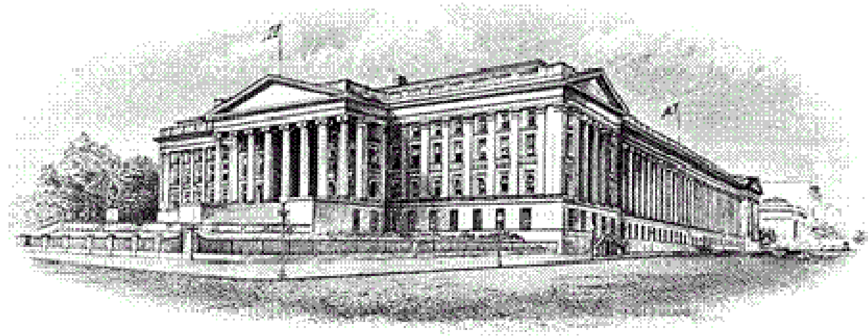

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

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SECRETARY JOHN W. SNOW
OPENING STATEMENT
THE PRESIDENT'S FY 2007 BUDGET
SENATE FINANCE COMMITTEE
FEBRUARY 7, 2006

Good morning. Thank you Chairman Grassley, Ranking Member Baucus, for having me here this morning.

I'm pleased to be here today to talk with you about the President's Fiscal Year 2007 budget. This budget represents the President's dedication to fiscal discipline, an efficient federal government and the continuation of a thriving U.S. economy.

Across the board, agencies were asked by the President to look closely at their budgets and make tough decisions, because fiscal restraint is not only necessary for deficit reduction, it is a necessary component of government that is responsible to the people who employ it.

Those tough decisions were made at all levels of government management, and as a result the President's budget holds the growth of discretionary spending below the rate of inflation and cuts spending in non-security discretionary programs below 2006 levels.

The Administration has identified 141 programs that should be terminated or significantly reduced in size because they aren't performing or could perform better with consolidation; they aren't giving taxpayers their money's worth. The savings for the American taxpayer would be 14 billion dollars.

Cutting the programs that aren't working and improving the efficiency of the ones that are is all part of accountability to the taxpayer. To assist lawmakers in this shared effort, the Administration launched ExpectMore.gov, a website that provides candid information about programs that are successful and programs that fall short, and in both situations, what they are doing to improve their performance next year. I encourage the members of this Committee and those interested in our programs to visit ExpectMore.gov, see how we are doing, and hold us accountable for improving.

This budget, with its policies of economic growth and spending restraint, keeps us on track to meet the President's steadfast goal of cutting the deficit in half by 2009.

It also seeks to avoid a tax increase by making the President's tax cuts permanent; I want to take a moment to explain why that is entirely consistent with our deficit-cutting goals.

In short, lower tax rates are good for the economy and a growing economy is good for Treasury receipts. Indeed, our rate of economic growth led to record levels of Treasury receipts in 2005. And, going forward, we project that receipts will rise every year. In 2011 we will again reach, as a percentage of GDP, the levels we've seen over the average of the last 40 years.

And there can be no question today that well-timed tax relief, combined with responsible leadership from the Federal Reserve Board, created an environment in which small businesses, entrepreneurs and workers could bring our economy back from its weakened state of just a few years ago. The American economy is now unmistakably in a trend of expansion, and those trend lines can clearly be traced to the enactment of the tax relief.

Since May of 2003, the economy has created 4.7 million jobs, two million of them in the last year alone. We found out on Friday that unemployment has fallen from 4.9 percent to 4.7 percent, running lower than the average for the 1970s, 1980s and 1990s. GDP growth was three and a half percent last year. U.S. equity markets have risen, and household wealth is at an all-time high.

The U.S. is, as the President often notes, the economic envy of the world.

When we look at the underlying fundamentals of the economy, its strength proves deep and solid, and we can see that businesses and workers have every reason to be optimistic about the future.

For example, we see that productivity growth remains strong. Output per hour in the non-farm business sector has risen at an average annual rate of 3.2 percent since the end of 2000, faster than any five-year period in the 1970s, 1980s or 1990s.

Household net worth – that's assets minus debts – is a record high, and not just because of housing. Deposits – the money in checking accounts, savings accounts, and money market funds – are at a record high and are larger as a share of disposable income than at any time since 1993. Defaults on residential mortgage loans at commercial banks are at historic lows.

In the past two years, the economy has generated about 170,000 jobs per month, and that includes the two-month slowdown in job growth in the aftermath of Hurricanes Katrina and Rita. In the past 32 years, new claims for unemployment insurance have almost never been as low as they have been recently, the *only* exception being the peak of the high-tech bubble from November 1999 to June 2000.

Core inflation remains low, and that's good news for everyone.

Independent private-sector forecasts point to continuing good news, and inflation-adjusted hourly wages grew 1.6 percent between September and December and this trend should continue.

We are, it appears, witnessing the tipping point on wages – when incomes rise for workers and business combined, but workers once again increase their incomes faster than businesses. Once businesses have been doing well for a while, they ultimately compete those increases in income away by competing harder for labor. The result is higher wages and higher standards of living for workers.

Both on leading indicators and a deeper background analysis, the American economy proves to be on solid footing. The question that those of us in government must look at now is this: *why* is our economy performing so well and what can we do to continue these positive trends?

