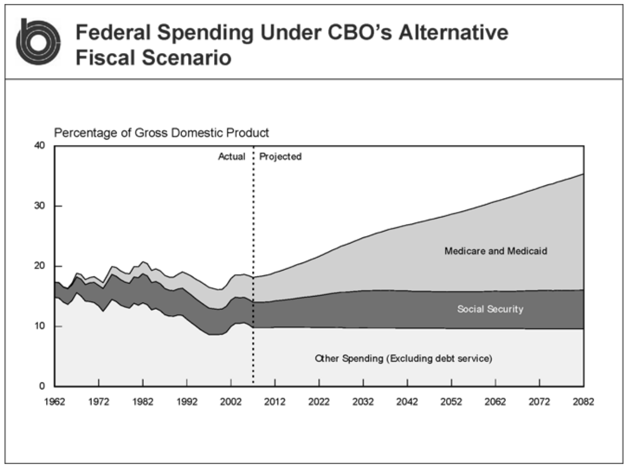


The next chart shows you what happens under the extended baseline scenario to households and in particular how they are affected by the alternative minimum tax.

Roughly three percent of taxpayers are currently subject to the AMT. Under the extended baseline scenario in which the alternative minimum tax is not indexed to inflation, that share would rise to 75 percent by the end of the 75-year projection window as that first chart shows you.

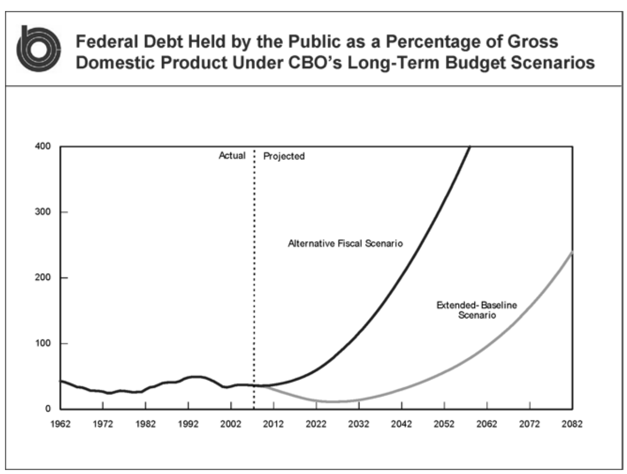
The share of revenue generated by the AMT relative to total individual income tax revenue would also rise for some period of time. It would then flatten out and actually decline a little bit towards the end of the projection window for reasons that I could explain if anyone is interested.

But the bottom line is that under the baseline extended scenario, the AMT assumes a much larger role in the Tax Code and that generates significant additional revenue along with the expiration of the 2001 and 2003 tax legislation and ongoing increases in real income which push taxpayers into higher marginal tax brackets and that also drives up revenue.



As we turn to the spending side, the next chart shows you the path of spending which is similar under the two scenarios with some modest differences. And I think it is almost immediately obvious that that light blue area at the top of the graph is the primary driver of the increases in spending over the projection window. And as I have already mentioned, that is those two big health programs, Medicare and Medicaid.

Total spending is projected to rise from under 20 percent of GDP to well over 30 percent of GDP by the end of the projection window and under this scenario, closer to 35 percent. And that excludes interest spending which, of course, would start to accumulate very rapidly as debt accumulated.



The next chart shows you when you put the revenue and spending sides together the path of Federal debt under these two scenarios. And focusing for a moment on that alternative fiscal scenario, you can see debt explodes under the scenario very rapidly.

The peak debt-to-GDP ratio for the United States reached 109 percent near the end of World War II. We would reach that share of GDP under this scenario in 2031 and debt would continue rising thereafter. We tried to evaluate the macroeconomic consequences of this rise in debt even if it were possible to sell additional debt at those kinds of ratios and I would note that investors may not be particularly willing to buy additional government debt as the debt ratios rose that high.

By 2050, the increase in government debt which crowds out private investment and increases borrowing from abroad would reduce national income by 25 percent relative to a stable fiscal trajectory. That is a very substantial reduction in national income.

Under the extended baseline scenario, largely because of the additional revenue that is generated by a literal interpretation of current law, the picture actually looks somewhat better for several decades and then the ongoing increases in healthcare spending starts to drive up debt as a share of the economy. And by the end of the projection window, you are again on an unsustainable path.

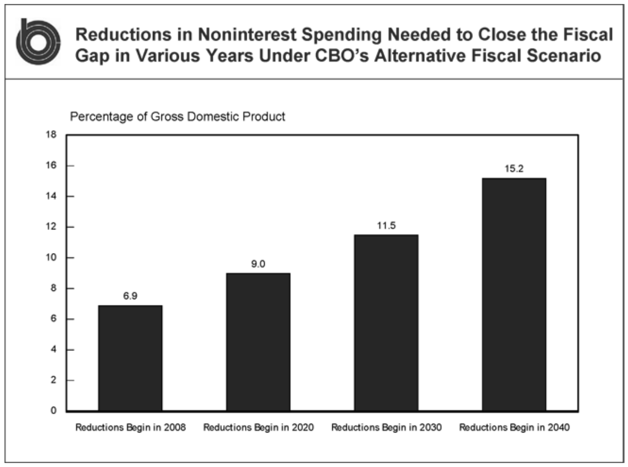
Federal Fiscal Imbalance Under CBO's Long-Term Budget Scenarios

Percentage of Gross Domestic Product

Projection Period	Revenues	Outlays	Fiscal Gap
		Extended-Baseline Scenario	
25 Years (2008–2032)	20.2	19.5	-0.7
50 Years (2008–2057)	21.3	21.9	0.6
75 Years (2008–2082)	22.1	23.8	1.7
		Alternative Fiscal Scenario	
25 Years (2008–2032)	18.6	21.4	2.8
50 Years (2008–2057)	18.8	24.1	5.2
75 Years (2008–2082)	19.2	26.1	6.9

One way of trying to capture or collapse all of this information into a single concept is illustrated on the next chart which presents figures for the so-called fiscal gap. And the fiscal gap is a way of just collapsing into a single number the present value or taking into account the interest cost, the time value of money, the future stream of revenue relative to the future stream of spending, and looking at the difference between the two.

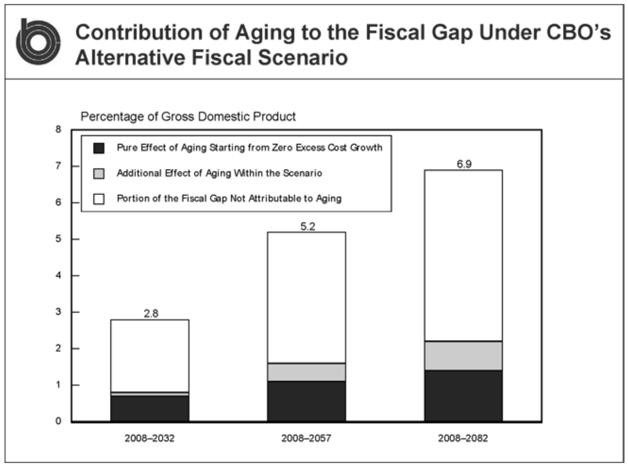
And focusing on the bottom right-hand side of that, the fiscal gap under the alternative fiscal scenario over the next 75 years amounts to almost seven percent of the economy. What that suggests is that you would need an immediate reduction in noninterest spending of seven percent of the economy that you then sustain out over time or an increase in revenue of seven percent of the economy, and, again, permanent and sustained, in order to avoid unsustainable rises in debt under that scenario. Those are obviously very big numbers.



Furthermore, the longer you wait, the more painful it gets. The next chart shows you what happens if instead of beginning those reductions in spending or equivalently increases in revenue immediately, you waited until 2020 or 2030 or 2040. The required adjustments become even larger the longer you wait because of the years that you miss in putting the nation on a sounder fiscal path.

And just to calibrate that, for example, if you waited until 2020 and tried to do the adjustments at that point, the required reduction in spending outside of interest, if you did it on the spending side, would amount to 43 percent. You would have to reduce everything that the government did, and I am including mandatory entitlement programs and discretionary spending, everything other than interest, by 43 percent and sustain that to avoid an unsustainable or an explosion in debt eventually occurring. That may help to calibrate the cost of waiting as you see the size of those bars go up dramatically the longer you wait.

One factor that I have emphasized in previous testimony and that I will emphasize briefly again has to do with the relative contribution of demographics and other factors, including healthcare cost growth, on these long-term budget projections.



The next chart shows you the pure effect of aging, that is allowing the population distribution to evolve towards older ages as is projected and how much that contributes to the overall fiscal gap.

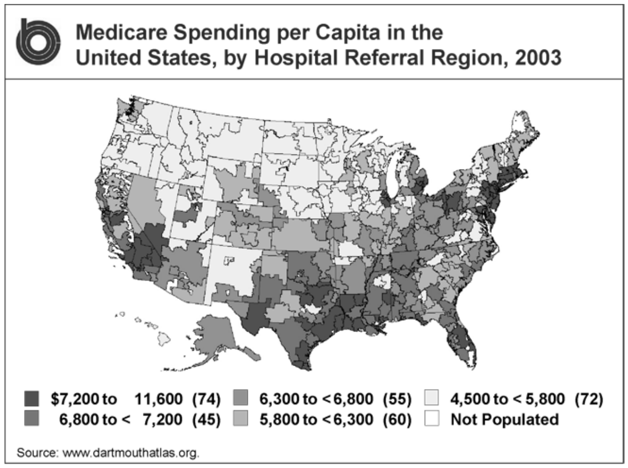
And, again, focusing on that 6.9 percent long-term fiscal imbalance under the alternative fiscal scenario, you can see that the dark blue and light blue lines, which are the effects of aging, amount to between 20 and 30 percent of the overall fiscal gap.

In other words, most of this effect is not coming from the pure effect of aging and demographics. Most of it arises from other things like healthcare spending. And that is the central determinant of our nation's long-term fiscal imbalance.

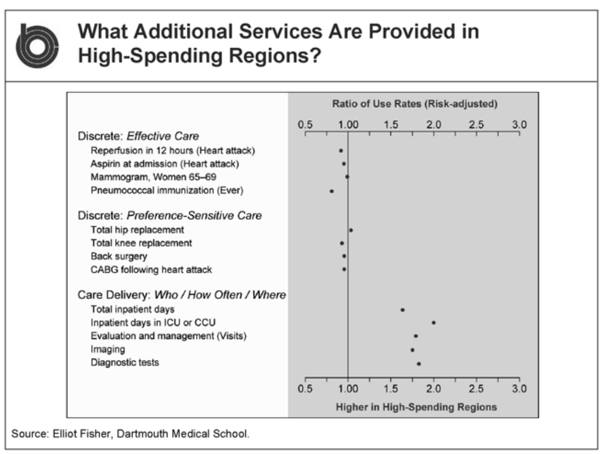
And since it is the central determinant of especially the spending path that we are on and the overall fiscal imbalance, I do want to just spend the final moment or two of my oral remarks talking about the opportunities that exist to alter the path of spending that we are on with regard to healthcare. I will repeat some of the graphs that I always walk around with, but I think they are worth repeating.

One indication of the opportunities that we have in healthcare spending to potentially reduce spending without harming health outcomes comes from the very substantial variation in healthcare spending across parts of the United States that cannot be explained by the characteristics of the patients or price levels in different areas.

Spending in some areas of the country is a third of other areas. In Miami, the cost per beneficiary is twice as high as in Minneapolis.



And as the next chart shows, on average, additional spending does not generate higher or better health outcomes for beneficiaries than lower spending areas. That opens up the kind of opportunity that, for example, researchers at Dartmouth have suggested, that we could potentially reduce healthcare spending by as much as 30 percent without harming health outcomes if we can move the darker areas of the country towards the lighter areas and the practice norms in the lighter areas.



The next chart shows you that most of the variation that occurs is not in things that we know work. For example, it is recommended practice the closer you are to that vertical line, the less variation there is. The further you are, the more variation there is.

It is recommended best practices. For example, to administer an aspirin for someone who experienced a heart attack upon admission to a hospital, there is not very much variation in that across parts of the United States.

Much less clear when an MRI should be used or other kind of imaging and diagnostic tests. There is a lot more variation in those kinds of spending areas. Where it is less clear what should be done, there is more variation. Where it is less clear what should be done, norms in different parts of the country vary substantially in ways that affect spending, but apparently not average outcomes.

And then finally, I would note many people have remarked that the darker areas in my map contain many of the nation's leading medical centers and those leading medical centers are among the best in the world.

Variations Among Academic Medical Centers

Use of Biologically Targeted Interventions and Care-Delivery Methods Among Three of U.S. News and World Report*'s "Honor Roll" AMCs*

	UCLA Medical Center	Massachusetts General Hospital	Mayo Clinic (St. Mary's Hospital)
Biologically Targeted Interventions: Acute Inpatient Care			
CMS composite quality score	81.5	85.9	90.4
Care Delivery—and Spending—Among Medicare Patients in Last Six Months of Life			
Total Medicare spending	50,522	40,181	26,330
Hospital days	19.2	17.7	12.9
Physician visits	52.1	42.2	23.9
Ratio, medical specialist / primary care	2.9	1.0	1.1

Source: Elliot Fisher, Dartmouth Medical School.

I would just point out as the final chart shows that if you look at three of our nation's leading medical centers, when you rank them by quality, there does not seem to be very substantial differences. This is for Medicare beneficiaries in the last six months of life. But if you look at cost per beneficiary, and remember these are similar types of patients near the end of their lives, at some of these facilities, costs are twice as high as at others. At one of the facilities, $50,000 on average. Another one, about $25,000.

When cost per beneficiary at the nation's best medical centers vary by a factor of two for reasons that do not seem to be explainable by the types of patients that are going to those facilities and that do not seem to generate differences in outcomes, I think there are significant questions about how we can potentially capture opportunities to reduce cost without harming quality.

And, again, that is the central long-term fiscal challenge facing the United States, how we can get healthcare costs under control and bend that cost curve.

Thank you very much, Mr. Chairman.

[The prepared statement of Peter Orszag follows:]

CBO TESTIMONY

Statement of
Peter R. Orszag
Director

The Long-Term Budget Outlook

before the
Committee on the Budget
U.S. House of Representatives

December 13, 2007

This document is embargoed until it is delivered at 10:00 a.m. (EST) on Thursday, December 13, 2007. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman, Congressman Ryan, and Members of the Committee, I am pleased to testify before you this morning on the Congressional Budget Office's long-term budget outlook.

Introduction and Summary

Significant uncertainty surrounds long-term fiscal projections, but under any plausible scenario, the federal budget is on an unsustainable path—that is, federal debt will grow much faster than the economy over the long run. In the absence of significant changes in policy, rising costs for health care and the aging of the U.S. population will cause federal spending to grow rapidly. If federal revenues as a share of gross domestic product (GDP) remain at their current level, that rise in spending will eventually cause future budget deficits to become unsustainable. To prevent deficits from growing to levels that could impose substantial costs on the economy, revenues must rise as a share of GDP, or projected spending must fall—or some combination of the two outcomes must be achieved.

