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WASHINGTON, D.C. 20503

FOR IMMEDIATE RELEASE 2004-03
February 3, 2004

Statement on the President's Fiscal Year 2005 Budget
by
Office of Management and Budget Director Joshua B. Bolten
before the
Committee on the Budget
United States House of Representatives
Tuesday, February 3, 2004

Chairman Nussle, Ranking Member Spratt, and distinguished members of the Committee, the President's 2005 Budget, which was transmitted to the Congress yesterday, continues to support and advance three overriding national priorities: winning the war on terror, protecting the homeland, and strengthening the economy.

The President is committed to spending what is necessary to provide for our security – and restraining spending elsewhere. Since September 11, 2001, more than three-quarters of the increase in the Federal Government's discretionary spending has been directly related to our response to the attacks, enhanced homeland security, and the War on Terror. The President's 2005 Budget continues this spending trend: significant increases in essential funding for our security programs, combined with a dramatic reduction in the growth of discretionary spending unrelated to security. With Congress' help in enacting the budget we transmit today, we will be well on the path to cutting the deficit in half within five years.

The President's Budget:

- Increases defense spending by 7 percent to support our men and women in uniform and transform our military to ensure America has the best trained and best equipped armed forces in the world;
- Increases homeland security spending by nearly 10 percent to strengthen capabilities created to prevent future attacks; and
- Holds the rest of discretionary spending to half of one percent growth - less than half the rate of inflation - while continuing to increase funding for key priorities such as the President's No Child Left Behind education reforms.

The President's Budget is built on the sensible premise that Government spending should grow no faster than the average increase in American family incomes of approximately four percent. This Budget proposes to hold the growth in total discretionary spending to 3.9 percent and, again, to reduce the growth in non-defense, non-homeland security spending to half of one percent, below the rate of inflation. In the last budget year of the previous administration (2001), discretionary spending unrelated to defense or homeland security soared by 15 percent. With the adoption of President Bush's first budget (2002), that growth rate was reduced to six percent; then five percent the following year; and four percent for the current fiscal year.

The President's Budget builds on the pro-growth economic policies that have laid the foundation for the economic recovery now underway, and for sustained economic growth and job creation in the years ahead.

The tax cuts Congress passed and were signed into law have been critical to achieving the President's priority of strengthening the economy and creating jobs. Perhaps the best timed in American history, these tax cuts deserve much credit for today's brightening economic picture, which includes:

- Nine consecutive quarters of positive growth through the end of 2003;
- The highest quarterly growth in 20 years – an 8.2 percent annual rate in the third quarter of 2003; and the highest growth for any six-month period in 20 years as well;
- Extraordinary productivity growth;
- Continued strength in housing starts and retail sales; and
- Encouraging signs of renewed business investment.

These indicators suggest that job growth, which typically lags recovery, should continue to strengthen in the months ahead.

The President will not be satisfied however until every American who wants a job can find a job. So this Budget supports the President's six-point plan for economic and jobs growth, including making permanent the tax relief that has fueled our economic recovery.

The sustained growth that this Budget supports will be good news for our budget picture as well: As the economy improves, Treasury revenues will as well.

Like America itself, the Federal budget has faced extraordinary challenges in recent years: a stock market collapse that began in early 2000; a recession that was fully underway in early 2001; revelation of corporate scandals years in the making; and of course, the September 11th attacks and ensuing War on Terror.

With Treasury receipts only beginning to reflect a recovering economy – and major ongoing expenditures in Iraq, Afghanistan, and elsewhere in the War on Terror – we still face a projected $521 billion dollar deficit for the 2004 fiscal year. That size deficit, at 4.5% of GDP, is not historically out of range. Deficits have been this large or larger in six of the last 25 years, including a peak of 6 percent in 1983.

Under the circumstances that created it, today's deficit is certainly understandable. But that deficit is also undesirable and unwelcome, and with Congress' help, we will bring it down. With continuation of the President's economic growth policies and sound spending restraint as reflected in the Budget we are releasing today, our projections show the deficit will be cut by more than half over the next five years.

This dramatic reduction begins in the fiscal year of this Budget, 2005, for which we are projecting a deficit of $364 billion, roughly 3.0 % of GDP. The rapid deficit reductions continue in subsequent years, with our projections showing the deficit falling to 1.6 percent of GDP by 2009. This is not only well below half its current 4.5 percent level, it is also well below the 2.2 percent average deficit during the last 40 years.

This deficit reduction is the combined effect of economic growth and spending restraint. As the economy recovers, tax receipts as a percentage of GDP rise to historical levels by the end of the budget window, while spending restraint keeps outlays flat or slightly declining as a share of GDP.

The spending restraint reflected in this Budget is not automatic. So we are also proposing new statutory budget enforcement mechanisms, establishing in law limits on both discretionary and mandatory spending, and requiring that any increases in spending be paid for by spending offsets. We plan to transmit legislation to the Congress that has three elements:

- Reinstate caps on discretionary spending for five years through 2009.
- A pay-as-you-go requirement limited to new mandatory spending. Any proposed increase in mandatory spending would have to be offset by a reduction in mandatory spending. Tax increases could not be used as an offset and pay-go would not apply to tax legislation.
- Measure the long-term unfunded obligations of major entitlement programs and propose a 60 vote hurdle in the Senate for legislation that would expand these obligations.

I look forward to working with this Committee to gain enactment of these proposals to restrain spending.

Finally, the President is keeping his Administration focused on what the American people care about – results. The measure of government's success is not how much we spend, but rather how much we accomplish. This Budget includes a scorecard that measures the progress agencies are making in achieving results, so that the government continues to be accountable to the taxpayers.

Since President Bush took office, our Nation has confronted a cascading set of challenges. The President and Congress responded on all fronts, with tax relief to get the economy going, the largest reorganization of the Federal Government in 50 years to create a new Department of Homeland Security, and the largest increases in the defense budget since the Reagan Administration, to wage and win the War on Terror. The President's 2005 Budget builds on this record of accomplishment. With renewed economic growth and the Congress' cooperation in restraining spending and focusing it on our most critical priorities, we can accomplish the great goals the President has set for the country, while dramatically improving our budget situation.

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