Testimony of OMB Director Joshua B. Bolten
President's FY 2007 Budget
Committee on the Budget
United States Senate

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Chairman Gregg, Ranking Member Conrad, and distinguished members of the Committee, the President's 2007 Budget, which I transmitted to the Congress on the President's behalf on Monday, meets the priorities of the Nation and builds on the progress of the last five years.

Before getting to the 2007 Budget, I would like to take a moment to review the substantial accomplishments in spending restraint we were able to achieve together over the past year.

Last year's 2006 Budget set four major objectives:

First, the President proposed to hold growth in overall discretionary spending below the rate of inflation.

Second, he proposed an actual cut in the non-security portion of discretionary spending – the first such proposal since the Reagan Administration.

Third, he proposed major reductions or eliminations in 154 Government programs that were not getting results or not fulfilling essential priorities.

And fourth, he proposed reforms in mandatory programs to produce $54 billion in savings over five years.

The Congress substantially delivered on all four of these objectives. I would like to thank Chairman Gregg and the members of this committee for your leadership and dedication in helping achieve these goals.

When President Bush gave me guidance on what the 2007 Budget should look like, he directed me to build on last year's progress by focusing on national priorities and tightening our belt elsewhere. He told me to give our troops and those who defend our security what they need to fight and win the Global War on Terror. And he emphasized that the 2007 Budget must support our pro-growth economic agenda.

In particular, he said we should maintain our economic strength by extending the tax relief that has fueled our economic expansion and by aggressively restraining spending. Yesterday, I presented on the President's behalf a budget that does just that.

In the past 5 years, our economy suffered an historic series of shocks, starting with the recession and the terror attacks of 2001 and continuing through the hurricanes last summer. Those events had profound impacts on job creation and on the fiscal outlook.

Despite these challenges, thanks to the productivity and hard work of the American people, our economy is expanding at a healthy pace. In 2005, the economy grew by an estimated 3.5 percent – the third consecutive year of healthy growth. Economic expansion has produced more than 4.7 million new jobs since May 2003, reduced unemployment to 4.7 percent, and raised homeownership to all-time highs.

This economic growth would not have been possible without the tax relief that you passed and the President signed. The tax cuts – which were fully implemented in May 2003 – have been critical to helping the economy recover from the recession and terrorist attacks of 2001 – and then helping the economy to continue expanding despite the hurricanes and high energy prices in 2005.

With the tax cuts fully implemented in 2003, the economy responded strongly and tax receipts rebounded. Receipts grew substantially in 2004 – by 5.5 percent. In 2005, receipts jumped by a remarkable $274 billion, or 14.5 percent, the largest increase in 24 years. These recent gains in receipts confirm that a strong economy is the most important factor in reducing the deficit.

Since the President set a goal of cutting the deficit in half from its projected peak in 2004 of 4.5 percent of GDP, the deficit has come down markedly. The final 2004 deficit was 3.6 percent of GDP, and fueled by the surge in receipts, the 2005 deficit fell further to 2.6 percent of GDP.

Although revenues are projected to continue to rise in 2006, the deficit for the current fiscal year is now projected to come in at 3.2 percent of GDP, or in nominal terms, $423 billion, which is more than previously expected and is in significant part due to the unanticipated spending associated with relief and recovery efforts from Hurricanes Katrina and Rita. While this increase in the deficit is unwelcome, at 3.2 percent of GDP the projected deficit would be well within the historical range and smaller than the deficit in 11 of the last 25 years.

More importantly, we project that if the policies in the President's Budget are adopted, the deficit will return to its downward trajectory. We forecast a decline in the 2007 deficit to 2.6 percent of GDP, or $354 billion. By 2009, the deficit is projected to be cut by more than half from its projected peak to just 1.4 percent of GDP, well below the 40-year historical average.

In order to keep the deficit on this declining path, we must continue to do two things: First, keep the economy growing; and second, restrain spending.

First, the 2007 Budget will support continued economic growth by proposing to make permanent the tax relief signed into law by the President in 2001 and 2003. Some have argued that we should let the tax relief expire. A tax increase is the wrong prescription, not only for the nation's economic health, but for the Government's fiscal health as well.

We are not an under-taxed society. By rejecting tax increases on families and small businesses, this budget will help keep the economy on a continuing course of job creation and strengthen the foundations for long-term growth.

The second critical component of deficit reduction is a vigorous policy of spending restraint. Similar to last year, the Budget again holds overall discretionary spending growth below the rate of inflation. It again proposes a cut in non-security discretionary spending. It calls for major reductions in or total eliminations of 141 Federal programs, saving nearly $15 billion. And it continues our efforts to slow the growth in spending on mandatory programs, by proposing $65 billion in savings over five years.

These efforts to restrain the growth in mandatory spending are vital – not just for our near-term deficit reduction efforts – but especially for the long-term. Toward the end of the next decade, deficits stemming largely from entitlement programs such as Social Security and Medicare will begin to rise indefinitely. No plausible amount of spending cuts in discretionary accounts or tax increases could possibly solve this problem.

The President has shown a willingness to take on these future unfunded obligations and to propose long-term reforms. This year's Budget proposes $36 billion in savings from Medicare, and includes proposals that pave the way for additional reforms in the future. As with Social Security and Medicaid, we do not need to cut Medicare, but we do need to slow its growth – and this budget begins to do just that.

In addition, the 2007 Budget contains proposals to significantly improve the budgetary process. The Budget proposes discretionary spending caps as well as restraints on new mandatory spending. The Administration is pleased that the Congressional leadership is focused on the need for reform of earmarks in the budget process. One way we can address the excessive use of earmarks together is by Congress giving the President the line-item veto.

The 2007 Budget also continues our efforts to improve performance and make sure the taxpayers get the most for their money. Using the President's Management Agenda, OMB measures success not by good intentions or by dollars spent, but rather by results achieved.

As part of these efforts, OMB has introduced a new website called Expectmore.gov. ExpectMore.gov allows taxpayers to review the OMB assessments of nearly 800 Federal programs. You can search the programs by rating, topic, or by a simple keyword search. I urge you and your staffs to use this new resource.

The management agenda – coupled with the restraint reflected in the President's 2007 budget – will help ensure that taxpayer dollars continue to be spent wisely, or not at all.

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