For decades, spending on Medicare and Medicaid—the federal government's major health care programs—has been growing faster than the economy, as has health spending in the private sector. The rate at which health care costs grow relative to national income—rather than the aging of the population—will be the most important determinant of future federal spending. The Congressional Budget Office (CBO) projects that under current law, federal spending on Medicare and Medicaid measured as a share of GDP will rise from 4 percent today to 12 percent in 2050 and 19 percent in 2082—which, as a share of the economy, is roughly equivalent to the total amount that the federal government spends today. (Unless otherwise indicated, all years referred to in this testimony are calendar years.) The bulk of that projected increase in health spending reflects higher costs per beneficiary rather than an increase in the number of beneficiaries associated with an aging population.

The rise in health care spending is the largest contributor to the growth projected for federal spending. Therefore, efforts to reduce overall government spending will require potentially painful actions to slow the rise of health care costs. There may be ways, however, in which policymakers can reduce costs without harming the health of Medicare and Medicaid beneficiaries. Changing those programs in ways that reduce the growth of costs—which will be difficult, in part because of the complexity of health policy choices—is ultimately the nation's central long-term challenge in setting federal fiscal policy.

The aging of the population, though not the primary factor driving higher government spending in the future, will nonetheless exacerbate fiscal pressures. For example, future growth in spending on Social Security will largely reflect demographic changes; CBO projects that such spending will increase from about 4 percent of GDP today to 6 percent in 25 years and then will roughly stabilize at that rate thereafter. Federal spending on programs other than Medicare, Medicaid, and Social Security—including national defense and a wide variety of domestic programs—is likely to contribute far less, if anything, to the upward trend in federal outlays as a share of GDP.

All of those projections raise fundamental questions of economic sustainability. If outlays increased as projected and revenues did not grow at a corresponding rate, deficits would climb and federal debt would grow significantly. Substantial budget deficits would reduce national saving, which would lead to an increase in borrowing from abroad and lower levels of domestic investment that in turn would constrain income growth in the United States. In the extreme, deficits could seriously harm the economy. Such economic damage could be averted by putting the nation on a sustainable fiscal course, which would require some combination of less spending and more revenues than the amounts now projected. Making such changes sooner rather than later would lessen the risk that an unsustainable fiscal path poses to the economy.

Table 1.

Assumptions About Spending and Revenue Sources Underlying CBO's Long-Term Budget Scenarios

	Extended-Baseline Scenario	Alternative Fiscal Scenario
	Assumptions About Spending	
Medicare	As scheduled under current law	Physician payment rates grow with the Medicare economic index (rather than using the lower growth rates scheduled under the sustainable growth rate mechanism)
Medicaid	As scheduled under current law	As scheduled under current law
Social Security	As scheduled under current law	As scheduled under current law
Other Spending Excluding Interest[a]	As projected in CBO's 10-year baseline through 2017, then remains at the projected 2017 level as a share of GDP	Remains at the 2007 share of GDP
	Assumptions About Revenue Sources	
Individual Income Taxes	As scheduled under current law	2007 law with AMT parameters indexed for inflation after 2007
Corporate Income Taxes	As scheduled under current law	As scheduled under current law
Payroll Taxes	As scheduled under current law	As scheduled under current law
Excise and Estate and Gift Taxes	As scheduled under current law	Constant as a share of GDP for the entire period
Other Revenues	As scheduled under current law through 2017; constant as a share of GDP thereafter	As scheduled under current law through 2017; constant as a share of GDP thereafter

Source: Congressional Budget Office.

Notes: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

GDP = gross domestic product; AMT = alternative minimum tax.

a. Federal spending on the refundable portions of the earned income tax credit and the child tax credit is not held constant as a percentage of GDP but is instead modeled with the revenue portion of the scenarios.

Long-term projections rely on numerous assumptions about economic and fiscal factors, and many different assumptions are possible. For this analysis, CBO presents two scenarios that are based on different assumptions about the federal budget over the next 75 years (see Table 1).

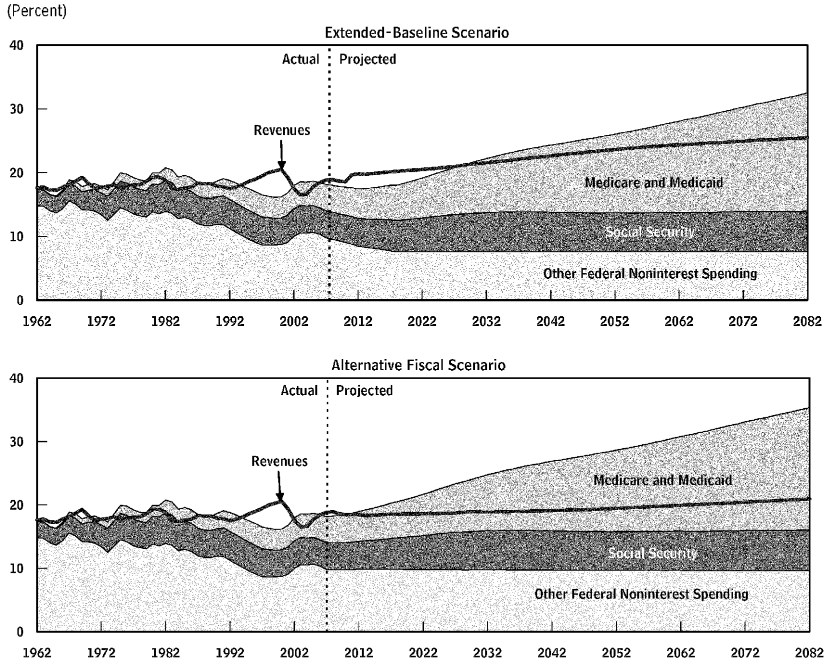
- The "extended-baseline scenario" adheres most closely to current law, following CBO's 10-year baseline for the first decade and then extending the baseline concept beyond that 10-year window.[1] The scenario's assumption of current law implies that many policy adjustments that lawmakers have routinely made in the past will not occur.
- The "alternative fiscal scenario" represents one interpretation of what it would mean to continue today's underlying fiscal policy. This scenario deviates from CBO's baseline even during the next 10 years because it incorporates some changes in policy that are widely expected to occur and that policymakers have regularly made in the past. Different analysts may perceive the underlying intention of current policy differently, however, and other interpretations are possible.

1. CBO's baseline is a benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending. The projections of budget authority, outlays, revenues, and the deficit or surplus that it comprises are calculated according to rules set forth in the Balanced Budget and Emergency Deficit Control Act of 1985.

Figure 1.

Revenues and Spending Excluding Interest, by Category, as a Percentage of Gross Domestic Product Under CBO's Long-Term Budget Scenarios

(Percent)



Source: Congressional Budget Office.

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

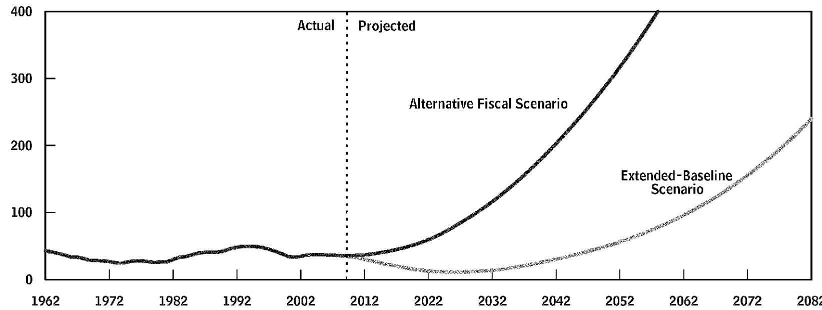
Under both scenarios, total primary spending (all spending except interest payments on federal debt) would grow sharply in coming decades, CBO estimates, rising from its current level of 18 percent of GDP to more than 30 percent by 2082, the end of the 75-year period that CBO's long-term projections span (see Figure 1). If spending policy did not change and outlays did indeed grow to such levels relative to the economy, maintaining a sustainable budget path would require that federal taxation rise similarly. In the past half-century, total federal revenues have averaged 18 percent of GDP and peaked at nearly 21 percent, well below projected levels of future spending.

Ultimately, both scenarios involve an unsustainable fiscal path, but they differ significantly in their projections of

Figure 2.

Federal Debt Held by the Public as a Percentage of Gross Domestic Product Under CBO's Long-Term Budget Scenarios

(Percent)



Source: Congressional Budget Office.

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

revenues and in the extent and timing of substantial increases in federal debt:

- Under the extended-baseline scenario, revenues would reach substantially higher levels than have ever been recorded during the nation's history.[2] Under this scenario, the 2001 and 2003 legislation that lowered tax rates would expire as scheduled at the end of 2010, and the impact of the alternative minimum tax (AMT) would expand substantially over time (because its parameters, unlike most parts of the tax system, are not indexed to inflation).[3] In addition, ongoing increases in real income (that is, income after an adjustment for inflation) would push taxpayers into higher income tax brackets. As a result, by 2082, federal revenues would reach 25 percent of GDP. With the projected revenue increases embodied in this scenario, federal debt held by the public would fall relative to GDP until 2026. Then it would start to climb, and if federal spending were allowed to grow as projected, policymakers would have to raise revenues further to keep the growth of debt from outpacing the growth of the economy (see Figure 2 and Table 2).

- Under the alternative fiscal scenario, by contrast, none of the changes to tax law scheduled after 2007 would take effect, and the AMT would be indexed to inflation. As a result, revenues would remain roughly constant as a share of GDP. The combination of roughly constant revenues and significantly rising expenditures would quickly create an unstable fiscal situation.

2. The projections that make up CBO's baseline are not intended to be predictions of future budgetary outcomes; rather, they represent CBO's best judgment of how economic and other factors would affect federal revenues and spending if current laws and policies remained in place. For details, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2017* (January 2007), p. 5.

3. The AMT is a parallel income tax system with fewer exemptions, deductions, and rates than the regular income tax. Households must calculate their tax liability (the amount they owe) under both the AMT and the regular income tax and pay the larger of the two amounts.

Table 2.

Projected Spending and Revenues as a Percentage of Gross Domestic Product Under CBO's Long-Term Budget Scenarios

(Percent)

	2007[a]	2030	2050	2082
		Extended-Baseline Scenario		
Primary Spending				
Social Security	4.3	6.1	6.1	6.4
Medicare[b]	2.7	5.6	8.9	14.8
Medicaid	1.4	2.5	3.1	3.8
Other noninterest	9.9	7.7	7.6	7.6
Subtotal, Primary Spending	18.2	21.8	25.7	32.5
Interest	1.7	0.6	2.3	11.0
Total, Federal Spending	20.0	22.4	28.1	43.6
Revenues	18.8	21.4	23.5	25.5
Deficit (-) or Surplus				
Primary deficit (-) or surplus	**0.5**	**-0.4**	**-2.3**	**-7.1**
Total deficit	**-1.2**	**-1.0**	**-4.6**	**-18.1**
		Alternative Fiscal Scenario		
Primary Spending				
Social Security	4.3	6.1	6.1	6.4
Medicare[b]	2.7	5.9	9.4	15.6
Medicaid	1.4	2.5	3.1	3.7
Other noninterest	9.9	9.8	9.7	9.6
Subtotal, Primary Spending	18.2	24.2	28.3	35.3
Interest	1.7	4.8	13.6	40.1
Total, Federal Spending	20.0	29.0	41.8	75.4
Revenues	18.8	18.9	19.4	20.9
Deficit (-) or Surplus				
Primary deficit (-) or surplus	**0.5**	**-5.3**	**-8.9**	**-14.4**
Total deficit	**-1.2**	**-10.1**	**-22.5**	**-54.5**

Source: Congressional Budget Office.

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

a. For 2007, numbers are actual and on a fiscal year basis.

b. Spending for Medicare beneficiaries is net of premiums.

A useful metric for the size of the adjustments in either spending or revenues required to avoid unsustainable increases in government debt is provided by the so-called fiscal gap. The gap measures the immediate change in spending or revenues necessary to generate a stable fiscal trajectory over a given period. Under the extended-baseline scenario, the fiscal gap would amount to 0.6 percent of GDP through 2057 and 1.7 percent of GDP through 2082 (see Box 1). In other words, under that scenario, an immediate and permanent reduction in spending or an immediate and permanent increase in revenues of 1.7 percent of GDP—or an even larger percentage, if the change in policy was delayed—would be necessary to create a sustainable fiscal path through 2082.

Box 1.

The Fiscal Gap

One perspective on the federal government's financial status can be garnered by examining projections of annual revenues and outlays. Present-value measures augment those annual data by summarizing the expected long-term flows of receipts and spending in a single number. (A present-value calculation adjusts future payments for the time value of money to make them comparable with payments today.) The fiscal gap is a present-value measure of the nation's fiscal imbalance.

That imbalance is a measure of federal shortfalls over a given period. It represents the extent to which the government would need to immediately and permanently either raise tax revenues or cut spending—or do both, to some degree—to make the government's debt the same size (in relation to the economy) at the end of that period as it was at the beginning.

The Congressional Budget Office (CBO) calculates the present value of a stream of future revenues by taking the revenues for each year, discounting each value to 2007 dollars, and then summing the resulting series. The same method is applied to the projected stream of outlays.[1] CBO also computes a present value for future gross domestic product (GDP). (The table to the right presents the present value of outlays and revenues as a share of the present value of GDP.)

Federal Fiscal Gap Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)

Projection Period	Revenues	Outlays	Fiscal Gap
	Extended-Baseline Scenario		
25 Years (2008-2032)	20.2	19.5	0.7
50 Years (2008-2057)	21.3	21.9	0.6
75 Years (2008-2082)	22.1	23.8	1.7
	Alternative Fiscal Scenario		
25 Years (2008-2032)	18.6	21.4	2.8
50 Years (2008-2057)	18.8	24.1	5.2
75 Years (2008-2082)	19.2	26.1	6.9

Source: Congressional Budget Office.

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

1. To allow for the increase in the nominal value of the debt that would occur, even if that debt was maintained at its current share of gross domestic product (GDP), the present value of outlays is adjusted to account for that change in debt. Specifically, the current debt is added to the outlay measure, and the present value of the target end-of-period debt is subtracted. (The end-of-period debt is equal to GDP in the last year of the period multiplied by the 2007 debt-to-GDP ratio.)

Under the alternative fiscal scenario, the fiscal gap would be much larger, amounting to 5.2 percent of GDP through 2057 and 6.9 percent through 2082.

Under both scenarios, growing budget deficits and the resulting increases in federal debt could lead to slower economic growth. The effects would be most striking under the alternative fiscal scenario—debt would begin to climb rapidly and would reach roughly 300 percent of GDP by 2050. That rising federal debt would affect the capital stock (businesses' equipment and structures as well as housing). In CBO's estimation, debt would reduce the capital stock—compared with what it would be if deficits were held to their share of the economy in 2007—by 40 percent in 2050 and would lower real gross national product (GNP) by 25 percent.[4] Although the outlook for the economy under the extended-baseline scenario would be more auspicious in the near term, over the long run, rising deficits would also lead to significant economic harm.

