

Testimony of OMB Director Nussle
President's FY 2009 Budget
Budget Committee
United States House of Representatives
February 7, 2008

Chairman Spratt, Ranking Member Ryan, and distinguished members of the Budget Committee, it is good to be back in the hearing room with you. Thank you for having me before the Committee today to discuss the President's FY 2009 five-year budget proposal.

It has been a while since I have attended a hearing in this room. I have fond memories here, of the Budget staff, and all of you. I am honored to be back.

As was true when I was in Congress, I would not be here without the hard work and dedication of staff. Before I began my tenure as Director of OMB, I had respect and admiration for the OMB staff. This perspective has only grown stronger as I lead this team of talented, intelligent and dedicated professionals. It is truly a pleasure to come to work each day and roll up my sleeves next to them. I thank each and every one of them for their devotion to public service.

As you all know, for the first time the President submitted his Budget to Congress electronically. It is posted at www.budget.gov. We at OMB are excited to lead this effort for a few reasons: 1) it allows us to utilize technology to provide information in a user-friendly, fast and public way; 2) if others follow our lead, this step will result in conserving 20 tons of paper—saving over 480 trees; and 3) we finally have clean desk.

We are doing our part to provide transparency across the budget process, so thank you for indulging a few product promotions. To help Americans see where their money is being spent, we have launched a website called www.usaspending.gov. This is a result of the Federal Transparency Act that many of you championed. And to help Americans see the kind of results they are getting for their money, we launched www.expectmore.gov. I invite all Americans to log on and find out for themselves how their hard-earned tax dollars are being spent.

Let me turn to the budget itself. The President's FY09 Budget focuses our resources on our nation's highest priorities: the security of the American people and the prosperity of our economy.

The Budget invests substantial resources to protect the United States from those who would do us harm. Continuing our Nation's efforts to combat terrorism around the globe, the Budget provides our men and women in uniform the tools they need to succeed in Afghanistan and Iraq, and it furnishes the resources needed for our civilians to help those nations achieve economic and political stabilization. The Budget proposal also strengthens our overseas diplomatic capabilities and development efforts, advances our political and economic interests abroad, and improves the lives of people around the world.

Over the past seven years, we see the economy has successfully responded to substantial challenges, including a recession that began in 2000, terrorist attacks, corporate scandals, wars, and devastating natural disasters. It is a measure of our economy's resilience and the effectiveness of pro-growth policies that our economy has absorbed these shocks, grown for six straight years, and had the longest period of uninterrupted job growth on record. Yet mixed indicators confirm that economic growth cannot be taken for granted.

To insure against the risk of an economic downturn, the Administration urges Congress to quickly pass the bipartisan growth plan that will provide immediate, meaningful, and temporary help to our economy. The negotiated package provides approximately \$100 billion in temporary relief that would allow Americans to keep more of their paychecks to spend as they see fit. It also provides direct relief to businesses – approximately \$50 billion in near-term tax relief for business purchasing equipment to grow or sustain their capabilities. While this bipartisan package will add to the deficit in the short term, continued economic growth and continued spending restraint will help bring the Budget into balance in 2012.

Americans have real concerns about their ability to afford healthcare coverage, pay rising energy bills, and meet monthly mortgage payments. They expect their elected leaders in Washington to address these pressures on our economy. So this Budget puts forth proposals to make health care more affordable and accessible, reduce our dependence on foreign oil, and help Americans struggling to keep their homes.

Above all, the Budget proposal continues the pro-growth policies that have helped promote innovation and entrepreneurship. I join the President in his belief that higher taxes would only lead to more wasteful spending in Washington – putting at risk both economic growth and a balanced budget.

As we work to keep taxes low, we must do more to restrain spending to achieve balance by 2012. The Budget proposes to keep non-security discretionary spending growth below 1 percent for 2009 and then hold it at that level for the next 4 years. It also cuts spending on 151 projects totaling more than \$18 billion that are not achieving results – because good intentions alone do not justify a program that is not working.

