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Committee**

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For more than two centuries, we have been able to hold the level of U.S. federal debt to well below our long-term capacity to borrow. But for the next decade or two, on some reasonable sets of assumptions, our borrowing cushion shrinks significantly, threatening to test our capacity to raise funds to finance unprecedented deficits.¹

The challenge to contain this threat is more urgent than at any time in our history, in part because of today's limited flexibility of adjustment, especially of entitlement spending whose constituencies are well entrenched.

Compounding this concern is our inability to accurately forecast current services spending. Projecting Social Security ten or twenty years into the future is not too difficult. It is a defined benefit program whose payments, in real terms, are narrowly defined by law. Similarly, owing to long experience in forecasting nonmilitary discretionary budgets, outlay projections are also narrowly defined.

Projections of Medicare and Medicaid, however, are far more daunting. Unlike Social Security, these are in-kind entitlements whose levels are determined by individuals' particular medical needs. The number of future beneficiaries in, say, 2030 is readily predictable, **since** they are already born, but future benefits per capita are subject to very wide uncertainties. Medical technology and pharmacology are advancing rapidly to previously unimagined heights. With no meaningful restraint on our subsidized fee for service medical care, demand for advanced technologies and drugs is largely without limit. Medicare Trustees' forecast assumptions especially beyond ten years are, of necessity, assumptions, not forecasts.

Short of some form of market price or administrative rationing (a political third rail), ever rising medical services will eventually strain the physical capacity of our economy. Since demand for medical services by its nature is highly inelastic, medical services' share of GDP has no credible upside restraint. The simple fact is that we have promised resources which by any reasonable projection we will not have.

This is not a simple problem of finance, solved with the addition of appropriated dollars. It is a real resource crisis. If the dollar share of GDP devoted to medical services is inexorably rising, so is the share of medical workers in our labor force and medical hardware in our capital stock. Importantly, a dollar of the nation's scarce saving employed to finance a new medical technology investment is a dollar not available to fund non-medical cutting-edge technologies that enhance our material wellbeing.

The health of the population, of course, must take precedence over material considerations; an unhealthy population will not be productive. But there has to be a point where diversion of real resources to medical services no longer measurably enhances longevity or reduces morbidity.

¹ Our borrowing capacity and cushion are ill-defined and little understood since they have never previously been an operational consideration.

Our scope for increasing the size of the overall economic pie to resolve our pending crisis is limited by the growth of our labor force and growth of productivity. Short of a significant increase in immigration, the size of our labor force in 2030 is fixed in a relatively narrow range. And, if history is any guide, so is long-term productivity growth. Since 1870, nonfarm productivity gains over fifteen-year periods has rarely strayed outside the range of 1% to 3% annually, averaging slightly more than 2%. We and the rest of the developed world are at the cutting edge of technologies. We cannot exceed 3% productivity growth for a protracted period, presumably because there is a limit to human intelligence, the source of all innovation.

The recommendation of Senators Conrad and Gregg for a bipartisan Fiscal taskforce is an excellent idea. I trust any such taskforce will address the very thorny issue of the asymmetrical consequences of too much or too little restraint. In the former case, too much restraint is not a risk, and would, in any event, free resources for other initiatives. The dire consequences of a failure to tighten adequately, however, calls for policies that err significantly on the side of restraint. I understand that this is politically very difficult to do. But our nation has never before had to confront so formidable a fiscal crisis as is now visible just over the horizon.