Differences between the economic costs of one policy for achieving long-term fiscal sustainability and those of another are generally modest in comparison with the costs of allowing deficits to grow to unsustainable levels. In particular, the difference in economic costs between acting to address projected deficits (by either reducing spending or raising revenues) and failing to do so is generally much larger than the cost implications of pursuing one approach to deficit reduction rather than another. Nonetheless, a policy of reducing the growth of spending would in general impose smaller macroeconomic costs than one of increasing tax rates, although the economic effects would depend in part on the specific measures that were adopted.

On the spending side of the budget, the most significant cause of future long-term growth—health care costs—is also particularly complicated to address. Policymakers face both challenges and opportunities in trying to reduce those costs. Over long periods, cost growth per beneficiary in the Medicare and Medicaid programs has tended to track cost trends in private-sector markets for health care. Many analysts therefore believe that significantly constraining the growth of costs for Medicare and Medicaid is possible only in conjunction with slowing the growth of costs in the health sector as a whole.

A variety of evidence suggests that opportunities exist to constrain costs without incurring adverse consequences for health outcomes—and even perhaps to simultaneously reduce cost growth and improve health. So a central challenge will be to restrain the growth of costs without harming the incentives to provide appropriate care and develop valuable new health treatments. Moving the nation toward that possibility—which would inevitably be an iterative process in which policy steps were tried, evaluated, and perhaps reconsidered—is essential to moving the country toward a sounder long-term fiscal footing.

4. Gross national product measures the income of residents in the United States after deducting net payments to foreigners. Gross domestic product, by contrast, measures the income that is generated by the production of goods and services on U.S. soil, including the production that is financed by foreign investors. Because rising deficits can increase borrowing from foreigners, GNP is a better measure of the economic effects of deficits than is GDP.

The Outlook for Federal Spending

For much of its history, the United States devoted only a small fraction of its resources to the activities of the federal government. But the second half of the 20th century marked a period of sustained higher peacetime spending by the federal government. For the past 50 years, federal outlays have averaged about 20 percent of GDP. In fiscal year 2007, those outlays totaled $2.7 trillion.

Not only has the amount of such spending grown, but its composition has changed dramatically. Spending for mandatory programs has increased from less than one-third of total federal outlays in the early 1960s to more than one-half in recent years. Most of that growth has been concentrated in Medicare, Medicaid, and Social Security. Together, gross outlays for those programs now account for about 45 percent of federal outlays, compared with 2 percent in 1950 (before the health programs were created) and 25 percent in 1975.

The most significant factor in the future growth of federal spending, as noted earlier, will be spending on Medicare and Medicaid. Rising costs for health care are boosting spending for those programs to a greater degree than can be explained solely by increases in enrollment and general inflation. Since 1975, all factors, including policy changes, have caused annual costs per Medicare enrollee (after adjustments for changes in the age distribution, or profile, of the beneficiary population) to grow an average of 2.4 percentage points faster than per capita GDP—a difference referred to as excess cost growth. Over the same period, excess cost growth in Medicaid was 2.2 percent.

For its long-term projections, CBO assumed that even in the absence of changes in federal law, rates of spending growth in the Medicare and Medicaid programs would probably moderate to some degree. As costs continue to rise, regulatory changes are likely at the federal level. At the state level, both legal and regulatory changes will probably occur; those changes would directly affect Medicaid, which is a joint federal-state program. And actions by employers, households, and insurance firms to slow the rate of health cost growth in the private sector are likely to affect the public insurance programs to some

Box 2.

Aging, Excess Cost Growth in Health Spending, and the Federal Budget

The nation's long-term fiscal outlook is affected by the rapid growth of health care costs and an aging population. Health care costs and demographics each affect government spending and revenues independently. The interaction of demographics and health care costs is also important.

One method for estimating the effect of aging on spending growth for Medicare, Medicaid, and Social Security is to ask how much spending would rise if aging were the only factor driving that growth.[1] The first approach examines the increase in spending for Medicare, Medicaid, and Social Security when the population profile is allowed to change over time as the population ages but excess cost growth is constrained to be zero. (Excess cost growth is the percentage by which the growth of health care costs per individual exceeds the growth of per capita gross domestic product, or GDP.) Under that method, aging would account for 27 percent of the total projected increase in Medicare, Medicaid, and Social Security spending as a share of GDP through 2050 and 20 percent through 2082.[2] The relative effect of aging is projected to decrease over time as the impact of excess cost growth accumulates.

Another way to measure the effect of aging on spending is to ask how much lower spending would be if the aging factor was removed from the projections. Suppose that excess cost growth was consistent with the assumptions underlying the Congressional Budget Office's (CBO's) alternative fiscal scenario but the population profile is constrained not to change over time. Under that method, spending on Medicare, Medicaid, and Social Security as a share of GDP through 2050 would be 39 percent lower than it would be if the population's aging was a factor in the calculations; through 2082, that spending would be 38 percent lower. The effects on spending that can be attributed to aging would be greater under this approach than under the previous method because excess cost growth would amplify those effects.

1. For the purposes of assessing the effects of an aging population, the Congressional Budget Office (CBO) used the assumptions of the alternative fiscal scenario. For the calculations above, CBO used the path for gross domestic product from the alternative fiscal scenario.

2. However, as noted in CBO's November 2007 report *The Long-Term Outlook for Health Care Spending*, if Medicare and Medicaid were considered on their own, aging would account for only 10 percent of the projected spending increase through 2082.

extent.[5] Yet even under an assumption of slowing growth rates, total federal Medicare and Medicaid outlays over the next 75 years would grow from 4 percent of GDP to 19 percent, CBO projects.

The retirement of the baby-boom generation (the large group of people born between 1946 and 1964) portends a long-lasting shift in the age profile of the U.S. population, a shift that will substantially alter the balance between the population's working-age and retirement-age components. The share of people age 65 or older is projected to grow from 12 percent in 2007 to 19 percent in 2030, and the share of people ages 20 to 64 is expected to fall from 60 percent to 56 percent. Aging will contribute to the growth of health care spending, but excess cost growth will remain the dominant factor.

By comparison, aging will be the primary factor in the growth of costs in the Social Security program. CBO projects that the number of workers per Social Security beneficiary will decline significantly over the next three decades, dropping from about 3.2 now to 2.1 in 2030. Unless immigration, fertility, or mortality rates change markedly, that number will continue to slowly fall after 2030. The interaction of growth in the retired population and the current structure of Social Security leads CBO to project that the total cost of Social Security benefits will

5. See Congressional Budget Office, *The Long-Term Outlook for Health Care Spending* (November 2007).

Box 2.

Continued

CBO also measured the relative effects of excess cost growth and the coming age shifts in the population by examining how those factors might affect the fiscal gap and projected federal debt in 2082.[3] As under the first method above, the results from a scenario that incorporates no excess cost growth but allows the population's age profile to change was compared with the overall fiscal gap. From that comparison, aging would account for 21 percent of the fiscal gap through 2057 and 20 percent through 2082.

The second method described above can also be used to consider how removing the aging population's effects would influence the fiscal gap. Under that method, aging would account for 31 percent of the gap through 2057 and 32 percent through 2082. As with the measures of spending described earlier, the effects on the gap attributable to aging would be greater under this approach because of the interaction with excess cost growth.

3. For all of the fiscal gap calculations described here, the paths for GDP and revenues match those generated under the alternative fiscal scenario. The fiscal gap is a measure of federal shortfalls over a given period. It represents the extent to which the government would need to immediately and permanently either raise tax revenues or cut spending—or do both, to some degree—to make the government's debt the same size (in relation to the economy) at the end of that period as it was at the beginning.

As the federal government's major health care programs, Medicare and Medicaid clearly are directly affected by the growth of health care costs. What is not so obvious is how such growth might affect revenues. First, a rise in health insurance premiums would reduce the portion of compensation that employees receive as wages. The amount of that reduction would then shift from being a taxed amount (part of wages) to being an untaxed form of compensation. Second, income tax deductions related to medical expenses would also rise relative to income as health care costs rose. (Such deductions include both the deduction of health insurance premiums for the self-employed and the itemized deductions for medical expenses.)

Relative to a scenario in which health care costs grew at the same rate as GDP per capita (in other words, a scenario incorporating no excess cost growth), income tax revenues in 2082 under the alternative fiscal scenario would be lower by 1.6 percentage points of GDP, in CBO's estimation. Payroll taxes in that year would be lower by 0.7 percentage points of GDP.[4]

4. Reductions in taxable payroll would also reduce Social Security benefits in the future.

rise from 4.3 percent of GDP in fiscal year 2007 to 6.1 percent in 2030. (For further discussion of the relationship between the aging of the population and federal outlays, see Box 2.)

The different assumptions underlying CBO's extended-baseline and alternative fiscal scenarios lead to different views of the future path of federal spending. In the case of spending for Medicare, for example, assumptions about the sustainable growth rate (SGR) mechanism for updating Medicare's payment rates for physicians would lead to slightly lower spending under the extended-baseline scenario than under the alternative fiscal scenario. Under the extended-baseline's assumption that current law prevails, the SGR mechanism would reduce physician payment rates by about 4 percent or 5 percent annually for at least the next several years. However, since 2003, the Congress has acted to prevent such reductions. Therefore, under the alternative fiscal scenario, Medicare's physician payment rates would grow with the Medicare economic index (which measures inflation in the inputs used for physicians' services). The difference in spending for

Medicare under the two scenarios is less than 1 percent of GDP in all 75 years of the projection period.

A larger difference between the scenarios involves the assumption about other federal spending—that is, spending for programs other than Social Security, Medicare, and Medicaid but excluding interest on the public debt. Under the extended-baseline scenario, other federal spending in 2018 and later would equal about 7.7 percent of GDP, consistent with the projections for fiscal year 2017 in CBO's March baseline and projected levels of refundable tax credits. Under the alternative fiscal scenario, other spending during the projection period would remain about at its current level of 9.8 percent of GDP.

Spending for Social Security and Medicaid would be identical under both scenarios. In addition, both scenarios incorporate the assumption that the Social Security and Medicare programs will continue to pay benefits as currently scheduled, notwithstanding the projected insolvency of the programs' trust funds.[6]

Under the extended-baseline scenario, primary spending (outlays excluding interest payments) would grow from 18.2 percent of GDP in fiscal year 2007 to 21.8 percent in 2030, 25.7 percent in 2050, and 32.5 percent in 2082. The biggest factor in that growth would be the rise in spending in the Medicare and Medicaid programs.

Primary spending would be higher under the alternative fiscal scenario than under the extended-baseline scenario, largely because of the assumed difference in the amount of other federal spending. Under the alternative scenario, primary spending would reach 24.2 percent of GDP in 2030, 28.3 percent in 2050, and 35.3 percent in 2082.

The Outlook for Revenues

Like federal spending, revenues have been significantly higher in the past half-century than in previous eras, fluctuating between 16.1 percent and 20.9 percent of GDP since 1957. And just as spending priorities have changed during that period, the composition of revenues has shifted. As a share of total receipts, social insurance payroll taxes (for Social Security, Medicare, unemployment insurance, and retirement programs for federal civilian employees) have increased along with the size of the underlying programs, whereas the shares of corporate income taxes and excise taxes have diminished.

In fiscal year 2007, total federal revenues were 18.8 percent of GDP. Under the extended-baseline scenario, the 2001 and 2003 tax cuts would expire as scheduled and the individual alternative minimum tax would be unchanged. Under that scenario, tax payments for the first 10 years of the 75-year projection period would be identical to CBO's March 2007 baseline; payments would then rise relative to GDP thereafter, increasing by roughly 6.5 percentage points to reach 25 percent of GDP by 2082.

Over a long period, the cumulative effects of inflation and the real growth of income would interact with the tax system under the extended-baseline scenario (and, to a lesser extent, under the alternative fiscal scenario). The result would be higher average tax rates (that is, taxes as a share of income) and a significant change in the way the overall tax burden is distributed among households. Under the extended-baseline scenario, the cumulative effects of inflation would make about half of all households subject to the AMT by 2035. By 2082, more than three-quarters of households would be subject to it.

Under the alternative fiscal scenario, none of the scheduled changes in tax law after 2007 would take effect, and the parameters of the AMT would be indexed to inflation in 2008 and beyond. Under this scenario, tax receipts would rise by roughly 2 percent of GDP over the next 75 years.

Projected Deficits and Debt

For a path of spending and revenues to be sustainable, any resulting debt must eventually grow no faster than the economy. Sustained deficits lead to larger amounts of debt, which in turn result in more spending on interest. Therefore, even moderate primary deficits—deficits excluding interest costs—can lead to unsustainable growth in federal debt. A useful barometer of fiscal policy is the amount of government debt held by the public as a percentage of GDP. (For a discussion of why such debt is important, see Box 3.) At the end of fiscal year 2007, that

6. The funds' balances represent the total amount that the government is legally authorized to spend on each program. For a fuller discussion of the legal issues related to trust-fund insolvency, see Congressional Research Service, *Social Security: What Would Happen If the Trust Funds Ran Out?* RL33514 (updated June 14, 2007).

debt was 37 percent of GDP, which is slightly above the average for the past 40 years.

Under the extended-baseline scenario's assumptions (specifically, that the 2001 and 2003 tax changes expire at the end of 2010 and the other-spending category declines substantially over the next 10 years), the federal budget would show a surplus from 2011 through 2024. Historically high levels of revenues and historically low levels of spending on programs other than Medicare, Medicaid, and Social Security would cause federal debt to fall substantially during that period, dropping to 11 percent of GDP in 2025—a smaller share than in any year since World War I. Debt would not return to its current share of GDP until 2045. However, if health costs continued to grow as projected under the scenario, deficits would return, and debt would start to climb rapidly. By the end of the 75-year projection period, debt would reach 239 percent of GDP and be poised to continue on an unsustainable path.

Under the alternative fiscal scenario, deficits would begin to grow immediately. In fiscal year 2007, the deficit was 1.2 percent of GDP; under the alternative fiscal scenario, it would grow to 1.8 percent of GDP in 2010 and 10.1 percent in 2030. The spiraling costs of interest payments would result in clearly unsustainable levels of debt relatively quickly. At the end of World War II, federal debt peaked at 109 percent of GDP; under the alternative fiscal scenario, debt would reach that share in 2031 and continue to rise sharply thereafter. Many budget analysts believe that the alternative fiscal scenario presents a more realistic picture of the nation's underlying fiscal policy than the extended-baseline scenario does (because, for example, the alternative fiscal scenario does not allow the impact of the AMT to substantially expand). To the extent that such a perspective is valid, the explosive path of federal debt under the alternative fiscal scenario should underscore the need for corrective steps to put the nation on a sustainable fiscal course.

How Would Rising Federal Debt Affect the Economy?

CBO's two long-term budget scenarios would have different effects on the economy. Under the extended-baseline scenario, outcomes early on would be considerably more auspicious, but under both scenarios, the growth of debt would eventually accelerate as the government attempted to finance its interest payments by issuing more debt—leading to a vicious circle in which it issued ever-larger amounts of debt in order to pay ever-higher interest charges. In the end, the costs of servicing the debt would outstrip the economic resources available for covering those expenditures.

