Testimony of OMB Director Joshua B. Bolten
President's FY 2006 Budget Request
Budget Committee
United States Senate
February 9, 2005

Chairman Gregg, Ranking Member Conrad, and distinguished members of the Committee, the President's 2006 Budget, which was transmitted to the Congress on Monday, meets the priorities of the Nation and builds on the progress of the last four years.

We are funding our efforts to defend the homeland from attack. We are transforming our military and supporting our troops as they fight and win the Global War on Terror. We are helping to spread freedom throughout the world. We are promoting high standards in our schools, so that our children gain the skills they need to succeed. We are promoting the pro-growth policies that have helped to produce millions of new jobs and restore confidence in our economy.

Over the past four years, the President and Congress rose to meet historic challenges: a collapsing stock market, a recession, the revelation of corporate scandals and, of course, the terrorist attacks of September 11th.

To meet the economy's significant challenges, in each year of the first term, Congress and the President enacted major tax relief that fueled recovery, business investment, and job creation.

Recent economic indicators support the case for tax relief. Since the recession year of 2001, economic growth has increased in each of the following three years. A primary goal of this Budget is to assure that our economic growth continues.

A strengthening economy produces rising tax revenues. Last year, after declining three years in a row, federal revenue grew by nearly $100 billion. Reflecting strong continued growth, we project that federal revenues will grow by an even larger figure this year.

The President and Congress have also devoted significant resources to rebuild and transform our military, and to protect our homeland. In the first term, the defense budget grew by more than a third, the largest increase since the Reagan Administration. To make our homeland safer, he worked with Congress to create the Department of Homeland Security and nearly triple funding for homeland security government-wide.

While committing these necessary resources to protecting America, the President and Congress have focused on spending restraint elsewhere in the Budget. Working together, we have succeeded in bringing down the rate of growth in non-security discretionary spending each year of the President's first term. In the last Budget year of the previous Administration, non-security discretionary spending grew by 15 percent. In 2005, such spending will rise only about 1 percent. Because of this increased spending restraint, deficits are below what they otherwise would have been.

In order to sustain our economic expansion, we must exercise even greater spending restraint than in the past. When the Federal government focuses on its priorities, and limits the resources it takes from the private sector, the result is a stronger, more productive economy.

The President's Budget proposes that enhanced restraint. The 2006 Budget proposes a reduction in the non-security discretionary category of the Budget. This is the first proposed cut in this non-security spending since the Reagan Administration.

The Budget proposes more than 150 reductions, reforms, and eliminations in non-defense discretionary programs, saving about $20 billion in 2006 alone.

As a result of this enhanced restraint, overall discretionary spending, even after significant increases in defense and homeland security, will grow by only 2.1 percent – less than the projected rate of inflation, which is 2.3 percent. In other words, under the President's 2006 Budget, overall discretionary spending will see a reduction in real terms.

In addition, the Budget also proposes savings from an additional set of reforms in mandatory programs, saving about $137 billion over the next 10 years.

As you well know, both mandatory and discretionary categories of spending are inherently difficult to control, but mandatory programs are especially difficult because of their "auto-pilot" feature. The Administration looks forward to working with the Congress on a package of mandatory savings.

We will also work with Congress on budget process reforms. Last year, I transmitted to Congress, on behalf of the Administration, proposed legislation to establish statutory budget enforcement controls. We plan to transmit a similar set of proposed statutory controls to establish caps on discretionary spending, a pay-as-you-go requirement for mandatory spending only, and a new enforcement mechanism to control long-term unfunded obligations. The President's Budget also proposes that Congress include these budget enforcement mechanisms and associated reforms in the FY 2006 Budget resolution.

In addition, the Administration proposes other enforcement and budget process reforms, such as the line-item veto, a Results Commission, and a Sunset Commission. These reforms would put in place the tools we need to enforce spending restraint and would bring greater accountability and transparency to the budgeting process.

