

## ENSURING FISCAL RESPONSIBILITY

Since President Bush took office in January 2001, the Nation has faced an unprecedented combination of challenges. These challenges began with a stock market collapse that had started the previous spring, continued with a recession that took hold as the President entered office, and built with the revelation of corporate scandals later that year. The challenges grew exponentially with the terrorist attacks of September 11, 2001, and the loss of thousands of lives on American soil, followed by uncertainty about the potential for further terrorist attacks. The combination of these events posed perhaps the most serious test of America's resolve since the attack on Pearl Harbor and the country's entry into World War II.

President Bush has acted decisively to meet these challenges. He has championed three overriding priorities—winning the War on Terror, protecting the homeland, and restoring strong economic growth—and his budgets have met those priorities.

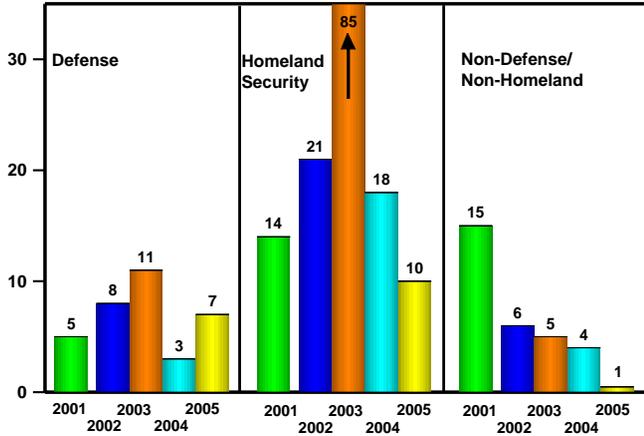
*The War on Terror.* Within days of the September 11<sup>th</sup> attacks, the President called for, and the Congress enacted, an unprecedented \$40 billion in emergency appropriations for recovery and rebuilding from the terrorist attacks, and to finance retaliation against the al-Qaida terrorists in their bases in Afghanistan. After successful action in Afghanistan, the President made the difficult decision to lead a coalition against the gathering threat of Saddam Hussein's regime in Iraq. The Congress enacted further supplemental appropriations in April and September of 2003 to finance continuing operations in Afghanistan and the war and subsequent rebuilding effort in Iraq.

*Homeland Security.* More than \$10 billion of the \$40 billion in emergency appropriations enacted after September 11<sup>th</sup> was devoted to protecting the homeland from future terrorist attacks. This funding helped to increase the number of sky marshals flying on commercial airlines, screen baggage at the Nation's airports, protect the approaches to our harbors, and acquire medicines to protect against anthrax and other biological agents. Annual appropriations since 2001 have more than tripled the resources devoted to homeland security, from a net discretionary base of about \$10 billion in 2001 to over \$30 billion proposed in this Budget for 2005. The adoption of the President's proposal to create the new Department of Homeland Security from 22 separate agencies in January 2003 is bringing a coordinated, comprehensive strategy to secure the Nation from terrorist attacks.

*Promoting Economic Recovery and Growth.* Confronting an economy entering recession when he took office, the President has acted decisively to create jobs and lay the foundations for healthy economic growth. The President's 2001 tax cut passed in May 2001 was perfectly timed to provide stimulus to an economy in the middle of recession, and subsequently battered by the September 11<sup>th</sup> terrorist attacks. At the President's request, the Congress delivered further incentives for business investment and relief for the unemployed in the March 2002 tax bill. Last year, not satisfied with the slow pace of the economic recovery and especially job creation, the President called for, and Congress enacted, further tax relief to promote economic growth and boost employment.

### Enhanced Security -- Restraint Elsewhere

Percent change in discretionary budget authority



Growth rates exclude supplemental appropriations. Supplementals increase defense and homeland security growth rates dramatically (these categories received 90 percent of supplemental funding).

Today's budget deficits are the unavoidable product of the revenue erosion from the stock market collapse that began in early 2000, an economy recovering from recession, and a Nation confronting serious national security threats. We can put the budget on the right path if we continue pro-growth economic policies and exercise responsible spending restraint. The Administration has insisted on fiscal discipline by restraining spending outside the critical areas of defense and homeland security. As shown in the accompanying chart, while spending on defense and homeland security has increased sharply, the Administration has held spending outside these critical priorities to smaller, and diminishing, rates of growth.