There is also the matter of earmarks. Earmarks have tripled in number over the last decade and have increased spending by billions of dollars. Most earmarks are not even included in legislative text and are not subject to an up or down vote of Congress. Last year, the President has called on Congress to voluntarily reform the earmarking process. Unfortunately, limited progress was made. That's why the President announced during his State of the Union Address that he will veto any annual spending bill that does not meet his goal of cutting earmarks in half from FY08 levels on a bill by bill basis.

The President also issued an Executive Order instructing federal agencies to ignore earmarks unless included in bill text that has been reviewed and voted on by Members of Congress. This means earmarks will be subject to votes, which will better expose them to the light of day and help constrain excessive and unjustified spending. If Congress continues the

process of earmarking in report language, those projects will have to compete for federal dollars before funding is provided based on merit. We believe these changes are necessary to reform the culture of earmarking that has led to wasteful and unjustified pork-barrel spending.

As we take these steps to address discretionary spending, we also need to confront the biggest challenge to the Federal budget: the unsustainable growth in entitlement spending. Many Americans depend on programs like Social Security, Medicare, and Medicaid, and we have an obligation to make sure they are sound for our children and grandchildren. I am the third Budget Director to come before you with this request. If we do not address this challenge, we will leave our children three bad options: huge tax increases, huge deficits, or huge cuts in benefits. And the longer we put off the problem, the more difficult, unfair, and expensive a solution becomes.

The Budget proposal works to slow the rate of growth of these programs in the short term, which will save \$208 billion over 5 years. This step alone would reduce Medicare's 75-year unfunded obligation by nearly one-third. This is one of the most serious challenges that faces our country. I want to work with the members of this committee to address reforms that can avert the oncoming fiscal train wreck. In doing so, we need to make sure that all tools at our disposal are used to put these vital programs on a sustainable path. Reconciliation is such a tool, but if it is only used to increase spending and the size of the Federal government, it will be a missed opportunity to achieve retirement and health security for the American people.

Before closing, I would like to take a minute to discuss funding for our troops. Last February, the President's Budget included a full-year estimate for FY08 GWOT funding. While some changes were made to the request in the fall, Congress has had more than three fourths of our request pending since February. This past December, Congress chose to only provide partial funding for our troops and they will soon need the remainder of the request to ensure that operations continue without interruption. I ask Members of Congress to quickly consider the remaining funding our military commanders have told us the troops need to do their jobs. The Budget includes an allocation of \$70 billion for the Global War on Terror. A detailed request will be submitted to the Congress once we have secured the resources for FY08 and have better information on the changing conditions in the field from General Petraeus and Ambassador Crocker.

In the Budget, the President has set clear priorities that will help us meet our Nation's most pressing needs while addressing the long-term challenges ahead. With pro-growth policies and spending discipline, we will balance the budget in 2012, keep the tax burden low, and provide for our national security. And that will help make our country safer and more prosperous. Mr. Chairman, thank you for the time, and I look forward to your questions.

