



## **DEPARTMENT OF THE TREASURY WASHINGTON**

**Secretary John W. Snow  
Opening Statement before the Senate Finance Committee  
Testimony on Revenue Proposals in the President's FY 2005 Budget  
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Thank you, Mr. Chairman.

Thank you all for having me here today to talk about the President's budget.

I believe you'll find that this budget reflects the priorities of our nation as well as the leadership of President George W. Bush.

The over-riding theme of the budget, and the President's plan for the future, is that a safer world is a more prosperous world. That's why I'll be discussing both national and economic security here today.

Decisions about how to collect and spend taxpayer dollars – for this is what a budget is – must be made with both caution and vision.

The Fiscal Year 2005 budget proposal is, therefore, a plan that does three core things:

- One: Keeps Americans safe by providing the resources necessary to win the war on terror and protect our homeland;
- Two: Increases the economic security of our citizens as well, by strengthening our economy; and
- Three: Exercises the kind of spending discipline that is required by a government that respects the source of its money (hard-working taxpayers!) and is unwilling to live with a deficit.

Discussions of our budget and our economy are not, and should not, be separate. The two are inextricably connected.

Today, our economy is doing better.

Homeownership is up, unemployment is heading down, and GDP growth has been strong.

This administration came to office when those indicators were not nearly as positive.

The President inherited an economy that was in decline... one that was then battered by terrorist attacks and revelations of corporate corruption dating back to the 1990s.

The President and his administration took these challenges seriously and we have made *serious progress* in changing the economic direction of this country.

The President's tax cuts – passed by you – have worked. They provided the stimulus that was necessary to turn the economic ship around... and they are now encouraging and allowing for the economic growth that is continuing into the future.

- Economic growth in the second half of 2003 was the fastest since 1984;
- New home construction was the highest in almost 20 years;
- Homeownership levels are at historic highs;
- Manufacturing activity is increasing;
- Inflation and interest rates are low;
- Over 360,000 jobs have been created in the past five months;
- Unemployment claims – both initial claims and continuing claims – are well off their peaks last year, indicating improvement in the labor market;
- This Wednesday, the Dow closed at a 32-month-high. This translates into more than three trillion dollars of growth in value in the markets.

These economic indicators all point to the same conclusion: economic growth is robust and will be sustained.

However, there is more to do. We are not, by any means, satisfied.

There are still Americans who want to find work and cannot... and this Administration will not rest until that most critical need is met and until every American looking for work can find a job.

Our budget addresses that need by continuing to focus on improving our economy.

For example, the President's Jobs for the 21st Century plan, announced in his State of the Union Address, directs the resources of several branches of government toward matching skills with jobs, and helping workers acquire the skills they need to qualify for the jobs in their community.

We can also encourage the creation of jobs by sticking to the President's six-point plan for growth.

That includes making health care more affordable and costs more predictable.

We can do this by passing Association Health Plan legislation that would allow small businesses to pool together to purchase health coverage for workers at lower rates.

We also need to promote and expand the advantages of using health savings accounts ... how they can give workers more control over their health insurance and costs.

And we've got to reduce frivolous and excessive lawsuits against doctors and hospitals. Baseless lawsuits, driven by lottery-minded attorneys, drive up health insurance costs for workers and businesses.

The need to reduce the lawsuit burden on our economy stretches beyond the area of health care. That's why President Bush has proposed, and the House has approved, measures that would allow more class action and mass tort lawsuits to be moved into Federal court -- so that trial lawyers will have a harder time shopping for a favorable court.

These steps are the second key part of the President's pro-jobs, pro-growth plan.

Ensuring an affordable, reliable energy supply is a third part.

We must enact comprehensive national energy legislation to upgrade the Nation's electrical grid, promote energy efficiency, increase domestic energy production, and provide enhanced conservation efforts, all while protecting the environment.

Again, we need Congressional action: we ask that you pass legislation based on the President's energy plan.