### *Recession and Collapse of Revenue Surge Bring Back Deficits*

At the beginning of 2001, the budget was beginning a fourth straight year of surplus, on the strength of a massive revenue surge due primarily to increased capital gains realizations from a booming stock market, growth in stock options, and bonus income to high-income taxpayers. From January 1995 to the market peak in March 2000, the S&P 500 equity index more than tripled and the technology-oriented NASDAQ composite stock index rose an astonishing six-fold, far outpacing the 32-percent growth in the overall economy during the period. At the height of the market-induced revenue "bubble" in 2000, receipts rose to 20.9 percent of Gross Domestic Product (GDP), matching the all-time peak reached during World War II. Receipts in 2000 were nearly \$300 billion above long-term historical trends, more than accounting for the \$236 billion surplus in that year.

In its first budget forecast, the Administration, along with the Congressional Budget Office and other budget forecasters, projected that recent high rates of revenue growth would gradually abate, but that the period of surpluses would continue. These forecasts reflected the best judgment of professional forecasters, but they could not anticipate the sudden combination of collapse in the stock market, the recession, the revelation of corporate scandals, the September 11<sup>th</sup> terrorist attacks, the subsequent War on Terror, or the spending and tax changes necessary to respond to these and other unanticipated events.

With the collapse in the stock market and the onset of recession, the revenue surge was dramatically reversed. Federal receipts actually declined for three years in a row, something the Federal Treasury has not experienced since 1923. Even with a small rebound in receipts now projected from 2003 to 2004, receipts are still estimated to be 11 percent below their peak in 2000.

Had there not been one dime of tax relief under President Bush, we would have still run substantial budget deficits. Even if one assumes no tax relief, no additional defense and homeland security spending, no unemployment assistance extensions to respond to the recession, and no other additional enacted spending, we would still have had a deficit in 2002, 2003, and 2004.

### *Putting Recent Deficits in Perspective*

As a result of the funding requirements for the War on Terror, the lingering effects of the recession and the ensuing slow recovery, the deficit for 2004 is estimated at \$521 billion. This deficit is an

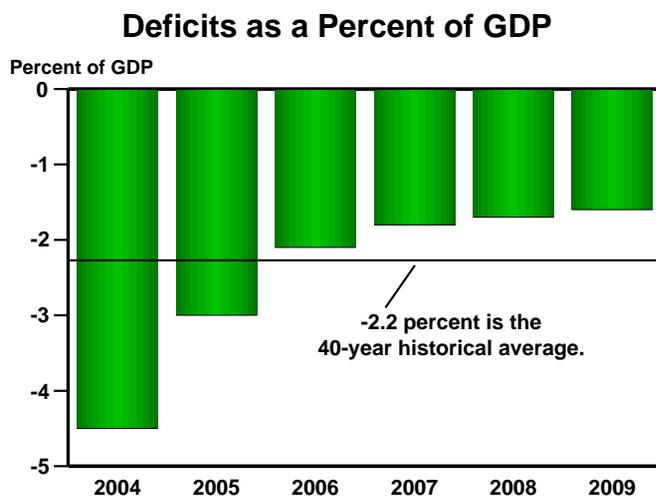
increase from the \$375 billion imbalance in 2003. While receipts are projected to increase in 2004 by \$16 billion—the first increase in receipts in four years—outlays are projected to increase by an even larger \$161 billion. Beginning with this Budget, the deficit is then projected to begin to decline, falling to \$364 billion in 2005—although this projection does not include expected but undetermined additional costs arising from ongoing military operations in Iraq, extending beyond 2004.

A deficit of \$521 billion is a legitimate subject of concern. Yet, even a deficit of this size should be kept in perspective. The potential impact of the deficit on credit markets and the overall economy is more appropriately measured by expressing it relative to the size of the Nation's GDP. A 2004 deficit of \$521 billion represents 4.5 percent of GDP forecasted to be \$11.5 trillion. This ratio of deficit to GDP is as low as or lower than the deficits in six of the previous 25 years and well below the 1983 peak of 6.0 percent.

Recent deficits should also be assessed by their actual effects on the economy. With demand subdued by the slow recovery from recession and terrorist attacks, the tax cuts and spending increases since 2001 have had an important stimulative effect on the economy. Moreover, these deficits have had no discernible effect on interest rates. Short-term interest rates remain at the lowest levels in more than four decades, influenced by the Federal Reserve Board's accommodative monetary policy. Long-term interest rates, which are less influenced by the Federal Reserve Board's actions, also reached historic lows last June, and are up only modestly since then—despite clear signs of economic strengthening.