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FISCAL YEAR 2009

BUDGET

OF THE U.S. GOVERNMENT



OFFICE OF MANAGEMENT AND BUDGET

**OMB Director
Jim Nussle**

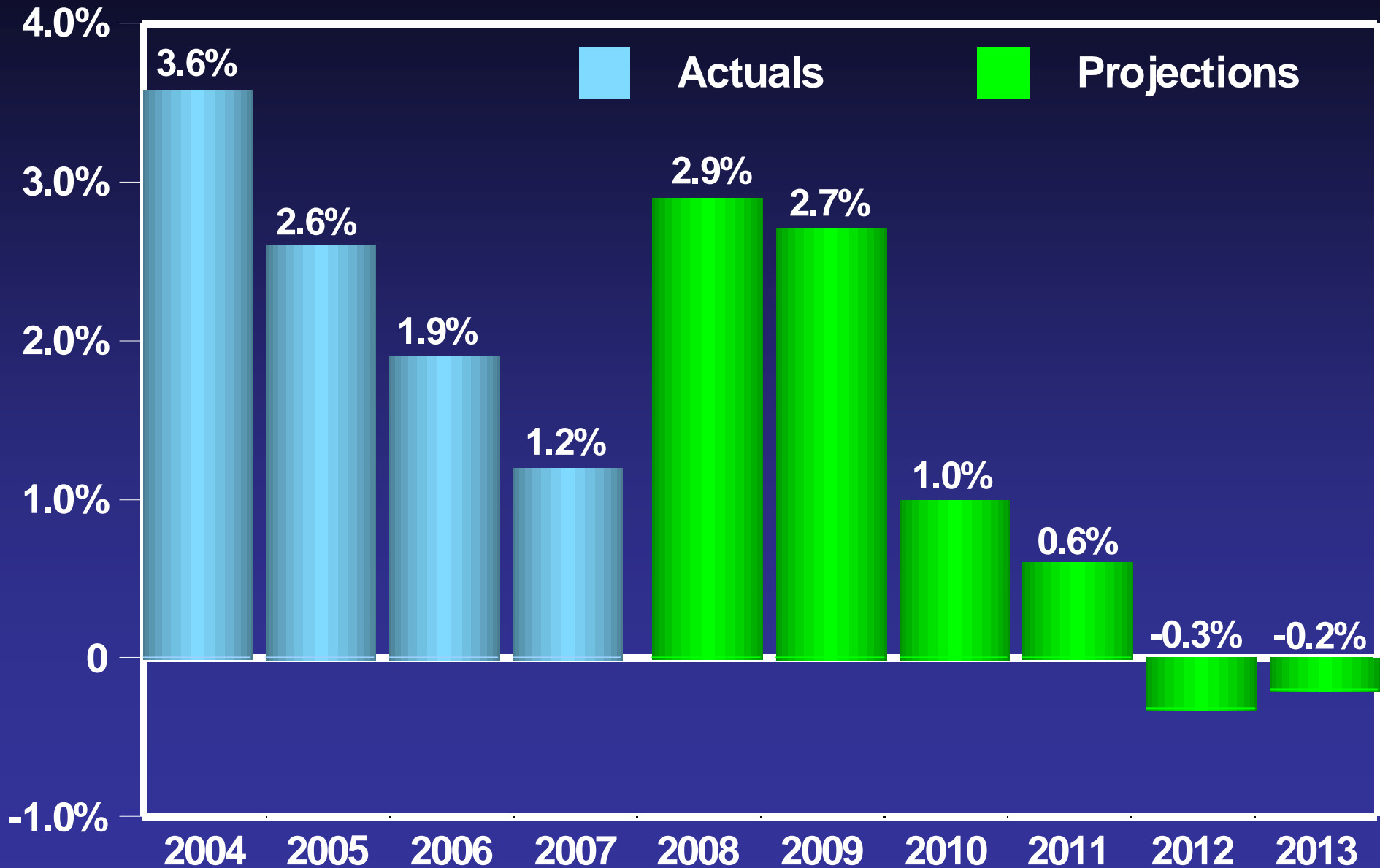
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The President's FY09 Budget

- *Addresses Immediate Economic Challenges*
- *Ensures Sustained Prosperity*
- *Keeps America Safe*
- *Balances the Budget by 2012*
- *Addresses the Long-term Spending Challenge*