Sustained and rising budget deficits would affect the economy by absorbing funds from the nation's pool of savings and reducing investment in the domestic capital stock and in foreign assets. As capital investment dwindled, the growth of workers' productivity and of real wages would gradually slow and begin to stagnate. As capital became scarce relative to labor, real interest rates would rise. In the near term, foreign investors would probably increase their financing of investment in the United States, which would help soften the impact of rising deficits on productivity in the United States. However, borrowing from abroad would not be without its costs. Over time, foreign investors would claim larger and larger shares of the nation's output, and fewer resources would be available for domestic consumption.

To be sure, budget deficits are not always harmful. When the economy is in a recession, deficits can stimulate demand for goods and services and bring the economy back to full employment. But the deficits that would arise under CBO's long-term scenarios would occur not because the federal government was trying to pull the economy out of a recession but for a more fundamental reason: because the government was spending more and more for health care programs and for interest payments on accumulated debt. Over time, those deficits would crowd out productive capital investment in the United States.

How much would the deficits projected under the two budget scenarios affect the economy? CBO addressed that question by comparing results under the scenarios with those from another set of assumptions under which the deficit in the long run is stabilized at roughly its percentage of GDP in 2007. For that analysis, CBO used a textbook growth model that can assess how persistent

Box 3.

Why Is Federal Debt Held by the Public Important?

When the federal government's annual spending exceeds its annual revenues, the government's budget is in deficit. To finance the shortfall, the government generally has to borrow funds from the public by selling Treasury securities (bonds, notes, and bills).[1] That additional borrowing increases the total amount of federal debt held by the public, which reflects the accumulation of annual budget deficits offset by past budget surpluses.

Growth in such debt is not necessarily a problem. As long as the economy is also expanding just as fast and interest rates are stable, the ratio of debt to gross domestic product (GDP) and the share of GDP that must be devoted to paying interest on the debt will remain stable. Moreover, even if debt grows faster than GDP for a limited time, difficulties do not always arise. But such growth cannot go on forever; at some point, the economy will be unable to provide enough resources for the government to pay the interest due on the debt.

Gross debt is another measure of federal indebtedness that often receives attention, but it is not useful for assessing how the Treasury's operations affect the economy. Gross federal debt comprises both debt held by the public and debt issued to various accounts of the federal government, including the major trust funds in the budget (such as those for Social Security). Because the debt issued to those accounts is intragovernmental in nature, it has no direct and immediate effect on the economy. Instead, it simply represents credits to the various government accounts that can be redeemed as necessary to authorize payments for benefits or other expenses. Although the Treasury assigns earnings in the form of interest to the funds that hold the securities, such payments have no net effect on the budget.

Debt as a Measure of Fiscal Sustainability

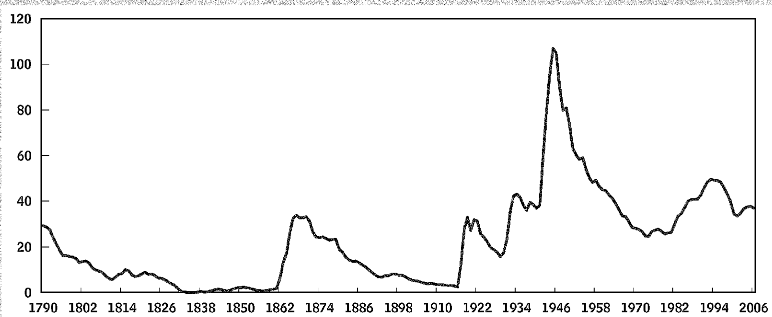
Long-term projections of federal debt held by the public (measured relative to the size of the economy) provide useful yardsticks for assessing the sustainability of fiscal policies. If budget projections are carried out far enough into the future, they can show whether current commitments imply that spending will consistently exceed revenues and will produce debt that grows faster than the economy. Projections of debt relative to GDP can thus indicate whether changes in current policies may be necessary at some point in the future.

1. In most years, the amount of debt that the Treasury borrows or redeems roughly equals the annual budget deficit or surplus. However, the correspondence is not exact because a small amount of the deficit can also be financed by changes in other means of financing (which include reductions or increases in the government's cash balances, seigniorage, changes in outstanding checks, changes in accrued interest costs included in the budget but not yet paid, and cash flows reflected in credit financing accounts). However, because changes in other means of financing are small, they play no significant role in the Congressional Budget Office's long-term projections of the deficit.

Box 3.

Continued

Federal Debt Held by the Public as a Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Historical and Cross-Country Debt Comparisons

Comparisons with other times and places can provide some perspective on the sustainability of the deficits projected under the Congressional Budget Office's (CBO's) two long-term budget scenarios. The shortfalls anticipated in 2082 under either one would be large by any standard. Since the founding of the United States, the annual budget deficit has exceeded 10 percent of GDP in only a few instances, during major wars. Moreover, total federal debt held by the public has surpassed 100 percent of GDP only for a brief period during and just after World War II (see the figure, above). That budgetary situation was temporary, however. As soon as the war was over, federal debt held by the public began to decline as a share of the economy. In fact, until the 1980s, the ratio of debt to GDP had never risen significantly during a period of peace and prosperity.

Other nations have accumulated large amounts of debt, but the amount projected for the United States under CBO's two scenarios would eventually be greater than the amount of debt other industrialized countries have carried in the post-World War II period. For example, during the second half of the 1990s, net public debt averaged about 103 percent of GDP in Italy and 110 percent in Belgium.[2] However, those countries' experiences involved debt that, relative to GDP, fell modestly (in Italy) or dropped significantly (in Belgium), not debt that rose ever faster. Even so, to keep their debt under control, those governments had to make significant changes in fiscal policy simply to cover the interest payments on their debt.

2. Organisation for Economic Co-operation and Development, *Economic Outlook* (Paris: OECD, June 2007).

deficits might affect the economy over the long term. The model incorporates the assumption that deficits affect capital investment in the future as they have in the past.[7]

Alternative Fiscal Scenario

The model's simulations indicate that the rising level of federal debt under this scenario could reduce the capital stock in 2040 by about 25 percent compared with what it would be if the deficit were held to its 2007 share of GDP. The reduction in the capital stock (and the increased indebtedness to foreigners) would in turn reduce real GNP in 2040 by about 13 percent. Losses to the U.S. economy would grow rapidly after 2040. By 2050, rising federal debt would reduce the capital stock by more than 40 percent and real GNP by more than 25 percent. (Beyond 2062, projected deficits become so large and unsustainable that CBO's textbook growth model cannot calculate their effects.)

Such estimates, if anything, understate the risk to economic growth under this scenario. They are based on a model that incorporates the assumption that people do not anticipate future changes in debt; as a result, the model predicts a gradual change in the economy as federal debt rises. In actuality, the economic effects of rapidly growing debt would probably be much more disorderly and could occur well before 2063 under this scenario. If foreign investors began to expect a crisis, they might significantly reduce their purchases of U.S. securities, causing the exchange value of the dollar to plunge, interest rates to climb, consumer prices to shoot up, or the economy to contract sharply. Amid the anticipation of declining profits and rising inflation and interest rates, stock prices might fall and consumers sharply reduce their purchases. In such circumstances, the economic problems in this country would probably spill over to the rest of the world and seriously weaken the economies of the United States' trading partners.

Adopting a policy of higher inflation by printing money to finance the deficit would reduce the real value of the government's debt and provide relief in the short run, but printing money is not a feasible long-term strategy for dealing with persistent budget deficits. Without question, an unexpected increase in inflation would, in the short run, enable the government to repay its debt in cheaper dollars. But financial markets would not be fooled for long, and investors would eventually demand higher interest rates. If the government continued to print money to finance deficits, the policy would eventually lead to hyperinflation (as Germany experienced in the 1920s, Hungary in the 1940s, Argentina in the 1980s, and the Federal Republic of Yugoslavia in the 1990s). Moreover, interest rates could remain high for some time even after inflation was brought back under control. High inflation causes governments to lose credibility in financial markets, and once that credibility has been lost, regaining it can be difficult. In the end, printing money to finance deficits cannot address the fundamental problem that spending exceeds revenues.

Extended-Baseline Scenario

The extended-baseline scenario, by contrast, offers a less threatening budget outlook, at least for the next several decades. Under that scenario, the federal budget would move to a surplus in 2011 and remain in that positive fiscal condition until about 2025. After that, the scenario shows budget deficits emerging again, but the outstanding stock of federal debt would remain at or below its current share of GDP for several decades.

The budget surplus under the extended-baseline scenario would be generated in large part from higher revenues. By CBO's calculations, marginal tax rates on capital (that is, the tax rate on the last dollar of capital income) would increase from 14 percent in 2007 to 16 percent in 2040; marginal tax rates on labor would climb from 28 percent in 2007 to 31 percent in 2040. Those higher tax rates could affect the economy in various ways, and because their effects are uncertain, CBO's analysis used two different economic models to estimate their impact.[8] The models encompass a wide range of views about how taxes affect the economy.

What would happen to the economy if tax rates rose to the levels projected under the extended-baseline scenario

7. For a description of the textbook growth model, see Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2008* (March 2007), Appendix D.

8. One model is the textbook growth model; the other is a forward-looking life-cycle model that includes wage uncertainty and constraints on borrowing. CBO uses both models in its annual analysis of the President's budget. For more information on the models, see Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2008*. In using the life-cycle model to analyze the extended-baseline scenario, CBO compared steady-state economies only. The simulations of the life-cycle model thus do not incorporate an analysis of the transitional effects between 2007 and 2040.

in 2040 and remained at those levels thereafter? CBO found that in that case, real GNP could fall 1 percent to 4 percent below what it would be in that year if tax rates were held at their 2007 levels.[9] Although such a reduction in GNP would be noticeable, it is small in comparison with how much the economy could grow over the same period under a sustainable budget policy. If the budget was put on a sustainable path by keeping tax and spending rates close to their current levels, real GNP could grow by 110 percent between 2007 and 2040. Although under the extended-baseline scenario, the higher tax rates in 2040 would reduce that growth, real GNP would still be 101 percent to 108 percent higher than it is today, CBO estimates.

The modest effect that taxes have on the economy in those simulations stems largely from the fact that under the extended-baseline scenario, marginal tax rates would not increase very much between 2007 and 2040; instead, most of the additional revenues generated under the scenario would stem from a broadening of the tax base. If revenues were raised mainly through higher marginal tax rates, the economic effects would be more negative.[10]

The outlook for the economy under the extended-baseline scenario is more problematic in the decades after 2050. Under the scenario's assumptions, by 2080, federal debt would be more than 200 percent of GDP, and according to the textbook growth model, that debt would reduce the capital stock by about 40 percent and real GNP by more than 25 percent. For the same reasons cited earlier, forward-looking financial markets would probably precipitate a crisis before 2080 under this scenario.

9. In the simulations, spending would also increase to match the path of spending under the extended-baseline scenario. However, the forward-looking life-cycle model would require further adjustments in policy to finance the budget deficit that is projected to emerge under the extended-baseline scenario in 2040. (Because the textbook growth model is not a forward-looking model, it does not require explicit assumptions about how the deficit in 2040 would be financed.) For the simulations of the life-cycle model, CBO assumed that the deficit in that year would be financed by reducing spending on benefit payment to individuals.

10. See Congressional Budget Office, *Financing Projected Spending in the Long Run* (July 9, 2007).

What Are the Costs of Delaying Action on the Budget?

The choice facing policymakers is not whether to address rising deficits and debts but when and how to address them. Under the extended-baseline scenario, projected revenue increases would be sufficient to avoid serious budgetary and economic troubles until after 2050, but those increases would result in federal revenues that were much higher, as a percentage of GDP, than the nation has been accustomed to. Under the alternative fiscal scenario, such troubles would begin in the next couple of decades, and the longer that policy action on the budget was put off, the more costly and difficult it would be to resolve those expected long-term budgetary imbalances.

Delays in taking action would create three major problems:

- First, delay would cause the amount of government debt to rise, which would displace private capital (reducing the total resources available in the economy) and increase borrowing from abroad.

- Second, delay would exacerbate uncertainty. The longer that action was put off, the greater the chance that policy changes would occur suddenly, which could create difficulties for some individuals and households, especially those near or in retirement. Announcing changes in popular entitlement programs or in the tax structure well before they take place gives people time to adjust their plans for saving and retirement. Those adjustments can significantly reduce the impact of changes in policy on people's standard of living.

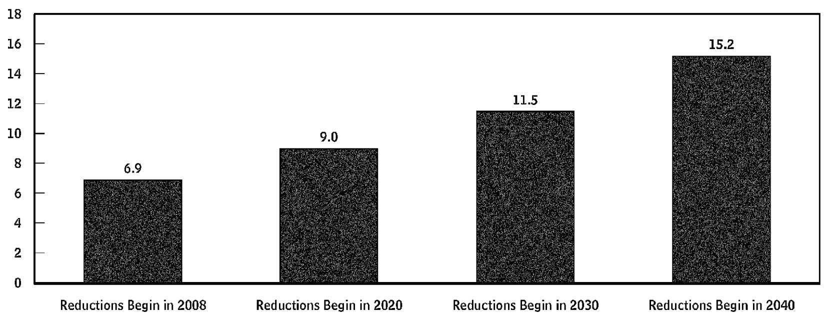
- Third, delay would raise the cost of interest on the federal debt, so that lawmakers would have to make ever-larger changes in policy to finance those additional costs. As interest costs rose, policymakers would be less able to finance other national spending priorities and would have less flexibility to deal with unexpected developments (such as a war or recession). Moreover, rising interest costs would make the economy more vulnerable to a crisis.

CBO's simulations indicate that under the alternative fiscal scenario, delaying action could substantially increase the size of the policy adjustments needed to put the budget on a sustainable path. The impact of delaying changes in policy would be large even before accounting for

Figure 3.

Reductions in Noninterest Spending Needed to Close the Fiscal Gap in Various Years Under CBO's Alternative Fiscal Scenario

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Notes: The fiscal gap is a measure of federal shortfalls over a given period. It represents the extent to which the government would need to immediately and permanently either raise tax revenues or cut spending—or do both, to some degree—to make the government's debt the same size (in relation to the economy) at the end of that period as it was at the beginning.

The alternative fiscal scenario deviates from CBO's baseline projections during the next 10 years, incorporating changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

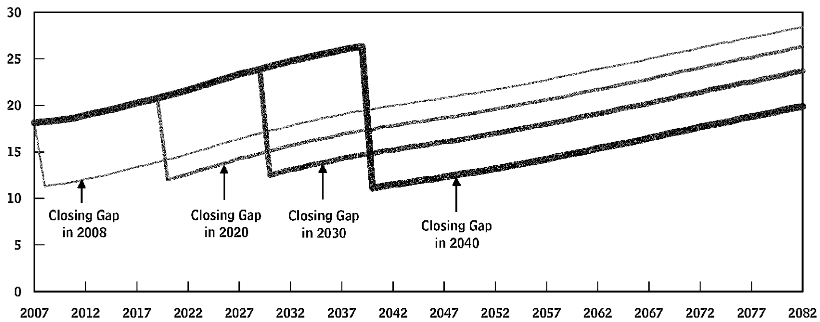
potential macroeconomic feedback effects. If policymakers wanted to close the fiscal gap in 2020 by altering spending (and economic feedbacks were not part of the calculation), they would have to reduce noninterest outlays permanently by 9 percent of GDP (see Figure 3). If they delayed action on the budget until 2040, to close the fiscal gap in that year, they would have to reduce noninterest outlays permanently by 15 percent of GDP. Waiting until 2040 to close the fiscal gap would allow spending to grow significantly before that year; however, the reductions required in spending in 2040 and in subsequent years would have to be substantial—and much larger than would have been necessary if action had been taken earlier (see Figure 4).