This Budget restrains spending in a responsible way by focusing on priorities, principles, and performance. We were guided by three major criteria in evaluating programs:

First: Does the program meet the Nation's priorities? The Budget increases funding to strengthen our Armed Forces, improve the security of our homeland, promote economic opportunity, and foster compassion.

Second: Does the program meet the President's principles for the use of taxpayer resources? If an appropriate Federal role could not be identified in a program's mission, the Budget generally proposes to reduce or eliminate its funding.

Third: Does the program produce the intended results? The Bush Administration is comprehensively measuring the effectiveness of the government's programs – and the results are helping us make budgeting decisions. As a part of the President's Management Agenda, the Program Assessment Rating Tool, or PART, was developed to measure the performance of Federal programs. Roughly 60 percent of all Federal programs have undergone the PART, and those scores figured into the budgeting process.

By holding government spending to these accountability standards, by focusing on our priorities, and by maintaining pro-growth economic policies, we are making progress in bringing down the size of the deficit in 2006 and beyond.

Last year's Budget initially projected a deficit of 4.5 percent of Gross Domestic Product (GDP) in 2004, or $521 billion. The President set out to cut this deficit in half by 2009. Largely because economic growth generated stronger revenues than originally estimated, and because the Congress delivered the spending restraint called for by the President, the 2004 deficit came in $109 billion lower than originally estimated.

At 3.6 percent of GDP, the actual 2004 deficit, while still too large, was well within historical range and smaller than the deficits in nine of the last 25 years.

We project the 2005 deficit to come in at 3.5 percent of GDP or $427 billion. If we maintain the policies of economic growth and spending restraint reflected in this Budget, the deficit is expected to decline in 2006 and each of the next four years. In 2006, we project the budget deficit to fall to 3.0 percent of GDP, or $390 billion. In 2007, the deficit is projected to fall further to 2.3 percent of GDP, or $312 billion.

By 2009, the deficit is projected to be cut by more than half from its originally estimated 2004 peak—to just 1.5 percent of GDP, which is well below the 40-year historical average deficit of 2.3 percent, and lower than the deficit level in all but seven of the last 25 years.

The Administration intends to submit shortly a supplemental appropriations request of approximately $81 billion, primarily to support operations in Iraq and Afghanistan for the remainder of the fiscal year. The 2006 Budget's spending and deficit projections fully reflect the outlay effects of this supplemental request, as well as the prior $25 billion supplemental bill already enacted by the Congress. However, the Budget does not reflect the effect of undetermined but anticipated supplemental requests for ongoing operations in Iraq and Afghanistan beyond 2005.

The published version of the 2006 Budget also does not reflect the effects of transition financing associated with the President's proposal to create personal retirement accounts as part of a comprehensive plan to permanently fix Social Security. As the Administration announced last week, the type of personal accounts the President is proposing will require approximately $664 billion in transition financing over the next ten years, with an additional $90 billion in related debt service. This transition financing would result in a deficit in 2009 and 2010 of 1.7 percent of GDP, which is still consistent with the president's goal to cut the deficit in half by 2009, and still well below the 40-year historical average.

It's important to remember that this transition financing does not have the same impact on national savings, and thus on the economy, as does traditional borrowing. Every dollar the government borrows to fund the transition to personal accounts is fully offset by an increase in savings represented by the accounts themselves. In addition, the transition financing of retirement benefits does not represent new debt—these are obligations that the government already owes in the form of future benefits.

Perhaps most important, comprehensive Social Security reform that includes personal accounts can eliminate the system's current $10.4 trillion in unfunded obligations. Those of us who devote our time to thinking about fiscal policy all share a common interest in averting this danger. There is no task as vital to fiscal policymakers this year than removing those unfunded obligations by enacting comprehensive Social Security reform.

Confronting these long-term obligations, combined with our near-term deficit reduction efforts, will help assure a strong economy both now and in the future.

I look forward to working with the committee and Congress on this Budget, which meets the priorities of the Nation in a fiscally responsible way.