TESTIMONY OF
MITCHELL E. DANIELS, JR.
DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE
HOUSE BUDGET COMMITTEE

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Thank you, Mr. Chairman:

It's a privilege to be afforded this opportunity to present on behalf of President Bush his proposed budget for fiscal year 2002. We earnestly hope that today marks the first step in producing a good product through a good process: a sound, responsible budget that matches the nation's means to its goals and needs, and a process of cooperation and constructive give-and-take that conducts the public's business in an orderly, admirable manner.

This proposal took as its starting points a few basic principles.

First, the conviction, expressed by the President Tuesday night, that our national government should be active but limited. Accordingly, we are proposing that discretionary spending continue to grow, but at a more moderate rate than it has in the last few years. The President, by offering up his priorities and policy choices, means to start a healthy debate about how much to spend on what, and he recognizes that Congress will have its own, often different ideas, but he believes firmly that the total spent must be limited to the amount he has recommended.

Second, the idea that the budget should become more transparent and honest than its recent predecessors. We propose to return to the spirit of the Budget Enforcement Act, by working with Congress on a budget that sets actual limits on spending, followed by appropriations bills that conform to those limits and pass in a timely fashion. We propose to limit tactical circumventions, such as advance appropriations and bogus emergency spending that has served to evade legal expenditure limits and to confuse the public about how much its government is actually spending.

Lastly, the commitment to match the openness and responsibility we urge on

Congress with integrity in the crafting of our own proposal. We have attempted to ensure that the assumptions and data underlying our budget are as prudent and justifiable as we believe the use of each taxpayer dollar should be. We have tried to resist the trap of false precision, and provided ample room for the many large uncertainties that face us in planning for so many dollars over so many years.

With that preface, let me summarize the proposal we lay before this committee and the American people beginning today.

II. Reasonable but Restrained

The President proposes an overall discretionary spending level for 2002 that is reasonable, but restrained. It contemplates spending growth of 4% over 2001, amounting to $26 billion in new budget authority. 4% is more than the average American's budget will grow this year, and is ample to maintain and extend the useful activities of the federal government.

The reasonableness of this recommendation becomes even more clear in the context of the recent runup in federal spending. In what the nation's press has variously characterized as a "spree", a "binge", and an "explosion", discretionary spending has grown by 6% per year on average for three years, and by 8% last year alone. Taken together, these budgets added $200 billion to spending above the caps Congress had set for itself. Extended over 10 years, continuing spending growth at this 6% "spree" level would add $1.4 trillion in new spending above and beyond inflationary growth.

Thus, the President's 4% proposal comes on top of the largest spending base in U.S. history. Three years of large increases have raised the base of discretionary spending from $534 billion to $635 billion, and every department of the government has shared in the picnic. In fact, even after some agency budgets were held steady or even reduced somewhat to accommodate the President's new priorities, every department of government will be larger today, often much larger, than three years ago. Every department will show a healthy average increase for the last four years taken together.

It has become clear that this new era of large surpluses is more dangerous to the taxpayer than the preceding era of large deficits. Today's situation calls for more, not less, leadership from both the executive and legislative branches if fiscal health is to be preserved. In addition to insisting on a reasonable overall lid on spending this year, the President believes that a new set of caps or other limits must be negotiated between the administration and the Congress for the years ahead.

III. Debt Reduction

A principal goal of this President and his budget is dramatic reduction of the national debt. We have embarked on an historic reversal of the long-time trend to greater levels of federal indebtedness, with this year's reductions totaling well over $220 billion.

The President's budget aims to carry this program of repayment forward at unprecedented rates. Over the next five years, over $1 trillion of debt will be repaid, with another trillion or more in the five years after that. This amounts to all the debt that matures in that time period, essentially all the debt it is financially practicable to repay. It will bring national debt down to the lowest levels in a century, drop interest costs from their recent level of 15 cents of the federal dollar to a mere 2 cents, and bring the nation within a few years of total debt elimination.

The rapid retirement of our national debt will soon raise intriguing practical problems never before contemplated. Are we prepared to terminate the U.S. Savings Bond program? The programs where states and localities temporarily house their bond issue proceeds? What premiums, if any, is it smart to pay to induce bondholders to turn in their securities ahead of time?

The President's course toward debt elimination will require both skillful cash management and fiscal policy. The enormous surpluses of the years ahead raise the prospect that extra revenues will exceed retireable debt and lead to the amassing of large cash balances in government hands, and consequently their investment in private assets. In the administration's view, government ownership of a large piece of the economy is unacceptable on principle, as a threat to freedom, and unacceptable economically, as a sure source of inefficiency. We would hope that this conviction is shared unanimously by the Congress.

IV. New Priorities

The President's budget, by definition, expresses his priorities for America. Coming as his first budget submission following a national political campaign, it incorporates the commitments he made during that effort. The outline document we delivered to the Congress this week sets forth these initiatives with, I hope, sufficient clarity, and I will highlight only a few this morning:

- Education. The budget increases discretionary spending in the Education Department by 11.5 percent, the largest increase of any Department, with a particular focus on achievement, accountability, math and science, and reading.

- Defense. It increases defense spending $14. 2 billion, devoting additional resources to a pay raise, other quality of life improvements, and R&D.

- Medical R&D. It increases NIH by $2.8 billion, the largest increase in its history, toward the goal of doubling its budget.

