Testimony of OMB Director Joshua B. Bolten
Subcommittee on Legislative and Budget Process
Committee on Rules
U.S. House of Representatives
March 11, 2004

Madame Chairwoman, ranking member Slaughter, and members of the subcommittee, it is a pleasure to testify regarding the President's budget enforcement and process proposals.

Just over a month ago, the President transmitted his 2005 Budget to Congress. His Budget 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 President's Budget, we will be well on the path to cutting the deficit in half within five years.

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 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.

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.

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 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.

With continuation of the President's economic growth policies and sound spending restraint as reflected in the Budget, our projections show the deficit will be cut by more than half over the next five years.

The spending restraint reflected in the 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:

- Reinstatement of caps on discretionary spending for five years, through 2009.
- A pay-as-you-go requirement to limit 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. Pay-go would not apply to tax legislation.
- Measuring the long-term unfunded obligations of major entitlement programs, along with a 60-vote hurdle in the Senate for legislation that would expand these obligations.

This proposal is based largely on the Budget Enforcement Act (BEA) of 1990. From 1991 to 2002, the Budget Enforcement Act (BEA) set statutory budget authority and outlay limits on discretionary spending and pay-as-you-go requirements for all other legislation that were enforced by across-the-board spending reductions.

Until budget surpluses surfaced in 1998, the BEA proved to be an effective brake on the growth in spending. The restoration of statutory enforcement mechanisms would serve as a critical tool for this Administration and the Congress to control spending.

This budget enforcement proposal is based on the premise that any increase in spending should be offset by a reduction in other spending. If a new spending proposal is of sufficiently high merit, there should be some item in the $2 trillion of existing spending that is a lesser priority.

More specifically, this legislative proposal would establish discretionary spending limits, mandatory spending controls, and a new mechanism to measure the Federal Government's long-term unfunded obligations and to prevent a net increase in these obligations.

<u>Discretionary Spending Limits</u>

The proposed legislation would establish annual statutory limits on discretionary spending for 2004-2009 that would be adhered to throughout the budget process.

An appropriations bill that exceeded these limits would be subject to a three-fifths vote of the Senate. If an appropriations bill was enacted that caused these limits to be exceeded, OMB would be required to make across-the-board cuts to eliminate the excess spending.

Pay-as-you-go for Mandatory Spending

Mandatory spending constitutes spending that is not thought of as under the discretion of Congress in the annual appropriations process and is frequently referred to as being on "automatic pilot." When President Kennedy was in office, mandatory spending represented one-third of the budget. There has been an explosion in mandatory spending since the early 1960s and today it amounts to 60 percent of the budget.

To control mandatory spending, legislative proposals that increase mandatory spending would have to be offset by reductions in other mandatory spending. Like the discretionary spending enforcement mechanism, this proposal would require a three-fifths vote of the Senate for legislation that violated this requirement. If legislation were enacted that caused a net increase in mandatory spending, OMB would be required to make across-the-board reductions in non-exempt programs.

Most states have recognized the bias for spending increases over tax relief and have established procedures to prevent tax increases. Thirty states have tax and expenditure limitations. In 15 states, it takes a three-fifths vote or more to raise taxes. And two states require tax increases to be approved by a majority of the voters.

This proposal recognizes that spending is the problem. Tax increases could not be used to offset mandatory spending under this proposal. And it would not subject tax relief legislation to pay-as-you-go procedures.

Long-term Unfunded Obligations

As discussed in the President's Budget, the real fiscal danger confronting our Nation is posed by the long-term unfunded obligations of Social Security, Medicare, and other entitlement programs. Spending decisions on entitlements often have ramifications on the budget outlook far beyond the 10-year congressional budget window used to score changes in policy. Enforcement mechanisms are needed to address the long-term impact of entitlement spending expansions.

Congress has already acted to require a more comprehensive review of the Medicare program's finances and to require the Medicare trustees to issue a warning when general revenues are projected to exceed 45 percent of Medicare's total expenditures. The President proposes to build on this reform by establishing a new enforcement measure to analyze the long-term impact of legislation on the unfunded obligations of major entitlement programs and to make it more difficult to enact legislation that would expand the unfunded obligations of these programs over the long-run. These measures would highlight proposed legislative changes that appear to cost little in the short run but result in large increases in the spending burdens passed on to future generations.

We are in the process of finalizing this legislative proposal and look forward to transmitting it to the Congress shortly.

Other Budget Process Reforms and Changes

In budgeting, the tendency is to focus on how we tax, borrow, and spend. While these are critical issues, in the end what matters most is what the government accomplishes with over $2 trillion in annual spending. The measure of government's success is not how much we spend, but rather how much we accomplish.

The President is keeping his Administration focused on what the American people care about – results. In August 2001, the Administration launched the President's Management Agenda. The Budget we submitted in February includes a scorecard that measures the progress agencies are making on this agenda in achieving results. In addition, starting with last year's Budget, we began evaluating individual programs through a Program Assessment Rating Tool. All of these efforts are designed to make the Federal Government accountable to the taxpayers.

In addition to the three specific spending enforcement proposals I have outlined today, all of the President's budgets have proposed other budget process reforms. These include a joint budget resolution, a biennial appropriations and budget process, a Government shutdown prevention provision, and a line-item veto. The Administration also supports a sunsetting commission to review agencies and programs at least once every 10 years and a commission to eliminate unnecessary spending.

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. Because it is critical that we maintain control of spending, the legislation we will transmit would limit discretionary spending, mandatory spending, and the long-term unfunded obligations of the Federal Government. We look forward to working with the Congress to enact budget process reform legislation into law.