How soon the fiscal gap is closed will affect how much the government would have available to spend on various priorities. If the fiscal gap was closed in 2040, spending (excluding interest) in 2050 could be no more than 13 percent of GDP; if the fiscal gap was closed in 2020, by 2050, the available resources for noninterest spending could be as much as 19 percent of GDP. A similar logic would also apply if changes in tax policy were used to address budgetary imbalances: Delaying action would only increase the size of the tax increases that would eventually be needed to close the fiscal gap.

Figure 4.

Spending Excluding Interest Under Various Assumptions About Closing the Fiscal Gap in CBO's Alternative Fiscal Scenario

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Notes: The fiscal gap is a measure of federal shortfalls over a given period. It represents the extent to which the government would need to immediately and permanently either raise tax revenues or cut spending—or do both, to some degree—to make the government's debt the same size (in relation to the economy) at the end of that period as it was at the beginning.

The alternative fiscal scenario deviates from CBO's baseline projections during the next 10 years, incorporating changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

17

Chairman SPRATT. Thank you very much, Dr. Orszag.

Let me ask you a question about defense. You did not break anything out here. Just for clarification, this has become a very substantial item in the budget. And the base budget itself is substantial, but it is enlarged by the supplementals that we have been passing for the last several years.

What assumptions do you make about future defense growth and about the war supplementals in particular?

Mr. ORSZAG. In particular with regard to the supplementals for operations in Iraq and Afghanistan, we are basing these projections off of our March baseline. The amount of spending that is involved in the scenarios amounts to about a half a percent of the economy. So that is what is embodied in the long-term projections.

Chairman SPRATT. We gave you a couple of months ago two scenarios to cost out. One assumed a reduction in force levels to 75,000 troops in both theaters and a steady state at that level for the remainder of the ten-year period of time. I have forgotten your exact number, but it was just under a trillion dollars for that kind of commitment.

Is that the level of commitment represented by the half percent of GDP that you have incorporated in the forecast?

Mr. ORSZAG. It is not exactly equivalent. We have done different scenarios for you, we have done scenarios for Senator Conrad. This was not based on that kind of scenario analysis for the future, but rather just taking the outlays that occurred under the March baseline and extrapolating them forward.

You could get slightly different answers using the kinds of scenarios that we have prepared for you, but it is not going to substantially change, for example, that seven percent number. It may move it by a couple tenths of a percent of GDP.

Chairman SPRATT. The reason I ask that is that defense is one of those categories in the budget. Half of discretionary spending or more goes to defense today. That is one of the things that will be unsustainable at today's level if this budget indeed goes forward or at least it will be in conflict with other priorities in the budget, other budget objectives. And what is left over once you put healthcare and Social Security together is not much to sustain defense and other things that are typically looked upon as the fundamental functions of the budget.

Mr. ORSZAG. And I would just again say if we stay on the same path, especially with regard to healthcare spending, we face basically only two alternatives. One is an increase in revenue well beyond anything that the United States has seen in terms of historical norms and/or some combination with a very substantial reduction in the other things that the Federal Government does.

And I would also note you cannot squeeze those other things hard enough to actually pay for the projected increases in spending. When you look at the whole part of discretionary spending, both nondefense and defense, even if you reduce them to implausibly low levels, that would not finance the projected increases in healthcare spending over the next 75 years.

Chairman SPRATT. There are other projections out there, none as recent as yours, but the Government Accountability Office has done projections of the economy. They have developed a 50- to 75-year fiscal gap number. The Medicare trustees have developed their own numbers. And while the differences do not look great, over a period of time, they are pretty significant.

The trustees, for example, of Medicare and Social Security project the 75-year Social Security shortfall to be 1.95 percent, just under two percent of payroll. I believe you have got 1.8 percent of payroll.

Mr. ORSZAG. Yes, sir.

Chairman SPRATT. How do you account for those differences? Where do they differ in projecting the future from how you are predicting it?

Mr. ORSZAG. I would note first that there had been more significant differences several years ago between us and the actuaries. The differences now are actually relatively modest over a 75-year period and they have to do with different real interest rate assumptions, different real wage growth assumptions, a whole variety of different things.

The difference between 1.8 and something closer to two is not something that I would stake policy conclusions on. They both show some imbalance in Social Security's finances over the long term.

Chairman SPRATT. What is the difference in Medicare?

Mr. ORSZAG. There is a more substantial difference. For the Medicare Hospital Insurance Program, Part A of Medicare, we project a 75-year actuarial imbalance of 5.4 percent of taxable payroll and the actuaries are at about three and a half.

That has to do with the fact that as noted in our long-term health outlook, we have over the long term a higher trajectory for healthcare spending than the trustees do, in part because under their assumptions, they constrain that so-called excess cost growth factor, which has to do with how rapidly costs are rising per beneficiary, to an average of one percent between year 25 and year 75. And that is very substantially lower than the historical average over the past three or four decades.

Chairman SPRATT. Would you take just a minute, I think everybody understands it, but just to address the difference between a prediction and a projection?

Mr. ORSZAG. Yes, sir.

Chairman SPRATT. In particular, what you are projecting here would never be attainable. The markets would fall apart and our economy would fall apart before we ever got to the percentages you are talking about. What you are doing is projecting rather than predicting because realistically those predictions we would never attain.

Mr. ORSZAG. That is right. We are supposed to present the implications of unchanged Federal policy. That unchanged Federal policy or current Federal policy is unsustainable and, therefore, the implications cannot occur.

It will not be the case that we will reach debt-to-GDP ratios at three, four, five hundred percent of the economy. You will not be able to sell additional debt if you come anywhere close to that.

So the point of these scenarios or projections is to illustrate the consequences of the path that we are on, not suggest that that is what will occur because ultimately the Congress and the President will have to act to avoid those consequences from occurring.

Chairman SPRATT. Now, let me ask you about something we discussed often here and we will be confronted with increasingly as we approach the December 31, 2010, and a reconsideration of the tax cuts that were passed in 2001 and 2003.

At the end of the 1990s, the Federal Government was beginning to realize some significant budget surpluses and was on the path towards paying down, in fact did over three fiscal years pay down the national debt, about three or four hundred billion dollars.

Part of the rationale for accumulating surpluses was to save for the entitlement future that we are now facing. The surpluses have been dissipated and we have accumulated more debt than any time in recent history.

Can CBO estimate somehow, can you break out somehow the significance of the tax cuts? Can you estimate what percentage of the fiscal gap that we are now seeing, that you are now describing is caused by those tax policies and by leaving those tax policies in place over the forthcoming 75 years?

Mr. ORSZAG. Well, the answer would be sensitive to whether you also assume that alternative minimum tax is reformed or not because there is a very important interaction between the alternative minimum tax and the 2001 and 2003 tax legislation.

If the alternative minimum tax remained in place and, therefore, increasingly took over the Tax Code, the present value of the 2001 and 2003 tax legislation in terms of its impact on revenue is something about one percent of the economy or maybe one to 1.5 percent of the economy.

With the AMT not taking over the Tax Code, the total effect is closer to two percent of the economy, so you could compare those results to the roughly seven percent fiscal gap that we presented.

Chairman SPRATT. We may want to get some further clarification from you and we will submit something for the record.

I have some more questions, but others have them as well, so let me yield now to our Ranking Member.

Mr. RYAN. Thank you, Chairman.

Peter, let me go into your table two in your book or I think it is in your testimony as well. And you are showing in your alternative fiscal scenario in the year 2050 41.8 percent of GDP for primary spending with interest, total spending.

Mr. ORSZAG. Total spending, right.

Mr. RYAN. Yes, total spending. In your projections, do you not project a slowing of the growth of the health spending in the out years?

Mr. ORSZAG. Yes, we do.

Mr. RYAN. And the trustees do the same as well, correct?

Mr. ORSZAG. Much more aggressively.

Mr. RYAN. Yes. Why?

Mr. ORSZAG. The reason that there is some slowing in our projections is twofold. The first is that there is some scope for regulatory, that is nonlegislative cost reductions, and also the higher cost sharing that will come through as premiums and other things go up will likely constrain cost growth to some degree in Medicare.

In addition, even in the absence of Federal policy changes, we believe that ultimately, consumers, households, and employers will push back on ongoing healthcare cost growth when it starts to consume a larger and larger share of their budgets.

Mr. RYAN. Okay. So you believe absent any change in law by Congress that consumers are price sensitive actors?

Mr. ORSZAG. The medical system will ultimately evolve so that healthcare does not crowd out consumption of cars and what have you.

Mr. RYAN. So there is a threshold in a consumer's mind at which they do not want to cross and so when consumers see more of their own out-of-pocket expenses, their own cash being exposed, they are going to act rationally and cut back on costs.

So you believe there is elasticity here? There is a point at which consumers are going to say, look, I have my own skin in the game and this is too much and I am going to cut back. And you are putting that under the assumption that is slowing the inflation of healthcare. Is that what you are basically saying?

Mr. ORSZAG. Not just consumers, but employers and other actors. But, yes, consumers. The evidence does suggest that people respond to higher cost sharing, for example, and that does reduce healthcare expenditures and the evidence suggests it reduces it in a way or reduces them in a way that does not actually harm health outcomes.

Mr. RYAN. Okay. So what would the total spending as a share of GDP be if we just took the current baseline and extended it without this assumption that consumers are going to—if we just do a static analysis and carry that out, what would the share of GDP be then?

Mr. ORSZAG. By the end of the 75-year window, healthcare would be a hundred percent of the economy and then it would be there thereafter.

Mr. RYAN. And in 2050?

Mr. ORSZAG. It will take me a second.

Mr. RYAN. Mid century, I am just kind of curious.

Mr. ORSZAG. Just give me a second. It is about 50 percent or so if I drew the line straight.

Mr. RYAN. So this projection, and the trustees as well are using some form of a dynamic analysis, which is consumers are rational, price-sensitive actors, they and employers as well are going to make adjustments when they have exposures basically to read into this baseline?

Mr. ORSZAG. CBO's analysis and other official analysis always take into account some microeconomic response to shifts in the world. The word dynamic is sometimes used to apply to a macroeconomic response and that is not present in these projections.

Mr. RYAN. Let me ask you. Since we obviously compare, percent of GDP is probably the most accurate measurement we use. If you take a look at the OECD, which has done a lot of work on this, comparing all industrialized nations, they generally show that countries with higher total government receipts relative to their GDP, which is sort of a proxy for the government's footprint on the economy, tend to have slower real economic growth.

Over the past decade, the five countries with the highest share of government receipts average about 2.7 percent of real GDP growth. The five countries with the lowest share of government receipts average 3.6 real GDP growth.

What do you think about those findings and do these data tell you that if we aim to balance the budget, we should do so at a lower, rather than a higher level of taxes as a percentage of GDP?

Mr. ORSZAG. Couple comments. First, cross-country comparisons are often very difficult, so I would just urge a little bit of caution in those.

Mr. RYAN. But that is why you go to percentage of GDP is the most accurate apples-to-apples comparison; is it not?

Mr. ORSZAG. It is the most accurate comparison. But even when you are doing shares of GDP, tax systems can vary, the types of revenue that is used to finance government spending can matter. There are lots of things that can matter.

What I would say is it is clear that first the path that we are on with the exploding government debt path, especially under the alternative fiscal scenario, imposes a very large cost on the economy.

Secondly, that in terms of the mix between spending and revenue, the results do depend sensitively on the types of spending or the types of revenue, but generically it is true that reductions in spending usually involve lower macroeconomic consequences than increases in revenue. But the details matter a lot and that is not a general conclusion that is applicable in all settings.

Mr. RYAN. Okay. Well, your predecessor, Doug Holtz-Eakin, used to say that government spending, whether it is paid through taxes or borrowing, drains economic resources that could otherwise promote growth.

Do you generally agree with that view?

Mr. ORSZAG. It depends on the type of spending.

Mr. RYAN. Okay. So you have a distinction with that view.

One more question. Your current law revenue baseline assumes that the 2001 and 2003 tax laws expire, the AMT expands under current law. That is the revenue baseline that is being used for the current PAYGO rule.

Just to be clear about the effects on the average taxpayer under the current PAYGO system, under the current baseline we use, what happens to the child tax credit, which is at a thousand per child?

Mr. ORSZAG. After 2010, it falls back to its previous level of $500.

Mr. RYAN. What is the estate tax? What happens with the estate tax?

Mr. ORSZAG. The estate tax reverts to its previous level of a threshold of a million dollars with a 55 percent tax rate.

Mr. RYAN. A million or 600,000? Is it a million? I thought it was 600.

Mr. ORSZAG. We will get back to you.

Mr. RYAN. Okay. What happens to cap gains and dividends?

Mr. ORSZAG. They revert back to their previous levels also.

Mr. RYAN. And then what percentage of taxpayers would ultimately be paying under the AMT under this baseline?

Mr. ORSZAG. At the end of the 75-year window, you would have 75 percent of taxpayers on the AMT.

Mr. RYAN. Or households?

Mr. ORSZAG. On the AMT.

Mr. RYAN. All right. Well, I appreciate the generosity of the Chairman on the time. Thank you.

Chairman SPRATT. Thank you, Mr. Ryan.

Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman

First, two announcements. I would invite any colleague who is alarmed by what Peter has told us to cosponsor the so—called “Cooper-Wolf Safe Commission Act,” a bipartisan commission to present the next President with a plan for solving some of these problems so we can take action. The bill number is H.R. 3654. I would invite your participation.

Also, on December 15th, in just a few days, the U.S. Treasury Department will be issuing a financial report for the United States government, the only audited numbers we face.

And the Federal employees in the room may be interested to know that still when Peter says that the deficit is only slightly above one percent of GDP and we should acknowledge that that does not include things like the retirement and health liabilities of our own Federal employees, but the financial report, the document that is about to come out in a few days does address those things, situations that would be criminal violations if they occurred in the private sector, but we continue to allow this to go on at this level.

I am glad, Mr. Chairman, you are having this hearing. To me, these are the most important issues we face because they determine all other issues. They determine all defense spending. They determine all healthcare spending. They determine the future of America.

And to me, the most important sentence that Peter used was when he said under any plausible scenario, our course is unsustainable. In Tennessee language, that would mean you would have to be a damn fool not to believe we are sinking fast here.