Balancing the Budget

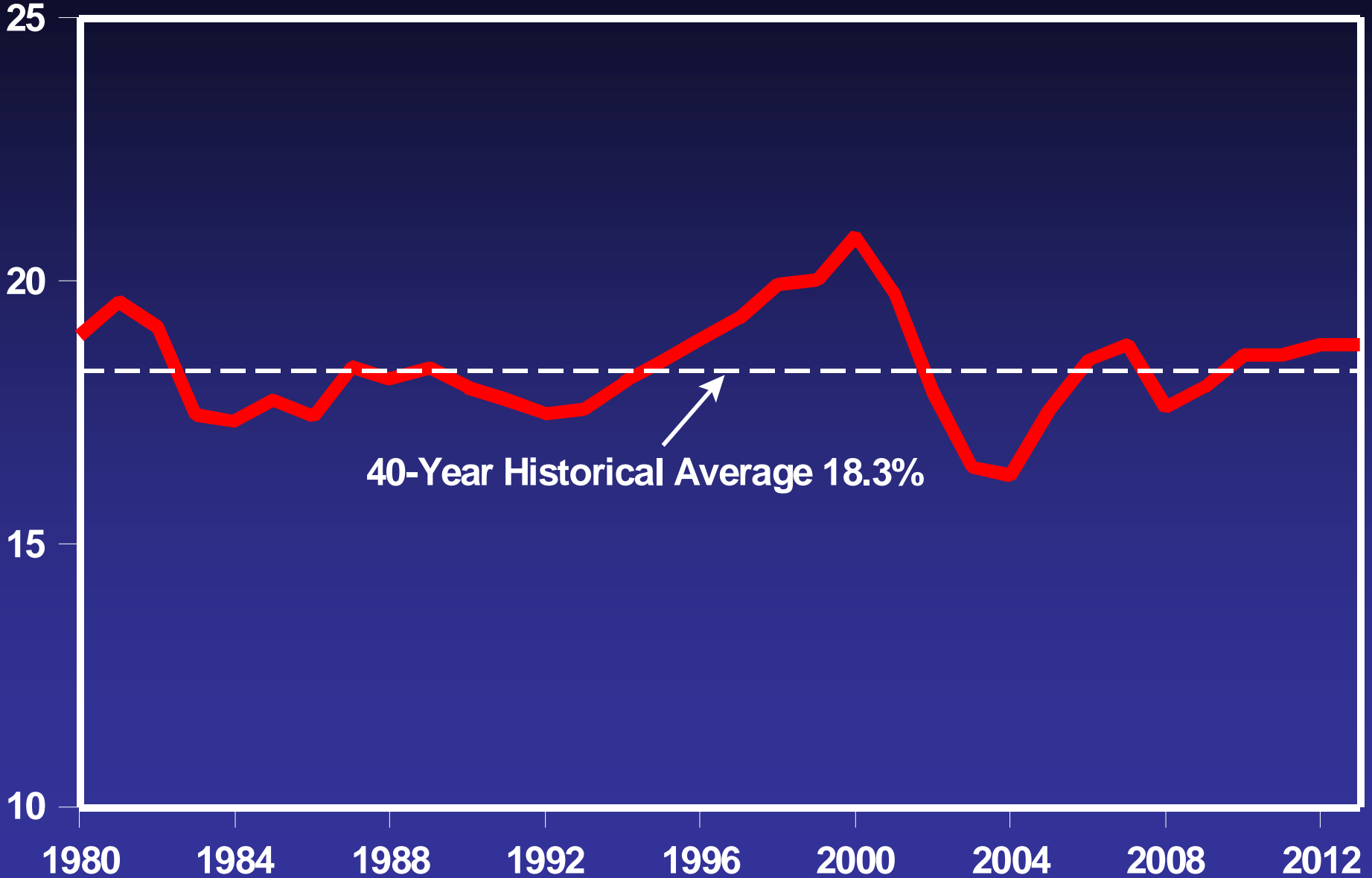
Deficit(+) / Surplus(-) as a percentage of GDP



