Secretary John W. Snow
Opening Statement
Revenue Proposals in the President's FY 2006 Budget
Senate Finance Committee
February 8, 2005

Good afternoon and thank you Chairman Grassley and Ranking Member Baucus for having me here today to discuss the President's budget. I think you'll find that it exhibits a dedication to fiscal discipline, transparency, and economic growth.

By focusing on priorities and looking for savings in every agency, across the board, the President's administration has come up with a budget that we believe is fair while also holding the government accountable. As the President announced in his State of the Union Address last week, this budget adheres to the principle of "Taxpayer dollars must be spent wisely, or not at all."

It holds the growth of discretionary spending to just 2.1 percent, below the expected rate of inflation. Non-discretionary spending in this budget falls by nearly one percent, the tightest such restraint proposed since the Reagan administration.

This administration appreciates that cutting taxes and exercising fiscal discipline must go hand in hand. We appreciate that this is the people's money with which we are dealing, and that we work for the taxpayers.

That is why we are committed to making the President's pro-growth tax cuts permanent and building on our strengthened economic fundamentals as we submit to you a budget that will increase the efficacy of our government programs without over-spending the taxpayers' money.

Over the weekend, the finance ministers of the G7 met – the U.S. was represented by Treasury Undersecretary for International Affairs John Taylor – and they discussed the importance of promoting and achieving economic growth in our countries, as well as keeping our respective financial houses in order. These two issues are inextricably linked.

The way that we, as the executives of the federal government, manage the taxpayers' money sends a message to the people of America as well as to our trading partners and investors around the globe. When we control our spending, we are showing our citizens and the world that fiscal discipline is a priority on par with our policies that promote economic growth.

I'll talk more about fiscal discipline in a moment, but I'd like to start with a look at what we have recently achieved through pro-growth economic policies.

Well-timed tax cuts, combined with sound monetary policy set by the Federal Reserve Board, have resulted in very good economic growth and, most importantly, continual job creation. The economy has created over 2.7 million jobs since May of 2003. And while job growth can never be fast enough for those looking for work, the steady pace of job creation has been an unmistakable sign of an economy that has recovered from very tough times, and is now expanding.

Whenever I speak with my counterparts in the G7, I am reminded that the American economy is the envy of the world. Our recovery and growth, our successful dedication to entrepreneurship – all these things are admired, and increasingly emulated, by our G7 partners.

Is it any wonder that they want to learn the secret to our economic resiliency? A quick look at the facts reveals much to be envied: GDP growth for 2004 was 4.4 percent. Our economy has posted steady job gains for twenty straight months. The unemployment rate is down to 5.2 percent – lower than the average rate of the 1970s, 1980s and 1990s. Real after-tax income is up by over eleven percent since the end of 2000 and household wealth is at an all-time high. Inflation, interest rates, and mortgage rates remain at low levels. Homeownership rates are at record highs.

Tax cuts can be hard on budgets and deficits in the short term, but if the tax cuts are geared toward improving incentives there are long-term benefits as well as short-term ones, and this fact has been well illustrated by these outstanding economic results.

I point to this record because it is so important that we continue on a pro-growth path. Continued economic growth is needed, and will be needed, to continue to improve our standard of living and until every worker in America who is still looking for a job can find one.

For example, we've got to make the President's growth-enhancing tax cuts permanent – and that is included in this budget. The President's Panel on Tax Reform was also created with economic growth in mind. It is a group of some of the best minds in our country, and they'll be looking critically at the entire existing code and coming up with proposals that would make it fairer, less complex, and more pro-growth.

While the Panel is working on that historic task, our efforts to grow the American economy will continue in many other areas – I am particularly interested in legislation that will reduce the burden of frivolous lawsuits on our economy – and this budget is part of the Administration's overall pro-growth policy agenda.

As I already mentioned, economic growth is good for our country for the jobs it creates and the prosperity it spreads. But it is also, importantly, part of a winning strategy on deficit reduction – one of the top priorities of this budget – because economic growth increases Treasury receipts.

Treasury receipts are rising – in the second half of calendar 2004, individual income tax revenue is up 10.5 percent versus the same period in 2003 – and will continue to rise, as long as we have economic growth. That must be accompanied, as I emphasized earlier, by strict fiscal discipline. That is why the President's budget proposes real savings. I know it will have its critics as a result, but its frugality is essential.

Let me be very clear on this: we have deficits and they are unwelcome. But we are not under-taxed and higher taxes will not be the solution to reducing deficits. Fiscal discipline, combined with economic growth, is the correct path.

Using this approach, we are making headway on deficit reduction, and we're on track to halve the deficit by 2009. The deficit is also forecast to fall to 3.0 percent of GDP in 2006 and to 1.5 percent by 2009, well below the 40-year historical average of 2.3 percent of GDP.

The 2004 deficit came in at 3.6 percent of GDP – nearly a full percentage point lower than had been projected. And the 2005 deficit is projected to show another decline.

While we are pleased with this progress, we recognize that more needs to be done.

We need to make the tough choices on spending and stand steadfast in our commitment to continuing economic growth in order to see that deficit whittled down.

We also need to look at our long-term deficit situation. I spoke earlier about transparency, specifically the honesty of this budget, which deals openly with the needs of the times in which we live, from the war on terror to the need for continuing growth.

In the interest of honesty and transparency, I encourage all of us to follow the politically courageous leadership of our President by looking at, and dealing with, the $10.4 trillion deficit facing our children and grandchildren in the form of an unsustainable Social Security program.

The program is an important institution, a sacred trust, and it worked well for the times in which it was designed. It is, however, doomed by our country's demographics and in need of wise and effective reform.

The arithmetic is simple. As people live longer and have had fewer children, the ratio of workers paying into the system and retirees taking benefits out has dwindled dramatically. We had 16 workers paying into a system for every one beneficiary in 1950, and today we have just three workers for every beneficiary. That ratio will drop to two-to-one by the time today's young workers retire.

We all must agree that this demographic reality exists, that this problem exists. Social Security <u>is secure</u> for today's retirees and for those nearing retirement, it will not change for those people who are 55 and over… but it is offering empty promises to future generations. When today's young workers begin to retire in 2042, the system will be exhausted and bankrupt.

It is the future of the program that President Bush is concerned about, and it is the future of the program that we must address, this year, here on Capitol Hill. I echo the President's State of the Union Address in saying that we must join together to strengthen and save Social Security.

We can, and should, do this without increasing payroll taxes. The level of increases that would be necessary, if we maintain the status quo, would have a terrible impact on our economy. It would negatively impact economic growth; jobs would be lost. We don't have to go that way.

We can, and should, reform the system in a way that encourages younger generations of workers to build a nest egg that they own and control and can pass on to their loved ones.

Saving Social Security is an undertaking of historic proportions. We have hard work ahead of us as we strive for consensus in the name of younger generations.

We also have hard work ahead of us when it comes to strengthening the fundamentals of our economy: deficit reduction, good fiscal policy, energy policy, lawsuit abuse reform, and encouraging savings.

I appreciate that this Administration has an ambitious agenda… but it is a good one, worth the work it will take to move forward, together, on it.

Let's start by passing this responsible, pro-growth budget.

Thank you for having me here today; I'm pleased to take your questions now.