Now, Peter cannot use such language. I can. But this is real stuff. And the Chairman may call it apocalyptic. Peter said under any plausible scenario, our path is unsustainable.

So you use very erudite percentages of GDP, things like that. You are remaining true to your calling and your profession. That is great.

Can you quantify some of this? What is 6.9 percent of GDP? How many billion dollars is that?

Mr. ORSZAG. Today given an economy of about 14 or $13 trillion, that would be north of $900 billion.

Mr. COOPER. So close to a trillion dollars?

Mr. ORSZAG. Right.

Mr. COOPER. And this is a present value number we would have to have in the bank today earning interest to pay out the shortfall primarily in just a couple of healthcare programs?

Mr. ORSZAG. Yes.

Mr. COOPER. Okay. You also point out in your excellent testimony the cost of delay. If we act in 2008, that is a lot cheaper than acting in a later year.

Mr. ORSZAG. Yes.

Mr. COOPER. You used 2020. What is the cost of delay? What does each year of delay cost us?

Mr. ORSZAG. Well, I could calibrate that in different ways. I guess delaying from 2020 to 2030 increases the reduction in spending by five percentage points. So each year of delay, roughly speaking, is another half a percent of reduction that is required. There are lots of ways of calibrating these.

Mr. COOPER. But it is on the order of, if it is a half a percent of GDP today, that would be on the——

Mr. ORSZAG. Well, that is spending. That is not GDP.

Mr. COOPER. Okay. But hundreds of billions of dollars of cost per year of delay?

Mr. ORSZAG. There is no question that each year of delay significantly adds to the cost of acting.

Mr. COOPER. And total congressional discretionary spending for this year will be what, 900 and something billion dollars?

Mr. ORSZAG. Something like that, yes.

Mr. COOPER. So just the cost of delay will be a big percentage of the total work of Congress every year, just the cost of delay.

I would like to explore with you too. It seems to me a lot of my colleagues do not realize that if you use the ship analogy, it is not whether we hit the iceberg, we have. The only question is, how fast the ship is sinking.

And I think that we are not noticing some things. For example, the Medicare SGR fix. We patch that, year in, year out, but the U.S. Treasury Department has estimated a real fix for that would cost $5 trillion. That is a big number.

AMT fix. We fix it, patch it year in, year out. A real fix for that is in the trillions.

So we are not noticing the genuine cost of these problems. We are just patching it year in, year out, limping along, trying to get by, hoping people do not really notice. That to me is deliberate blindness.

And I see, Mr. Chairman, my time is running out. I hope we can have time for a second round of questions. I thank you, Mr. Chairman.

Chairman SPRATT. I have the unpleasant duty of announcing that there are four votes pending, one of which is a 15-minute vote. We will keep going down until about three or four minutes, but let us move ahead. And then with the indulgence of our witness, we will come back as quickly as we can.

Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman. And, again, let me add my voice to the chorus of those thanking you for holding a very, very important hearing.

Dr. Orszag, please forgive me. You had a lot of numbers and some very sobering concepts and projections here.

Just to make sure I understand it, if we by 2050 under current baseline were attempting to balance the budget by tax increases alone, today I believe the figure is that we are taxing at roughly 18.7 percent of our economy, just what is the magnitude of the tax increase that would be necessary under your projections if we simply wanted to tax our way out of this problem?

Mr. ORSZAG. Again, it would depend whether you did anything before that. But if you did not do anything before that, the tax share of the economy would have to be somewhere between 28 and 42 percent.

Mr. HENSARLING. Between 28 and 42 percent——

Mr. ORSZAG. Right.

Mr. HENSARLING [continuing]. From roughly 18.6, 18.7 percent of the economy?

Mr. ORSZAG. That is correct. And that difference depends on what you are doing to the revenue code and a few other things in between now and then.

Mr. HENSARLING. So if we split the difference between the 28 and 42 percent, what we would end up concluding is that, would we not conclude, that from 18 to, say, 36 that we would have to roughly double the level of taxation on American people if we simply wanted to tax our way out of this problem? Is that a fair conclusion?

Mr. ORSZAG. Yes.

Mr. HENSARLING. We often talk about billions and trillions here. But if you were to look at the tax burden on the average American family making median income, can you translate that into a number as far as the tens of thousands of dollars of tax increase that may go to a family making median income? Do you think you could do a back of the envelope calculation there?

Mr. ORSZAG. Sure. A married couple with two kids currently pays an income and payroll taxes of approximately 16 percent of their income. Their income is about $90,000, so that is what, 14,000 or so in taxes. And you can then scale that up if you so choose.

Mr. HENSARLING. Okay. Thank you. Dr. Orszag, I believe that what I am hearing from you is that our greatest fiscal challenge does come from entitlement spending, principally the healthcare component of that entitlement.

Mr. ORSZAG. Yes, sir.

Mr. HENSARLING. Is that a fair assessment? Recently in this particular Congress, we have now passed H.R. 976, SCHIP; H.R 2419, form "Nutrition Bioenergy Act;" H.R. 2669, "Higher Education Access Act." There appear to be at least six to seven different acts that we passed that by my reckoning have actually added to the burden of entitlement spending. H.R. 976, 127 billion; H.R. 2419, 20.8 billion over ten; H.R. 2669, 16.3 billion over ten.

Have you looked at the increases in entitlement spending that have been passed by this House and, if so, does your figure comport with my figure that we have just added to the burden over the next ten years of entitlement spending by $178.6 billion?

Mr. ORSZAG. We have scored legislation that has passed the House. I have not added them together in the way that you apparently have.

Mr. HENSARLING. If we are just simply looking at the long-term fiscal challenge of the nation, if this became law, have we just made the situation better or worse?

Mr. ORSZAG. If what?

Mr. HENSARLING. If these acts become law. You say you have scored these. Do you know if you have scored them as adding to the entitlement burden or lessening the entitlement burden?

Mr. ORSZAG. There are many things that have passed the House that increase spending, but are also offset, for example, through additional revenue. So the net budget impact typically is zero even though both spending and revenue are then higher.

Mr. HENSARLING. I see I am out of time. Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Hensarling.

Mr. Becerra.

Mr. BECERRA. Dr. Orszag, thank you very much for your testimony and your sobering words.

Let me ask. I know that during the depression, the great depression, we had any number of people in America who were destitute, having a difficult time, and that included people who were seniors, retired, no longer working, and in many cases, suffering worse than those who were of working age because they were beyond their years and had to make ends meet without any particular financial support.

President Roosevelt enacted Social Security to address those dire circumstances that so many older Americans faced. And to this day, Social Security has continued to pay benefits, never missing a day of paying benefits to people, and I think continues to pay benefits beyond the 75-year threshold with some adjustments all the way to the hundred percent benefit that most people expect.

Medicare, which came into being in the mid 1960s, was also an effort to try to address the problems that seniors were having in coping with the cost of healthcare in their retirement so that their entire pension would not be used to pay for their healthcare in their golden years.

These are programs that have become essential, I think, to most seniors living in dignity in their retirement. There are some pretty scary numbers that we see.

I want to make sure I understand something. You are not saying we should eliminate Social Security and Medicare, are you?

Mr. ORSZAG. No. I did not use the word should on anything other than you should act to avoid this problem.

Mr. BECERRA. And so the crisis here is in our expenditures and managing our expenditures. And you had some interesting charts at the end that talked about what we have to do to try to manage the cost of healthcare, whether it is in the public sector, meaning Medicare or Medicaid, which is healthcare for low-income individuals, including many seniors, or whether it is in the private sector through whatever the marketplace offers people for individual insurance or otherwise.

A question for you. I know that other developing countries have far lower cost in their healthcare for their people and unlike the U.S. where we have some 47 million who do not have health insurance, they are able to provide a hundred percent coverage to their people for healthcare access. In many cases, we find the standard of living higher in some of these industrialized countries, principally in Europe, who offer healthcare and other social benefits to their population.

What are we doing wrong on healthcare that they are doing right that their costs in some cases are lower by a factor of 50 percent? And can you give us any comments about what we should be doing to try to reduce our cost?

Mr. ORSZAG. First note that on that chart I showed you with parts of the United States, there are parts of the United States, Minneapolis, for example, that are delivering healthcare at costs comparable to many of those comparison countries in a quality that is also comparable. So there are parts of the U.S. that are delivering healthcare in a way that seems relatively good compared to other systems.

I would say the fundamental problem in the nation's healthcare system is that we have financial incentives, strong financial incentives for more care rather than better care. And that is on both the provider side and the consumer side.

And until we spend more time and effort figuring out what is better care and then aligning financial incentives so that we are delivering better care rather than more care, we are going to be spending more than we need to to obtain the results that we hope for.

Mr. BECERRA. Thank you. Turning now to the debt because I want to make sure that as we focus on Social Security, Medicare, Medicaid, we do not lose track of the size of the debt, the interest payments we make on the debt that we have.

On Social Security one last point. At least 40 percent of today's seniors would be living in poverty if they did not have Social Security. Today the poverty rate for our seniors is about ten percent. So some 13 million seniors are lifted out of poverty simply by the fact that we have provided their health and retirement benefits into the future through programs like Social Security and Medicare.

But on the debt, I know over the last five to seven years, the size of the national debt has skyrocketed. And I know that part of that is due to the fact that we have had tax cuts from the President that have been unpaid for, in essence paid for by deficit spending, by borrowing.

If we cannot sustain this level of debt, can we sustain programs that continue to go through this Congress, whether tax cuts or spending programs, that are not paid for so that we try to keep a balance to our budget?

Mr. ORSZAG. I guess my response is the logic of the PAYGO rules that you have adopted is to avoid making the problem worse, in the face of this very substantial long-term fiscal problem that you already have. And that is what PAYGO does. It at least avoids digging the hole deeper in the face of an already substantial long-term hole.

Mr. BECERRA. Thank you.

Thank you, Mr. Chairman.

Chairman SPRATT. The Committee will stand in recess pending the votes on the floor at which point, we will resume. We appreciate it.

[Recess.]

Chairman SPRATT. I believe the last member to pose question was Mr. Becerra. Mr. Conaway is not here, so we will go to Mr. Doggett.

Mr. DOGGETT. Thank you so much for your testimony. I realize that you are here more in the diagnosis business than the prescription of treatment, but I want to talk a little bit since you have been discussing healthcare beginning there, focusing on what the effect of some policy alternatives would be on the scenario that you have described.

Now, a number of our colleagues for years followed the approach advocated by former Speaker Newt Gingrich that one solution was to let Medicare wither on the vine.

If we take that approach and let Medicare and Medicaid perhaps wither on the vine, will that solve our healthcare problems in the country or will it simply shift the burden greater on to individuals if we significantly limit Medicare and Medicaid?

Mr. ORSZAG. Well, again, it depends, I suppose, what one means by withering on the vine. CBO has previously noted that, for example, if all you did was tried to reduce payment rates in Medicare and then sustained that out over time that what you would likely wind up doing is creating significant access problems under the programs because hospitals and doctors would be less likely to treat or be willing to treat Medicare and Medicaid patients.

And so ultimately we need to get at that excess cost factor, the rate at which healthcare costs are growing, and that will require the types of things I mentioned before, additional information and changes in financial incentives both under Medicare and Medicaid and in the rest of the health system.

And I think it is unrealistic to think that you are going to just clamp down on Medicare payments, for example, and then sustain that out over a very long period of time without having the problem crop up somewhere else.

Mr. DOGGETT. We have to focus not just on the whole patient but the whole healthcare system in looking at the future of health and our ability to sustain that system.

Mr. ORSZAG. And in particular, one needs to be thinking about the effect of policy changes on Medicare and Medicaid in terms of what their impact is on the rest of the system.

So, for example, when we move to DRG payments, a fixed payment per inpatient hospitalization in Medicare, the incentive was to then shorten hospital stays for Medicare patients. We wound up shortening hospital stays for all patients because that changed the way hospitals practiced medicine.

One needs to be thinking about those sort of follow-on effects which are crucial to the sustainability of policy changes.

Mr. DOGGETT. And realizing we cannot solve all of these problems with just one proposal, there is no panacea.

This year, as you know, I serve on the Health Subcommittee on Ways and Means dealing with the Medicare portion of this. As we have tried to contain cost so that we had what we called our CHAMP Bill that you are familiar with and your office would have been involved in scoring, we applied PAYGO, we paid for all of it, and we did that by addressing where we saw some of the most excessive cost, which was in the Medicare Advantage Program, and by trying to deal with other particular cost issues such as the way kidney patients are handled, such as the way oxygen is handled.

Every one of those efforts that we made to contain cost has run into a buzz saw of objection. So it is not as if this Congress, particularly the House, has not already attempted to deal with some of the cost issues.

Let me ask you first, over the short run and for that matter the long run, do you believe that maintaining our PAYGO rules and ensuring when we are dealing with changes in the Medicare system that we pay as we go, when we make changes in our tax system that we apply PAYGO? Is that important to addressing both the short-term and the long-term concerns that you have raised in your testimony today and last week?

Mr. ORSZAG. Again, PAYGO helps to ensure that the problem does not get worse and so it avoids digging the hole deeper.

Mr. DOGGETT. And in terms of trying to get out of the hole, what are some of the alternatives? We have discussed comparative effectiveness on prescriptions. We have looked at that and more result-oriented medicine for physicians.

Are there proposals that you see out there we might begin to implement sooner rather than later, might do additional demonstration projects in to see if we can find a way to contain healthcare costs without significantly reducing either the quality of service or the access of those services to Medicare recipients?

Mr. ORSZAG. Let me say two things. First with regard to demonstration projects, I would urge policy makers to consider whether the design of the demonstration projects that CMS currently does is actually ideal for learning anything about what works and what does not. I think a much greater emphasis on designing the demo projects in a way that actually then teaches us about what works and what does not could prove to be significantly beneficial.

Beyond that, I would also say CBO during 2008 will be spending significant resources internally on developing a health options volume for you so that we will march down all the things that people talk about, care coordination, disease management, health information technology, and so on and provide some insight into our thinking on what dials can be turned in order to generate budgetary effects.

So I do not have a full answer for you right now, but one of the reasons that I am bulking up our health staff is to be able to provide better answers to you and better options for you next year.

Mr. DOGGETT. Just one more, if I may. Yesterday in the op-ed that you had in the Wall Street Journal, which I would hope could be made a part of our record on this, you commented that many analysts believe that significantly constraining the growth of costs for public programs while maintaining broad access to hospitals and doctors under them will be possible only in conjunction with slowing costs in the health sector as a whole, much as what you said in response to my earlier questions.

Could you just elaborate a little more about the possible adverse consequences of trying to constrain growth in the public sector health programs like Medicare and Medicaid without slowing healthcare costs economy-wide?

Mr. ORSZAG. Yes. Again, the objective has to be that when you try to slow growth in Medicare and Medicaid, you then also achieve slowing of growth in the rest of the health system and thinking about that sort of follow-on effect.

In the absence of that, if you just clamp down on the growth rate and payment rate, for example, in Medicare, and payment rates in the rest of the health system continue to grow unabated, doctors and hospitals will look at the compensation for treating a Medicare patient versus other patients and say I am not that interested in treating Medicare patients, for example.

