TESTIMONY OF
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BEFORE
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Thank you as always for the privilege of appearing.

This week we are presenting the President's program for Fiscal Year 2004. No such presentation lacks for long-term importance to our nation's future, but few in our history have directed the nation's public resources at more fundamental challenges.

The President plans to prosecute the war on terror relentlessly. There is no more effective way to protect Americans, or, as we now say, to provide "homeland security", than to root out terror and stop it before it can reach our shores. The President's Budget provides $380 billion for the war on terror and the continued rebuilding of our national security capabilities. Spending on domestic homeland security is also given top priority, with spending rising at the fastest percentage rate of any major category.

The President's third priority is to reinvigorate an American economy that has grown for five consecutive quarters, but at a rate that he deems far too slow. To this end the President proposes a major growth and jobs plan, the third of his Presidency.

Below these three transcendent objectives, the President urges greater spending on a host of essential activities: veterans' programs, the education of our disadvantaged and disabled children, the alleviation of Africa's AIDS tragedy, research on a pollution-free automobile, and so on.

The budget has returned to deficit, a phenomenon that pleases no one, but which ought not be misunderstood or overstated. Today's deficit, while unwelcome, was unavoidable, and is manageable. In fact, given a sputtering economy, it reflects appropriate economic policy, as the President decided in advocating a bold economic plan.

The deficit's origins are no mystery. It was the product of a triple witching hour in which recession, war, and the collapse of a stock market bubble coincided, presenting our country and government with a radical change of circumstances.

Let me pause to dispel a persistent fiction, or, more accurately, misrepresentation. Note this fact: If there had never been a 2001 tax cut, we would still be experiencing triple digit deficits today. Let me repeat: if those who opposed tax relief in 2001 had succeeded, and no bill of any size had ever passed, the 2002 budget would have been $117 billion in deficit, and the 2003 shortfall would have been $170 billion.

Even if we had never been attacked, and incurred no costs of war or recovery from September 11th, and no tax relief had become law, we still would have gone into deficit, as a consequence of the recession and the popped revenue bubble. There is no question about what got us out of balance; what we should be debating is the right way, and right pace, for getting back in.

Deficits are not always unacceptable. The strongest proponents of balanced budgets routinely make exceptions for war, recession, and emergency – exactly the conditions we have experienced simultaneously. In other words, there are times when it is necessary for the federal government to borrow in order to address critical national priorities.

These are such times. In proposing an aggressive economic growth plan, the President was consciously opting to accept somewhat greater borrowing in order to put more Americans back to work.

He did so recognizing that today's deficit is moderate, and manageable. It is moderate by any historical measure: at 2.7% of GDP, the 2004 shortfall will be smaller than in 12 of the past 20 years, and less than half the largest deficit in that period. It is manageable, in fact highly so, in that the costs of debt service are extraordinarily low. Just five years ago, interest payments took up 15 cents of every budget dollar; this year, thanks to the lowest interest rates in 40 years, it will be just 8 cents.

A balanced federal budget is a very high priority for this President. It is not, and cannot be, the highest priority, let alone the only one. He does not place it ahead of our national security, the safety of Americans from domestic terror, or a growing, full employment economy.

If a balanced budget were all that mattered, it would be no great trick to accomplish. By either CBO or OMB estimates, all we would have to do is to stop where we are, to hold our spending growth to inflation for the next couple years. But that would mean no action to create jobs, no new action to defend our homeland, no further strengthening of our defenses, and so forth.

The most important objective in this context is economic growth, the wellspring of balanced budgets. No one saw the last surplus coming: not five years ahead, or three, or even one. In fact, four months into the year of the first surplus, both OMB and CBO were still predicting a deficit for that year. A strong economy produced that unpredicted surplus, and only a strong economy can bring a surplus back. If we balance our priorities, we will balance our budget in due course.

The costs of a potential conflict in Iraq are not included in this submission. We all fervently hope that no such event will prove necessary, but if it should, we would present to the Congress immediately a request for the funds estimated to be required to enable a decisive victory, a secure and compassionate aftermath, and the replenishment of stocks and supplies to prewar levels.

Our projections, which incorporate extraordinarily conservative revenue estimates, see deficits peaking this year and heading back down thereafter. To hasten our return to balance, the President proposes to restore the system of spending controls under the recently-expired Budget Enforcement Act. He asks the Congress to pass, along with this year's Budget Resolution, a reenacted BEA incorporating two years of caps limiting discretionary spending to the 4% path that would match government's growth to the growth of American family income. That renewed statute should also reinstate the so-called PAYGO system that limits the budgetary effect of entitlement spending and revenue measures.

Finally, no discussion of this or any future budget should take place without serious examination of the real fiscal danger facing our Republic. We will debate the right level of imbalance for this year and next, as we should. We will argue over the right amounts to be employed in defense reconstruction, or economic growth measures, or fighting the scourge of AIDS, as we must. But, from a financial standpoint, these are small matters compared to the looming, unfunded liabilities of our huge entitlement programs.

The unfunded promises of Social Security are some $5 trillion, more than the entire national debt outstanding. The figure for Medicare is even more staggering: its promises exceed its future receipts by more than $13 trillion, a figure more than triple the national debt and 40X times the deficit we will run this year. We cannot conceivably tax our way out of this dilemma. Only sustained economic growth, coupled with thoughtful reform of these programs, can secure to future generations the same degree of protection, or more, that seniors enjoy today.

This committee, and its counterpart in the other body, have the first and fundamental role in helping the President determine the nation's priorities. You also are the taxpayer's first line of defense against excess or misuse of the dollars which the government takes away from them. On behalf of the President, thank you for your service here and for your leadership in restoring an orderly, effective budget process during 2003.