Streamlining regulations and reporting requirements are another critical reform element that benefit *small* businesses, who represent the majority of new job creation: three out of every four net new jobs come from the small-business sector! Let's give them a break wherever we can so they're free to do what they do best: create those jobs.

Opening new markets for American products is another necessary step toward job creation. That's why President Bush recently signed into law new free trade agreements with Chile and Singapore that will enable U.S. companies to compete on a level playing field in these markets for the first time -- and he will continue to work to open new markets for American products and services.

Finally, we've got to enable families and businesses to plan for the future with confidence.

That means making the President's tax relief permanent.

Rate reductions, the increase in the child tax credit and the new incentives for small-business investment – these will all expire in a few years. The accelerated rate reductions that took effect in 2003 will expire at the end of this year. Expiration dates are not acceptable – we want permanent relief.

The ability of American families and businesses to make financial decisions with confidence determines the future of our economy. And without permanent relief, incentives upon which they can count, we risk losing the momentum of the recovery and growth that we have experienced in recent months.

The tax relief is the key stimulus for increased capital formation, entrepreneurship and investment that cause true economic growth.

Budgets work better when the economy is growing... because a growing economy means more jobs. That means more tax revenue... which leads to all-important deficit reduction.

Which leads me to my next area of discussion.

Let me be clear on this:

- The budget deficit that we face today is unwelcome.
- It needs to be addressed.
- The President's budget calls for cutting the deficit in half over the next five years.
- While addressing the deficit, we must remember that it is not *historically* overwhelming.
- It is understandable, given the extraordinary circumstances of recent history. Remember that we are fighting a type of war that we have never fought before. We are fighting an enemy that requires a much broader variety of government resources than anything we've ever confronted. And we began this fight when we were economically wounded.

What's most important to remember is that *we will be able to fight this war and climb out of the deficit.*

We can manage this deficit, and we can cut it in half over the next five years by *controlling spending and growing our economy.*

Three-quarters of the discretionary spending increases during this Administration have been related to the global war on terror and the response to 9/11.

Meanwhile, President Bush has reduced the rate of increase in non-security-related discretionary spending every year he has been in office: to six percent in 2002, five percent in 2003, and to four percent in the current fiscal year.

For Fiscal Year 2005 we're going to reduce the rate of increase in non-security discretionary spending to less than one percent.

Total annual appropriated discretionary spending will increase by less than four percent next year.

Holding the line on spending – while ensuring that our country is safe and our most important needs, from jobs to health care, are met – will achieve deficit reduction when coupled with all-important economic growth.

Again, this is why the budget cannot be discussed separately from the economy. Separating the two is what gets government into trouble.

Make no mistake; President Bush is serious about the deficit.

We see it as unwelcome, but manageable... and we intend to achieve: *rapid deficit reduction*.

A recent CBO report raised concerns about this matter, and it is important to note that recent and short-term projected budget deficits and the existence of long-term deficits for Social Security and Medicare are *not connected*.

These unfunded long-term net obligations are also a concern, and ones that this Administration has highlighted and invited bipartisan dialogue on.

The President has been clear on this: younger workers should have the opportunity to build a nest egg by saving part of their Social Security taxes in personal retirement accounts. His vision for the program is economically wise, and it is that we should make the Social Security system a source of ownership for the American people.

Are we dedicating ourselves to increased spending on the war on terror and protecting the homeland? The answer is yes. Yes, without sacrificing other necessities.

And that is because a nation must be safe in order for it to be prosperous.

A nation of entrepreneurs must also be able to plan, and to be relieved of as many burdens as possible, in order to be prosperous.

All of the budget issues and policy proposals that I've discussed today may seem, at times, to be a complicated recipe. But these ingredients combine to make something that is simply put, and is of utmost importance – and that is economic growth.

Growth is the key to every economic problem we confront. That's why we urge other countries to institute pro-growth policies. It's good for them, and it's good for the global economy that we are a significant part of.

Thank you for hearing my testimony today. I'll be happy to take your questions now.