Americans are Not Under-Taxed

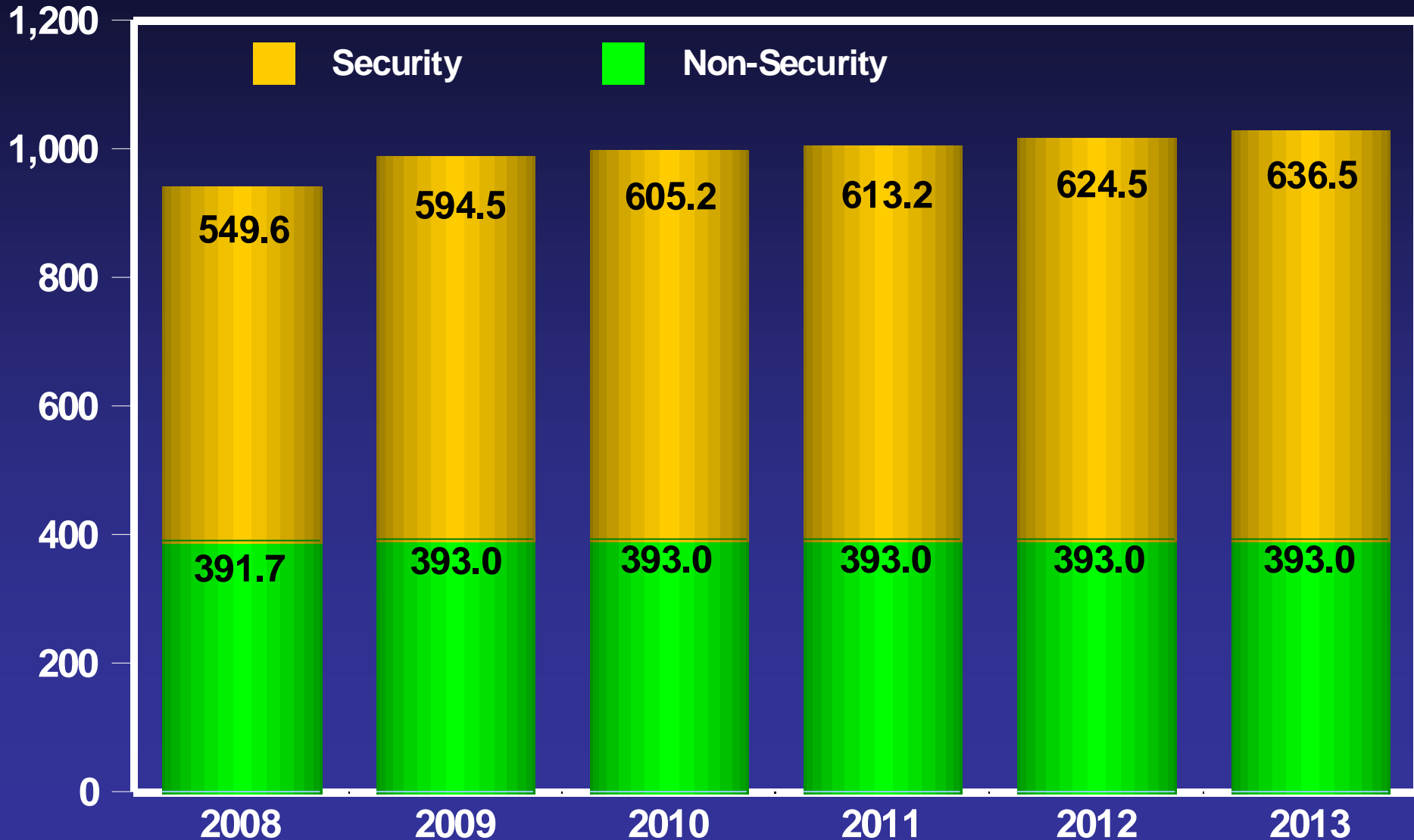
Receipts Near Historical Average

Percent of GDP

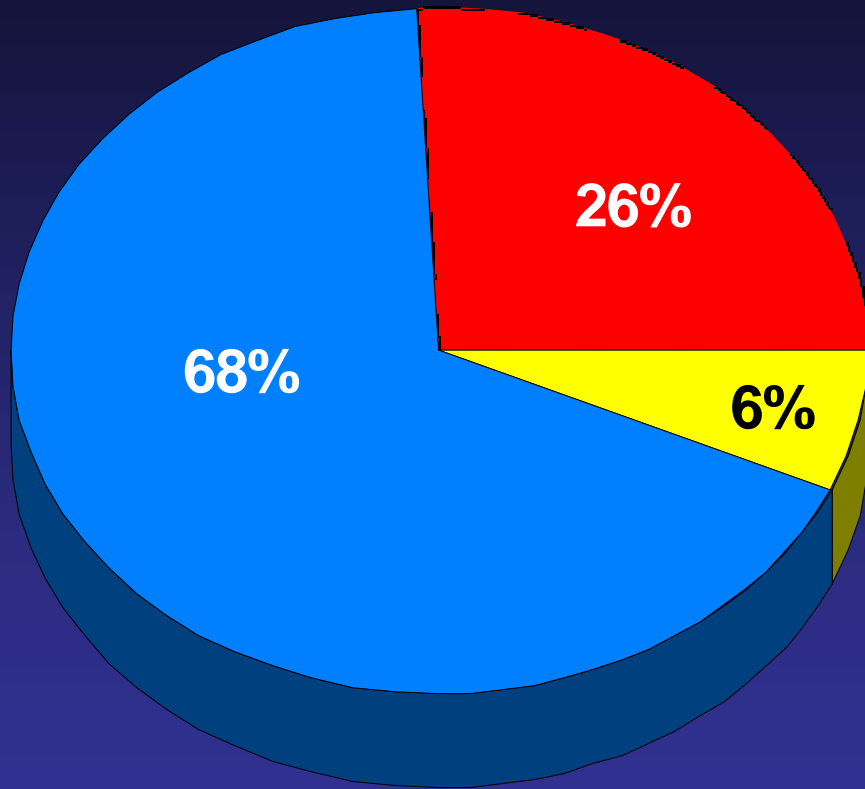