Mr. DOGGETT. Thank you very much.

[The Wall Street Journal article referred to follows:]

[From the Wall Street Journal, December 12, 2007, Page A19]

The Biggest Budget Buster

By PETER R. ORSZAG

The nation's economic outlook may look troubling in the short run, but these difficulties pale beside the economic consequences that will follow if we don't address the nation's long-term fiscal gap—or the prospective mismatch between projected spending and revenues.

The fiscal gap does not arise, as many believe, primarily from the coming retirement of the baby boomers. Rather, the rate at which health-care costs grow will be the primary determinant of the nation's long-term budget picture.

A congressional hearing tomorrow will focus on new long-term budget projections from the Congressional Budget Office. CBO projects that under current law, Federal spending on Medicare and Medicaid measured as a percentage of gross domestic product will rise to 12% in 2050 and almost 20% around 2080 from 4% today. The bulk of that projected increase arises from steadily growing health-care costs per beneficiary.

The aging of the population, although a less important factor, will exacerbate the fiscal pressures created by rising health-care costs. For example, largely reflecting demographic changes, spending on Social Security in 30 years will increase to 6% from about 4% of GDP today, and then roughly stabilize thereafter.

Such increases in spending associated with both aging and increased health-care costs—unless matched by significant reductions in other spending or increases in revenues—would ultimately create outsized budget deficits that would raise government debt to unprecedented levels.

Even if substantial future budget deficits could be financed by issuing additional debt, they would seriously harm the economy by reducing national saving and national income. Averting such economic damage will ultimately require some combination of less spending and more revenues than what is now projected.

The bottom line is that while we need to address the effects of the coming retirement of the baby boomers and the projected imbalance in Social Security, we have to pay even more attention to the health-care costs that exert the dominant influence on our fiscal future. Policy makers will face both challenges and opportunities in trying to reduce these costs.

Over long periods, the cost growth per beneficiary in the Medicare and Medicaid programs has tracked cost trends in private-sector health-care markets. As a result, many analysts believe that significantly constraining the growth of costs for the public programs while maintaining broad access to hospitals and doctors under them will be possible only in conjunction with slowing cost growth in the health sector as a whole. The interactions between Medicare and Medicaid and the rest of the health system can complicate long-term efforts to reduce costs.

But it's too soon to conclude that the fiscal picture is hopelessly dismal. There remains the promising possibility of restraining health-care costs without incurring adverse health consequences. It may even be possible in some cases to reduce cost growth and improve health at the same time. Costs per beneficiary in Medicare, for example, vary substantially across the U.S. for reasons that cannot be explained fully by the characteristics of the patients or price levels in different areas.

High-spending regions do not generate better health outcomes, on average, than the lower-spending ones. When health care at some of the nation's leading medical facilities costs half as much as care at other top-rated facilities for the same types of patients, something must be wrong with the system. Some academic research suggests that national costs for health care can be reduced by perhaps 30% without harming quality.

Understanding the reasons for such differences and finding effective ways to reduce them while ensuring high-quality care will not be easy. Potentially promising approaches include generating more information about the relative effectiveness of medical treatments, and enhancing the incentives for providers to supply, and consumers to demand, better care, rather than just more care.

Moving the nation toward a more efficient health system inevitably will be a process in which policy steps are tried, evaluated and maybe reconsidered. Beginning that arduous process now is essential to securing the nation's long-term economic future.

Mr. Orszag is the director of the Congressional Budget Office.

Chairman SPRATT. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Dr. Orszag, we are trying to deal with this AMT problem and it seems to me that a lot of the AMT problem was predictable because we passed the tax cuts knowing that there would be an AMT problem, and that was part of the scheme.

You pass a trillion dollar tax cut and you phase it in, phase it out, do not pay for the AMT, figuring that when the time comes, we will fill in the gaps. We put in a down payment of about 300 billion on the tax cut and now we are kind of filling in the gaps, the AMT being one.

If the tax cuts were to expire, how much of an AMT problem would we have?

Mr. ORSZAG. The AMT problem is significantly less extreme in the absence of the 2001 and 2003 tax legislation. And the reason again is that people wind up on the AMT when their AMT liability is higher than their regular income tax liability. So as you reduce regular income tax rates, more people are shifted on to the alternative minimum tax.

Mr. SCOTT. So we could equalize it when we get there and make sure that if we have a tax cut, it is paid for without the AMT.

I notice that your analysis did not include interest on the national debt. That is one of the fastest-growing parts of the Federal budget. It is already what, a couple of hundred billion dollars.

And according to the chart on your testimony at page five, by 2030, it goes from 1.7 to 4.8 percent under the alternative, page five, under the alternative fiscal scenarios, 2007 is 1.7; 2030 is 4.8 percent. It triples the interest on the national debt which would put it in the 700, 800 percent range.

How do you do a budget? In your charts on page three, shouldn't interest on the national debt be part of that chart?

Mr. ORSZAG. You know, you could always add interest spending on top of so-called primary spending, that is noninterest spending. The reason that analysts sometimes or often examine primary spending is that is what drives the debt dynamics.

So if noninterest spending exceeds revenue, you wind up with rising debt and vice versa. And the debt dynamics just follow. You can present the figures in terms of overall government spending. And as you note on table 12, that is what we do.

Mr. SCOTT. Well, on table two, you also show that the kind of so-called primary, we actually have a surplus, but you did not have interest on the national debt. But since you have run up interest on the national debt, we have actually a deficit, so we are adding to the debt.

Mr. ORSZAG. Correct.

Mr. SCOTT. So I mean, it is not something you can ignore. As a matter of fact, it is the first thing you have got to pay.

You just finished answering a healthcare question where if we fix Medicare and Medicaid, others will follow. I have a question of kind of who is following who.

The healthcare problem is not a Medicare and Medicaid problem. It is a general problem. Everybody's healthcare, everybody in the private sector is going up.

Is there any credible way to fix to Medicare and Medicaid growth curve without doing something about healthcare generally?

Mr. ORSZAG. Again, only to the extent that the changes you make to Medicare and Medicaid spill over and also help to constrain growth in the rest of the health sector will those changes in Medicare and Medicaid ultimately be sustainable because if not, you will create huge access problems.

Mr. SCOTT. Who is driving what? I mean, it seems to me the private sector healthcare drives the cost of Medicare and Medicaid. And as you suggested, if it gets too far out of whack, people just will not take Medicare and Medicaid. And you have had that scenario plenty of times.

Mr. ORSZAG. One of the complexities in health policy is these complicated interactions between the public and private parts of the system. So it goes in both directions.

Mr. SCOTT. Okay. Well, what is the experience and cost control in Medicaid and Medicare? Is it better or worse that the private sector?

Mr. ORSZAG. Over long periods of time over the past three to four decades, excess cost growth, which is the best way of measuring these things in Medicare and Medicaid, have closely tracked cost growth in the rest of the health system. So on average, they have been growing at about the same rate.

Mr. SCOTT. Is there any way to get hold of it without going to a single payer plan?

Mr. ORSZAG. Any way to get hold of what?

Mr. SCOTT. The growth in healthcare costs.

Mr. ORSZAG. Again, I think the answer to that is yes. There are different models. The fundamental problem that we face is that we lack information, adequate information on what works and what does not. And we have financial incentives to provide more care both for providers and consumers rather than better care.

And that combination of a lack of knowledge and then financial incentives just for more care rather than more efficient care or better care leads to rapid growth in spending and also to spending levels that are higher than they need to be to deliver health quality of whatever level.

Chairman SPRATT. Maybe we should give people some kind of bonus if they retire in Minneapolis instead of Miami.

Mr. McHenry.

Mr. MCHENRY. Thank you, Mr. Chairman.

Dr. Orszag, I appreciate your editorial from yesterday and I know it has been referenced. But is there such thing as a prohibitive tax rate, a tax rate that reduces productivity, stagnates the economy? Is there such thing as a prohibitive tax rate?

Mr. ORSZAG. I think everyone would agree a hundred percent would have a very negative effect on incentives.

Mr. MCHENRY. Okay. But short of that.

Mr. ORSZAG. Sure. The question becomes where the line is. And as tax rates rise, especially marginal tax rates, the distortions to incentives become more severe. I do not know that I can give you a, you know, cliff where the world falls apart as opposed to it just becoming gradually more severe.

Mr. MCHENRY. But a jump in tax rates. For instance, taxes that may go up 50 percent, does that have a harmful effect on the economy and productivity?

Mr. ORSZAG. An increase in marginal tax rates does harm incentives and does negatively affect productivity. On the other hand, one does need to think about what that is financing. And to the extent it is reducing a deficit, there is a corresponding economic benefit from eliminating that deficit.

And actually CBO's analysis suggests that the most important thing is to get rid of the deficit and exactly how you do it is typically of less consequence than the economic impact of allowing the kind of runaway deficits that are present under the alternative fiscal scenario.

Or another way of putting it is you typically do not get effects on future national income by 2050 of 25 percent, which is the impact of the additional debt under the alternative fiscal scenario from any plausible way of trying to close that gap.

Mr. MCHENRY. Okay. Alright. So my next question was going to be about the deficit, but you have already touched on that very good.

But going to the debt, you know, we know that the deficit has an enormous multiplying effect on the debt. We are adding to the debt every day when we have a deficit, thereby if we balance the books, the debt scenario long term is less harmful.

What is the effect of long-term debt, of our long-term national debt?

Mr. ORSZAG. Yes. Additional debt has a harmful effect both on the accumulation of productive investment at home, that is like investment in computers and physical plants and equipment, and also in terms of how much we borrow from abroad and the liability that we then owe to foreign creditors.

Mr. MCHENRY. Well, certainly I know that is fact. But in terms of productivity, what does our tax structure, our structural deficit, and our debt do to productivity in this country and what can we do to actually increase productivity and investment in increasing productivity?

Mr. ORSZAG. The best single thing that we can do to increase future national income and, therefore, productivity and income growth between now and the future is to increase our national saving rate. And part of that has to do with improving the nation's fiscal balance, the Federal, state, and local side of things.

Part of it also has to do to encouraging private saving. And I think I mentioned at a hearing last week there is a growing body of research about what works to get households to save. And a lot of it has to do with making it easy and automatic for them to do so.

Mr. MCHENRY. Easy and automatic. And perhaps eliminating the Tax Code of disincentive that we currently have on savings.

Mr. ORSZAG. There is some effect from——

Mr. MCHENRY. Tax policy.

Mr. ORSZAG [continuing]. After tax rates, a return in tax policy. The research that I am familiar with suggests a far larger, more dominant factor really has to do with ease and simplicity, so things like being automatically in a 401(k) plan unless you opt out, trying to explore whether that is possible in an IRA setting, and other things like that so that households are doing what they want to do automatically and it is easy for them to do so.

Mr. MCHENRY. But certainly as secondary, you would have to admit it is tax policy?

Mr. ORSZAG. The rate of return and the after tax rate of return also does affect saving, yes.

Mr. MCHENRY. Okay.

Mr. ORSZAG. The question is just the magnitude, but, yes.

Mr. MCHENRY. The magnitude is the question?

Mr. ORSZAG. Right.

Mr. MCHENRY. Okay. Well, is there such thing as raising taxes so much that Federal revenue will go down? For instance, if we raise taxes in such a large way that the economy stagnates and thereby more people are on unemployment and not working and thereby not paying taxes, is that a prospect that we have to be concerned about?

Mr. ORSZAG. That is a theoretical possibility. I think all of the available evidence and analysis suggest we are not currently anywhere close to that threshold.

Mr. MCHENRY. Well, we are not currently, but you would have to say if we increase taxes in a massive way, that is one of the possibilities?

Mr. ORSZAG. Again, I would say it is a theoretical possibility, but——

Mr. MCHENRY. Theoretical possibility?

Mr. ORSZAG [continuing]. We are not close to that in reality currently.

Mr. MCHENRY. Currently. But then again, we have not raised taxes currently and the Tax Code is set in place for another two years.

Mr. ORSZAG. That is correct.

Mr. MCHENRY. Thank you.

Chairman SPRATT. Mr. Etheridge from North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Thank you for being here and thank you for your patience this morning when we were running about.

Let me make a quick statement and ask a question that gets back to our long-term as it relates to the cost of healthcare.

But our gross national debt now is what, about a little over nine trillion roughly?

Mr. ORSZAG. Gross Federal debt, yes.

Mr. ETHERIDGE. Alright. Since 2001, privately-held debt has grown by about 1.8 trillion, close to $2 trillion. Sixty-eight percent of that borrowing has been from foreign countries or foreign sources outside the United States which means since 2000, the Federal Government has borrowed $1.2 trillion from foreign sources, China, Libya, Saudi Arabia, on and on, whomever.

The Federal Government since 2000 has sent $709 billion plus or minus a few billion, I guess, abroad in the form of interest payments.

Now, my question is this, because that interest would have built roughly 12,000 new schools in this country, a lot of health clinics for our veterans. But my issue is this. As you accumulate debt, and part of this debt is for a host of reasons, some of it was tax cuts, some of it was spending, whatever, as you accumulate that, you send that revenue offshore. That bond or debt is held for a long period of time and it continues to grow.

Can you give me any indication of what that does to our ability to add to the gross domestic product in this country as you are sending dollars overseas? Historically when we sold bonds, we sold them to ourselves which internally helped growth.

Mr. ORSZAG. I guess what I would say is that running deficits does impose adverse consequences on the economy. You can try to measure that in various different ways. And I know that interest payments might be a salient way of doing it.

But the fundamental economics of it is that Federal deficits and the accumulation of Federal debt both crowds out investment here and also increases borrowing from abroad both of which reduce future national income, either because we are less productive in the future, because we do not have as many computers, or because we owe liabilities to foreigners and so we have to share some of the returns to our computers with foreign creditors.

Mr. ETHERIDGE. So I guess I am trying to get a feel, and you might not be able to answer this one today, is debt in itself has a weight. But does that weight vary differently whether it is handled internally or externally?

Mr. ORSZAG. Yes. Not to our first approximation. And, in fact, some economists argue that given the history of our foreign borrowing that we have been able to effectively pay a lower rate of return through changes in the dollar and other factors to foreign creditors.

I would say to a first approximation, the economic consequences of running a Federal deficit of X percent of the economy are roughly similar regardless of whether those debts are domestically financed or externally financed.

Mr. ETHERIDGE. Okay. Let me move to the healthcare piece very quickly in the time left.

My question, we have been talking about Medicare and Medicaid and the growth and we are all aware that we have got to deal with it. But I guess my question is, why is the cost of healthcare in America rising so much more rapidly than in some of the other industrialized nations who really do not expect a comparable increase and what are the policy implications in other countries? Why are they so different than what they are here in the United States?

Mr. ORSZAG. Healthcare costs are growing in countries across the globe, including in those European countries that are often the basis of level comparisons. It is true that the United States seems to be growing somewhat more rapidly, for example, in terms of excess cost growth, although not extremely more rapidly.

And I think a lot of the reason probably does have to do with the speed with which we adopt new technologies and then diffuse them. We seem to adopt new technologies more rapidly in healthcare and then have them spread, even when again their value is not entirely clear in certain settings, more rapidly and more widely than in other countries. And partly as a result of that, we do wind up somewhat higher.