It is a sweeping and important question, so today we'll ask a more focused question: what can our *budget* do, or not do, to keep the economy on track?

The answer to that is twofold: first, control spending. Second, don't increase taxes – let taxpayers keep as much of their money as possible to invest and spend.

And of course I use the term "taxpayer" quite broadly. I ask you to think of the individual and family budgets that benefit from lower taxes, but also of the small-business budgets. Lower marginal rates, for example, help small firms because they tend to file their taxes as individuals, not as corporations. We are proposing to allow small businesses to be able to deduct up to $200,000 of business-expanding investment as a permanent feature of the tax code, for example. This tax benefit encourages expansion and job creation in the sector that produces three-quarters of the nation's net new jobs.

Lower rates and a degree of certainty in the system are absolutely critical to keeping our economy, and our excellent rate of job creation, on track. And I cannot say this strongly enough: we can't beat the budget deficit without a strong economy. Tax increases carry an enormous risk of economic damage and I can tell you today that the President will not accept that risk. He will not accept a tax increase on the American people.

Fiscal discipline, combined with economic growth, is the correct path to deficit reduction, period, and we cannot let difficult decisions run us off of that path that we know is right.

Our government does, of course, face economic demands that are exceptional, from fighting the war on terror to helping the victims of devastating hurricanes put their lives back together. These are costly events that lead to unwelcome, brief deficits. They should be regarded as temporary as they are entirely surmountable with continued economic strength and spending restraint in the areas where it is possible and appropriate.

The second way for the budget to help keep the economy on track is to focus the taxpayers' precious resources on things that we know will make a difference.

In order for America to continue to be a dynamic engine of growth, President Bush is outlining action in three key areas: healthcare, energy, and America's competitiveness.

Affordable and Accessible Health Care. The President's reform agenda will help to make health care more affordable and accessible. Health Savings Accounts – putting patients in charge of their health care – will contribute to this goal. We need to make health insurance portable, make the system more efficient, and lower costs. We also need to level the playing field for individuals and the employees of small business by allowing small businesses to form Association Health Plans.

The expansion of high deductible health plans and HSAs is something I'd particularly like to emphasize. Combined with a high deductible health plan, HSAs allow people to save for future health care expenses while providing immediate protection against catastrophic health expenses. Furthermore, by giving people more control over their health care spending, they offer a more affordable alternative to traditional health insurance.

Today, millions of Americans – many of whom were previously uninsured –are enjoying access to more affordable health insurance because of the increased availability of HSA-qualified HD health plans. These plans are more available and becoming more popular, because saving for health care needs in an HSA now has the same tax advantages as a traditional health insurance plan.

It only makes sense to expand the scope of HSA qualified health insurance by making their premiums deductible from income taxes and payroll taxes when purchased by individuals. This is an important innovation that will significantly reduce the cost of health insurance purchased by individuals, particularly important for working people who don't have a federal income tax liability. As many of my friends on the Democratic side of the aisle have pointed out to me - payroll taxes are one of the most significant tax burdens for the poor. This innovation will enable more individuals to purchase affordable health insurance. Expanding HSAs so that policy holders and their employers can make annual contributions to cover all out-of-pocket costs under their HSA policy will further encourage adoption of qualified HDHP plans.

All told, the President's HSA proposals are projected to increase the number of HSAs from the current projected for 14 million to 21 million.

Advanced Energy Initiative. The President has said that the best way to break America's dependence on foreign sources of energy is through new technology. So the President announced the Advanced Energy Initiative, which provides for a 22 percent increase in clean-energy research at the Department of Energy. This initiative also builds on the energy legislation finally passed by the Congress last year that encourages and rewards energy conservation activity.

American Competitiveness Initiative. This ambitious strategy by the President will significantly increase federal investment in critical research, ensure that the U.S. continues to lead the world in opportunity and innovation, and provide American children with a strong foundation in math and science.

This budget also gives us an opportunity to look at the other ways – in addition to keeping tax rates low – that the federal government can make adjustments that add to a growth-friendly environment for the businesses, entrepreneurs and workers that produce that economic growth. Tax code reform remains a priority for this President and the President's Advisory Panel on Federal Tax Reform provided us this year with a strong foundation for a national discussion on ways to ensure that our tax system better meets the needs of our dynamic, 21st century economy. I appreciate the fine work of Senators Mack and Breaux, for their outstanding leadership of the Panel. This issue is also reflected in the budget through the proposed creation of a new Dynamic Analysis Division within Treasury's Office of Tax Policy. Understanding the full range of behavioral responses to tax changes, including how tax changes affect the size of the economy and, subsequently, tax revenues, is critical to designing meaningful, effective tax reform, and we believe this small expenditure will have an enormous pay-off for the American taxpayer.

With a focus on these and other good policies, we'll keep America competitive in the world and keep our economy strong as it has been for some time now.

In closing, I want to point out that a lot of good can come from a smart federal budget, and a considerable amount of harm can come from a bad one. Let's use the FY 2007 budget to make good policy – restrained as the circumstances dictate on spending but aggressive on the expansion of opportunity.

I look forward to working with all of you on enacting this budget. Thank you for having me here today; I'm pleased to take your questions now.

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