Must Keep Spending In Check to Achieve Balanced Budget by 2012

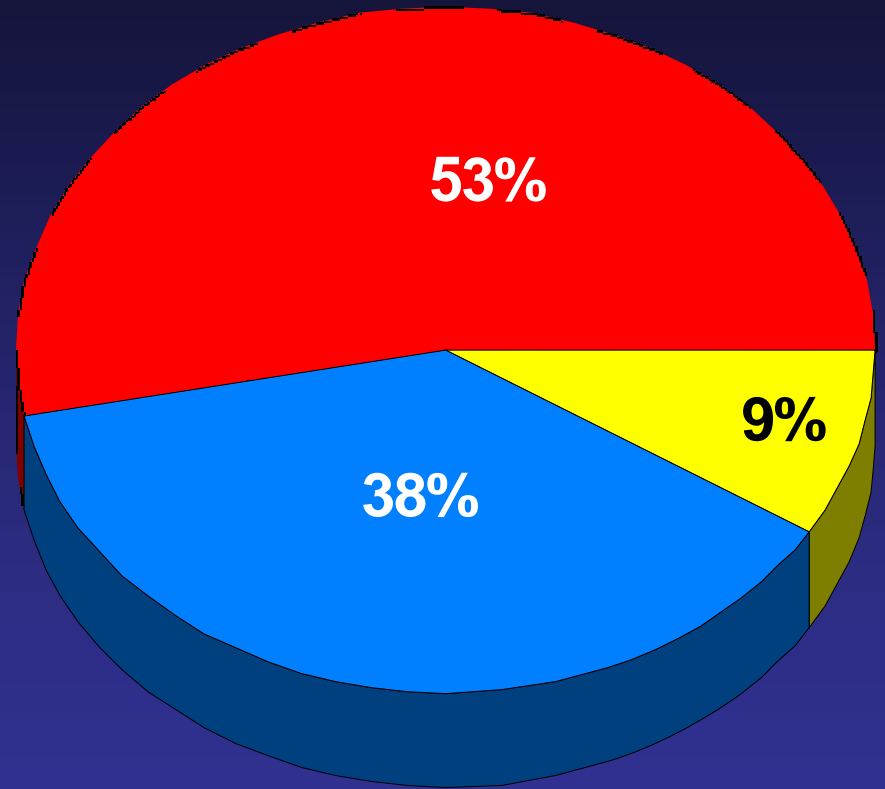
Base discretionary, net budget authority in billions