But, again, for example, if our average excess cost growth is close to 2.0 to 2.5 percentage points per year over the last three decades, there are lots of other countries that are, you know, between one and a half and two.

Mr. ETHERIDGE. Okay. All right. Thank you.

Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Mr. Berry.

Mr. BERRY. Thank you, Mr. Chairman, and thank you for holding this hearing.

Dr. Orszag, we appreciate you. I do not know how you can remember all that stuff, but I admire you for doing it.

Mr. ORSZAG. Thank you.

Mr. BERRY. And even though I do not like the answers you give us sometimes, I think you are honest about it and I appreciate that very much.

I sit in these meetings day after day, hour after hour and hear these discussions. Now, this morning has been a little bit different because we talked about healthcare a little bit. But generally the discussion is completely centered on tax rates and interest rates.

We had along with you a couple other fellows here the other day that are supposed to be sure enough whiz bangs about all that stuff. And I have no doubt that they are. I am not making any criticism of them.

And as we go through this discussion, it is like all you have got to do to create an economy is to either change the tax rate or the interest rate and all of a sudden, jobs and economy just start bubbling up out of the ground or falling from the sky or they are coming from somewhere that I do not really fully understand.

If we totally eliminated Social Security, and Social Security is a program where people do save their money. They contribute their own money and their employers contribute money to a retirement fund. Social Security is not a gift from the government to the people. It just supposedly manages this trust fund so it can pay out the benefits to these people at such time when they are either qualified for it or need it.

But if we totally eliminated it, we still would not close the fiscal gap that we have, it would not help a whole lot. We would put a lot of elderly people into poverty if we were to do that.

If we totally eliminated nondefense discretionary spending, we could again close the gap. It would not completely close it, but it would make a big difference.

What would happen to education and infrastructure in this country? What would happen to our economy if we did both those things or either one of those things?

Mr. ORSZAG. Well, you are asking me what would happen if we eliminated Social Security?

Mr. BERRY. Yes.

Mr. ORSZAG. The fiscal gap would be about .6 or .7 percentage points of GDP, so about a tenth of the overall fiscal gap smaller. And as you noted, especially, you know, current retirees and those nearing retirement who were counting on Social Security benefits would face fairly extreme hardship.

Mr. BERRY. And if we did away with nondefense discretionary spending, we would severely impact our ability to invest in education and infrastructure. Would you agree with that?

Mr. ORSZAG. All the things that nondefense discretionary spending goes to, environmental protection, education, the FBI, what have you.

Mr. BERRY. Right. By contrast, who would get the most benefit if we extend what we describe on this side of the aisle as the Bush tax cuts and AMT relief and who will bear the burden of the debt if we do not pay it?

Mr. ORSZAG. First with regard to the debt, we all bear the burden of an unsustainable fiscal path and precisely who among us bears more of the burden depends on how we ultimately address it.

With regard to the tax legislation, as I have said before, the best way of measuring the impact on individuals and households from changes in the Tax Code is in terms of the percentage change in after tax income. And that percentage change under the 2001 and 2003 tax legislation is higher for high-income households than for low-income households.

Mr. BERRY. Is there value to our economy in having the cheapest and safest food supply of any nation in the world by quite a bit? It is not just a little percentage point or two. It is like 50 percent cheaper than any place else.

Mr. ORSZAG. There is obviously a value to consumers to low prices on various products. Although, actually, I would say as a consumer myself, sometimes I wish the prices of nonhealthy food were a little higher to discourage me from eating them, but I will leave that aside.

Mr. BERRY. Yes, me too. I would probably pay the price anyway. I like it.

Thank you, sir.

Mr. ORSZAG. Thank you.

Chairman SPRATT. Mr. Ryan.

Mr. RYAN. Thank you, Dr. Orszag.

Since the big elephant in the room here is healthcare costs and price increases, let us talk about that for a second.

Your last two charts show the geographic disparities and then you go a great length doing a great service talking about, you know, the bulk of the problem is in the costs.

You also say that, I think, correct me if I am wrong, about 30 percent of the costs could be wiped out without sacrificing quality.

Mr. ORSZAG. Those are estimates from noted academic researchers. They are not CBO estimates. But there are established and well-known academics who believe the number may even be higher than that.

Mr. RYAN. If we had more rational and accurate utilization, if we had the right alignment of preventative services, we could wrench out of the system about 30 percent if the system worked perfectly rationally, right?

Mr. ORSZAG. That is the suggestion. That is the opportunity.

Mr. RYAN. Is it your belief and intention that if legislation can be written in such a way that central planning could achieve that, do you believe that and do you intend to score that?

Mr. ORSZAG. I do not know what you mean by central planning.

Mr. RYAN. Yes. Do you believe that better direction of care, management of care, coordination of care by government, by HHS could achieve those efficiencies and is there a scenario in your mind in which you would score that as achieving such savings?

Mr. ORSZAG. Two things quickly. One is that there is a significant potential. I do not know without seeing the exact policies that are proposed, you know, how much of that potential would be captured by a set of policies.

But we have already said, and I will say again, expanding out the information on what works and what does not and then using both Federal policy and hopefully private insurance also to steer incentives towards the higher value care has substantial potential to reduce costs over the long term.

Mr. RYAN. So to the extent that the Federal Government has more ability to impact those outcomes and decisions, there is a greater ability to achieve these savings?

Mr. ORSZAG. The Federal Government has the ability by if you were to change the payment system so that you were not just on a fee-for-service basis, paying for more care, but rather paying for sort of fee-for-value, paying for higher value care to substantially affect the way medicine is practiced in the United States.

Mr. RYAN. We are at 16 percent of GDP now for healthcare?

Mr. ORSZAG. That is correct.

Mr. RYAN. Given the rest of the economy functions in more of a free market way and in that there is greater and more accurate transparency on price and quality, more consumer activity involved and being sensitive to those things, would not we achieve savings if we brought those kinds of reforms to the healthcare sector, namely the kinds of transparency on price and quality and shopping incentives for consumers that we have in virtually all other aspects of the economy?

Mr. ORSZAG. There would be some effect. And CBO, for example, in December 2006 put out a report on consumer-directed health plans and noted that a universal system of consumer-directed health plans would reduce cost. But the report suggested it might reduce costs by about five percent, not as much as the potential that apparently exists.

And I think that is because of the tension between the concentration of healthcare costs in catastrophic cases and the reluctance not to provide generous insurance against those catastrophic cases. Insurance, after all, is designed to help cover those high-cost cases and they account for such a large share of overall healthcare costs that the traction you get from additional cost sharing on the consumer side is often not as great as one would hope or expect.

Mr. RYAN. What I am trying to get at is, is there a magic bullet on addressing the root cause of health inflation? Are there two or three things that can be done to go at the root cause of health inflation that we believe we can achieve real scoring if we do this?

Mr. ORSZAG. I do not know that there are two or three magic bullets. I think financial incentives matter a lot. I think additional information and transparency matter a lot. The delivery system probably matters to some degree.

We will be trying to provide more clarity to you as policy makers throughout next year in terms of the size of the dials on these various different things. But one of the frustrations that people often say, we would solve our long-term fiscal problem if we just locked you all in a room and did not, you know, give you any food and did not let you out until you solved the problem.

On healthcare, I think you do not have the information you need to reach those kinds of decisions. For example, on Social Security, that would work if you were willing to do it. On healthcare, it is not clear to me that it would work.

I have not seen, despite the fact that on Social Security I have authored and lots of people have authored all these plans and you have the tables——

Mr. RYAN. Right. It is pretty easy. Money in, money out, move the dials. They are all finite and known.

Mr. ORSZAG. I have not seen a credible plan to restore long-term actuarial balance to Medicare and Medicaid that has been sort of fully evaluated and that you could choose from if we locked you in that room. And in the absence of that, I do not know exactly what you would do in there.

Mr. RYAN. Well, is not the problem with our healthcare entitlements one that it is basically reimbursing the American healthcare system? We are just paying for the healthcare system we have today and absent reforming the healthcare system we have today, you cannot solve the problem. With Social Security, it is a finite, containable program within itself.

Mr. ORSZAG. Right.

Mr. RYAN. So basically what we are saying is you cannot fix the Medicare and Medicaid problem if you do not fix the healthcare problem and that problem being the health inflation.

Mr. ORSZAG. I agree with that. And I also think, therefore, the fundamental nature of our long-term fiscal problem, which is typically framed from the Social Security perspective in terms of like one generation paying more and what have you, is present for a small share of this long-term fiscal gap, but the fundamental political economy and the underlying analytics and the sort of difficulty is what you just described, how do we get healthcare cost inflation under control. And that is a much different set of challenges than the way that the long-term fiscal problem is typically framed.

Mr. RYAN. Yes. I would argue doing more to bring the market reforms and market experiences that exist in the rest of the economy would probably be the best thing to tame health inflation. This is 16 percent of our economy, but it does not operate like the rest of our economy. It is virtually absent of real transparency on price and quality and consumers really do not have incentives to act on those things. They are either locked in their HMO, they are told where they have got to go to, and they cannot shop because they do not have the information anyway.

Chairman SPRATT. Will the gentleman yield? I think you just put your finger on the conundrum, that is what you described is not a true market situation and, yet, you are proposing a market solution to it. You described something that is not a real market because consumers are not——

Mr. RYAN. That is right.

Chairman SPRATT [continuing]. Active participants.

Mr. RYAN. It is not a true functioning free market right now.

Chairman SPRATT. And, yet, you are saying that the best solutions are market solutions.

Mr. RYAN. Yes, because they are absent from the system today.

Chairman SPRATT. Well, that means you have got to build a market completely here that does not exist in terms of classical economics.

Mr. RYAN. Eighty-four percent of the economy functions in a basic free market system, transparency on price, transparency on quality, and survival on business based on those metrics. Consumers will move their feet based on price and quality. Competitors and producers have to compete on those metrics. Healthcare you do not.

And so my point is if we bring those kinds of basic market fundamentals to healthcare, I think we can go so much farther down the road in taming health inflation without sacrificing quality, in fact promoting quality, and wrenching out that 30 percent waste.

Rather than sitting in a Committee in Washington or bureaucracy down the street and trying to direct how the system ought to operate, I would rather have every mind in America working on solving the problem through the use of consumer actions rather than a few elites in Washington trying to figure out how we can direct and micromanage this enormous sector of our economy.

To be rational, I think that is an oxymoron. I think that if we get these basic market fundamentals in this system, that is the best thing we can do to achieve what we all want which is maintain high quality but at a rational price. And we do not have rational pricing right now.

Chairman SPRATT. Dr. Orszag.

Mr. ORSZAG. I guess what I could say is that I think it is very clear that incentives matter a lot in healthcare both for consumers and especially for providers. And the incentives currently are not very well aligned to delivering high value care.

And the only other thing I would say is that in a vision of consumer-directed healthcare, one does need to, and I know that Mr. Ryan is very sensitive to this, one does need to take into account the particular nature of healthcare and things like asymmetric information and sorting, what have you.

And then more important or at least as importantly that I would also note, for me as a consumer, I currently do not have the information that I need in order to choose whether this intervention is better than that intervention. And I do not think that we have strong enough, we probably will never have strong enough private incentives, purely private incentives to deliver or create that kind of information because it has the nature of a public good. When you create information like that, it is useful for all consumers.

In the absence of that kind of information, consumers are hampered in their ability to choose intelligently. And so regardless of whether one's vision is a single payor or a mixed system or consumer-directed health system, more information on what works and what does not is absolutely essential to moving the system towards a higher value one.

Mr. RYAN. And combining that information with price. I will give you one example. In Milwaukee as of two years ago, the latest data, the cost of bypass surgery ranges from $47,000 to $120,000.

A couple proprietary studies on outcomes shows us that a hospital that charges 65 grand is the best place to go. Nobody knows that. Nobody knows that the place that charges you 65 grand is where you are more likely to have a better outcome for your bypass, but most people are going to the place that charges $120,000.

So when you have such enormous disparities, disconnects between price and quality, there is clearly great room for improvement and more market functions in the kind of system we have today.

That is the point I am trying to make. But I appreciate this dialogue. It is constructive.

Chairman SPRATT. Mr. McHenry, do you have further questions?

Just if you have no questions, Dr. Orszag, let me go back to this thing about PAYGO and whether or not it has a positive effect on the situation we are in. As I understand your baseline extended scenario, it could be seen as a PAYGO scenario as part of it?

Mr. ORSZAG. Yes, sir.

Chairman SPRATT. And it seemed to show that adherence to PAYGO, if you will look at figure two on page four, your curve, those two exploding curves, it seems to show that if we stick with the extended baseline scenario, which includes PAYGO, we have got about a 20-year period there, until 2032, before the debt as a percentage of GDP really begins to spike upward.

Is this credited to PAYGO or is it something else at work in the curve there?

Mr. ORSZAG. No. That could again be interpreted as if you strictly abided by PAYGO over that period what the projections suggest the outcome would be.

Chairman SPRATT. Now, your favorite chart, which has almost become a signature of CBO, is this chart on the front here, which shows the revelations you presented today that you have long known but most people have not understood, namely this is not a demographic problem. This is a healthcare delivery cost problem.

Is there some way you could devise a simple model so that you could tell how significant proposals, not minor adjustment, but significant proposals in Medicare, Medicaid, and, for that matter, the other healthcare programs paid for by the Federal Government from the Veterans Administration to TRICARE, to FEHV, somehow we would have a model so you could tell, you could plug it in, a proposal into that model and tell what the future consequences are going to be, the extent to which it adhered to the parameter that you have set out, that is growth, that it does not exceed GDP growth and I guess beneficiary population growth?

Mr. ORSZAG. That is obviously a very difficult undertaking. If we think ten-year scoring is hard, evaluating——

Chairman SPRATT. Part of our problem here with five- and ten-year scoring is that most of what you are looking at is beyond the ten-year horizon.

Mr. ORSZAG. Absolutely. What I am trying to do, for example, in that health options volume that we will be doing throughout next year is give some indication, even if I cannot give you an exact number, of whether over the long term something is meaningful or likely to be meaningful if you do it this way.

We have done that, for example, with regard to comparative effectiveness research and said that if it is undertaken aggressively and if it is tied to financial incentives, the result could be significant reductions over the long term in healthcare costs. We are going to try to provide more information like that, although I cannot commit to saying something will be $27.7 billion change in 2042 kind of precision.

Chairman SPRATT. Well, thank you very much for your good work and to your staff as well for their excellent work as always. And this is an enormous problem, but it is one that really affects the future of this country. It goes to the very essence of what we are all about. We appreciate your contribution this morning and your forbearance in answering our questions. Thank you very much indeed.

Mr. ORSZAG. Thank you, Mr. Chairman.

Chairman SPRATT. I ask for unanimous consent that all members who did not have the opportunity to ask questions of the witness be given seven days to submit questions for the record. There is nobody here to object, so it is ordered.

[Whereupon, at 12:18 p.m., the Committee was adjourned.]

○