- Veterans. It increases Veterans' discretionary spending by $1 billion.

- Conservation. It fully funds the Land and Water Conservation Fund, for the first time, at $900 million and increase National Parks funding by $100 million this year as a down-payment toward the elimination of its deferred maintenance backlog.

V. Budgeting with the Cards Face Up

In the new era of surging surpluses, Congress has become increasingly casual about using devices for escaping the tight discipline of its self-imposed caps. For instance, it has become common for the President and Congress to seize on emergencies, or even to declare one where arguably none exists, as an opportunity to pass massive supplemental spending bills. In the last three years, extra spending totaling over $80 billion has been passed in this way; the 2000 bill alone grew to $46 billion.

Unforeseen emergencies requiring federal resources will occur in almost any given year. Pretending that they will not, and then adding billions in nonemergency spending when the inevitable flood, hurricane, or crisis does happen, is not good practice.

The President's budget proposes to plan for such contingencies in the same common sense way that any business would, by setting aside a reasonable sum for emergency purposes, to be drawn on when legitimate crises occur. The National Emergency Reserve will be funded with $5.6 billion, an amount equivalent to the historical annual average for such events. Should true emergency needs for 2002 exceed that figure, supplemental spending would, of course, remain an option, but given a typical year, the nation would have provided responsibly in advance for unanticipated problems, and reduced the likelihood of runaway "Christmas tree" legislation.

Similarly, the practice of "advance appropriations" has spread rapidly in recent years. This funding beyond the next fiscal year likewise has been a means of caps evasion, and has tended to obscure the real amount of spending taking place in a given year. The Budget proposes to limit this practice to its proper purposes, primarily the spreading of funding for large-scale capital projects, as opposed to routine governmental activities.

Again, the fundamental improvement would simply be to return to the kind of budgeting familiar to every American business or family, by determining clearly in advance the total amount that it is prudent to spend, then debating the best allocation of those funds, and then making sure to live within those limits through the end of the fiscal year.

VI. Prudence about Uncertainties

The case has been forcefully made by advocates in both parties that the decade ahead, or any like period, cannot be predicted with great confidence. Factors affecting both the income and outlay sides of the budget sheet can and do shift in large and often sudden ways.

The administration agrees with this concern, and seeks to address it in the long-term outlook of this budget by reserving an enormous sum, fully 1/3 of the entire on-budget surplus, for those contingencies that may arise, and those new needs on which the nation may agree.

It is often pointed out that the over $5 trillion in expected surpluses on which, at present, all estimates concur, may not come to pass. Of course, this is almost axiomatic, when even short-term forecasts are so rarely on target.

The public discourse is dominated by worries that the actual surpluses will fall short of the estimates, and this is probably a natural reaction to the novelty of massive surpluses after a long era of deficits. But the data suggest that it is at least as likely that total surpluses before policy changes will come to more, not less than today’s projection.

The pattern of recent years has been for all forecasters to severely underestimate federal revenues, by amounts as high as $80 billion in a single year. This has not been principally a function of a strong economy, but rather of persistent underestimates of revenue growth compared to GDP growth. Looking forward, consistent with our attempt to utilize conservative budgeting assumptions, OMB has forecast this critical variable at levels well below its long-term historical average.

Also overlooked in most commentary about the amount of the aggregate surplus is the opportunity for the federal government to begin joining the rest of society in demonstrating real productivity improvement. Hundreds of billions of dollars of efficiency savings are clearly possible across the federal structure. Here, too, we have made the most cautious assumption and projected zero progress. We should cooperate to pursue these savings with all the vigor with which we contest our policy differences, and I hope the Congress will join the administration in a sustained, sincere effort to capture them, and add them to the available surplus funds.

Along with forecasting risks, significant uncertainties attach to major program areas. The best example is national defense, where most observers agree with the President that a fundamental review of both strategy and needs is urgently needed.
Athorough and honest assessment is now underway led by Secretary Rumsfeld, and will require some time to complete. No one can know its outcome as to dollar requirements; it could range from today’s spending levels to amounts substantially higher.

Attempts to maintain farm income, particularly among smaller producers, have consumed some $21 billion in the last 3 years alone. This is a troubling trend and a major problem that the Congress will confront soon, both as to this planting season and as to the years ahead through a new Farm Bill. Again, the exact amounts that may be spent above today's baseline levels are unknowable.

For all these and other reasons, the administration will set aside nearly a trillion of the projected surplus as protection against contingencies and as a reserve for any future spending above the baseline. The first $153 billion of this fund is targeted for Medicare reform.

Especially in view of the many large upside unknowns that could enlarge the available funds, it is clear that the budget reserves a more than adequate sum to manage the unavoidable uncertainties ahead. The most likely eventuality is that, at some future point, Congress will face another point at which it becomes obvious that the government is vastly overfunded, that taxpayers are being overcharged and should be allowed to keep more of their earnings.

The last part of the President's budget is, of course, his plan for tax relief. I will not repeat either the tenets or the arguments for the plan; both are well known. I will simply call to the committee's attention that, after growing government spending at moderate rates, paying down a record amount of national debt, fully protecting Social Security funds, and providing tax relief to working Americans, fully15% of the surplus remains uncommitted. Given the security of this reserve, continuing to extract money from workers at today's levels of taxation would be as unfair as it is unnecessary.

I thank the committee for its hospitality and am prepared to answer your questions.