Mandatory Spending is Overwhelming the Rest of the Budget



1962



2007



Mandatory



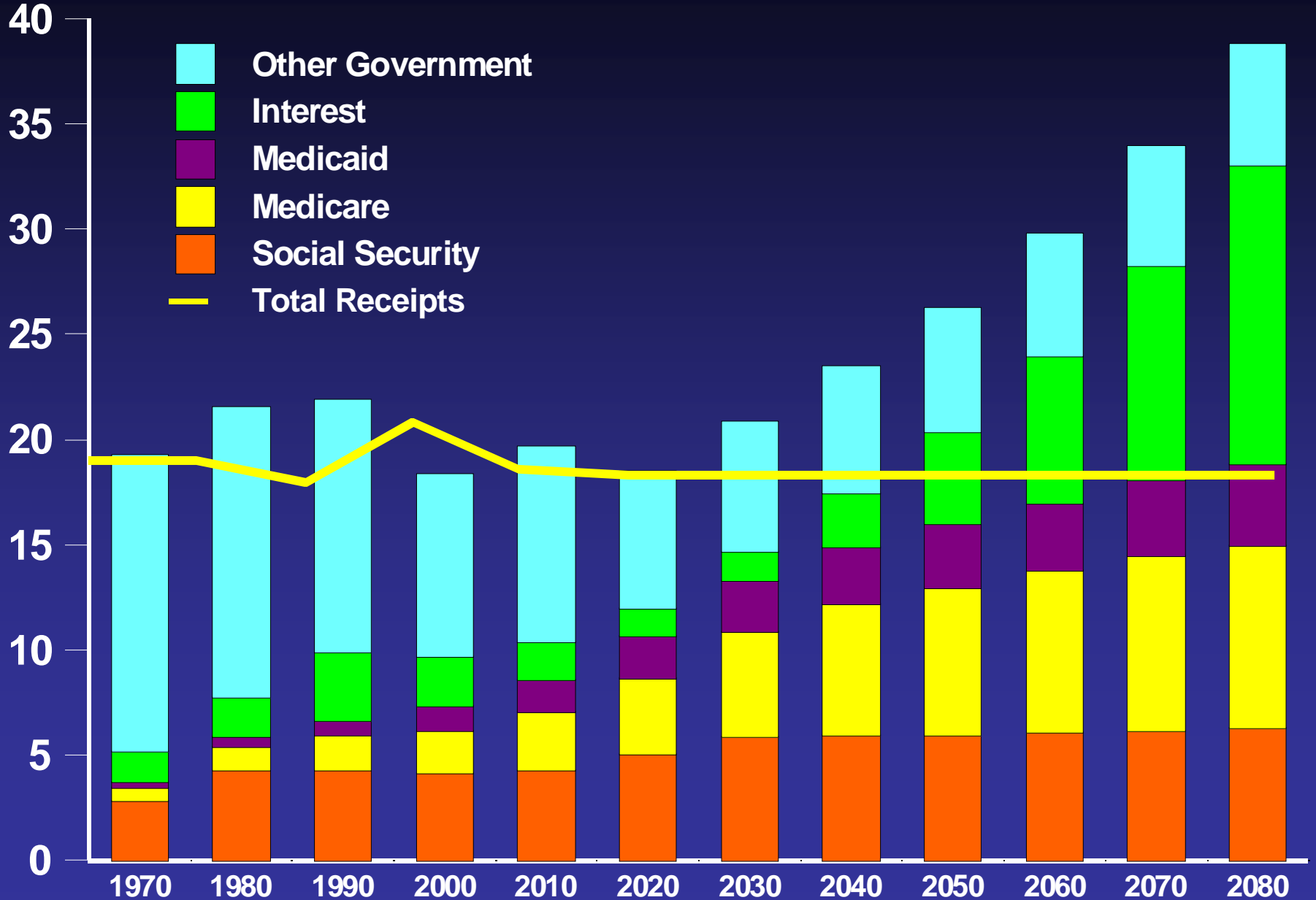
Discretionary



Interest

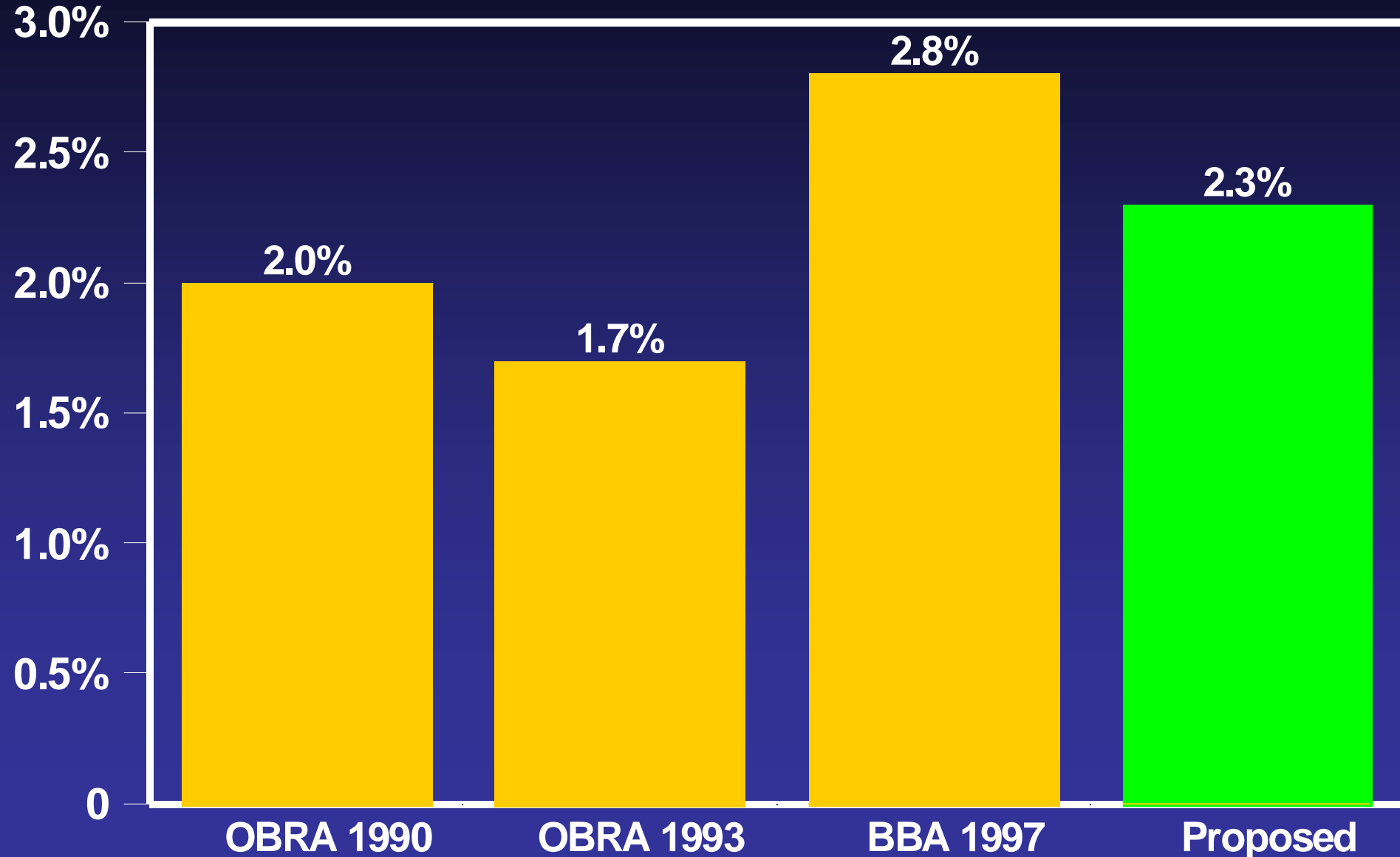
Current Trends Are Not Sustainable

Percent of GDP



Realistic Mandatory Savings Proposal

Savings over 5 years as a percent of baseline



Impact of Proposals on Medicare Spending

In billions of dollars