### *Cutting the Deficit in Half*

More important than the deficit projected for any one year is the expected path of the deficit over a period of years and its relationship to the economy. This Budget estimates that the deficit will decline sharply from its 2004 peak of \$521 billion to \$237 billion in 2009. As a share of GDP, the economically relevant measure, the projected deficit falls to 1.6 percent in 2009, less than half of its estimated 2004 peak of 4.5 percent. The projected 2009 deficit is lower than the average deficit over the last four decades of 2.2 percent of GDP, including in periods of healthy economic expansion during the latter half of the 1980s and during most of the 1990s. Furthermore, the estimates in this Budget are based on a cautious economic forecast; if productivity continues to increase at its recent rapid pace, for example, the deficit could fall even more rapidly.

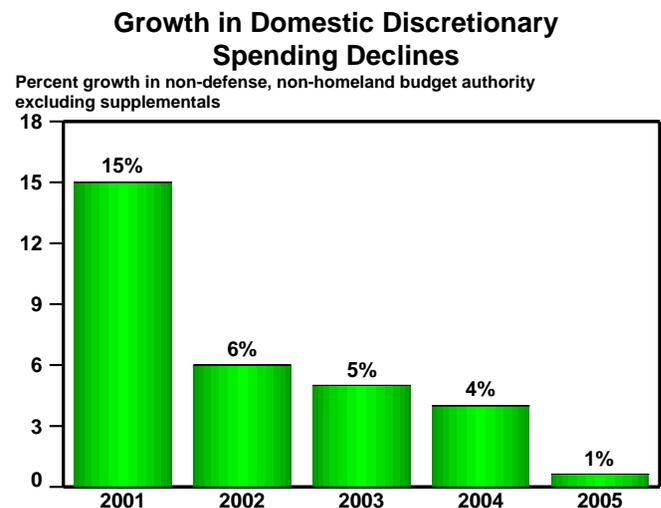


With continued pro-growth economic policies and spending restraint reflected in the Budget, deficits fall sharply.

The decline in the ratio of deficit to GDP can also be understood by looking at the path of projected receipts and outlays. Receipts have declined dramatically as a share of GDP since their peak in 2000, as a result of weak income growth due to the recession and a collapse in capital gains and bonus income due to the stock market downturn. Receipts are projected to reach a low of 15.7 percent of GDP in 2004 and then to rise, climbing to 17.8 percent of GDP in 2009, almost exactly matching their post-World War II average. While receipts are rising over the next few years, outlays are projected to decline slightly as a share of GDP reaching 19.4 percent of GDP in 2009. The rise in receipts as a share of GDP, coupled with a roughly flat ratio of outlays to GDP, produces the declining ratio of the deficit to GDP projected in the Budget.

This progress in reducing the deficit requires maintaining the fundamentals for strong economic growth, together with determined spending restraint. The Administration's tax cuts, while providing critical stimulus to the economy to jumpstart the current recovery, will also provide the underpinnings for strong growth for years to come. Business investment is recovering, fueled in part by the temporary bonus depreciation provisions in the 2002 and 2003 tax acts. Incentives for small businesses and entrepreneurs are healthy, thanks to cuts in marginal tax rates, increased expensing for small business, and reductions in and the eventual repeal of the punitive estate tax. The reduced tax rate on dividends and capital gains encourages sound investment and promotes the access of business to the capital needed for expansion. The President's six-point plan for economic growth and international competitiveness will reinforce the fundamentals for growth. It will make health care more affordable, reduce the burden of costly frivolous tort lawsuits, ensure a reliable energy supply, streamline regulations, open new markets, and enable families and businesses to plan for the future by making the tax cuts permanent.

Spending discipline is also critical to keeping the deficit on a declining path. Even as the Administration has increased funding in the critical areas of defense and homeland security, it has sought to ensure that spending outside these key areas is held to minimal growth. In 2001, the last budget year of the previous Administration, domestic spending unrelated to defense or homeland security grew by 15 percent. With the adoption of President Bush's first budget, for 2002, that number was reduced to six percent and has declined steadily thereafter, as the accompanying chart illustrates. This Budget continues the trend of increasing restraint on non-security related spending.



The current Budget proposes a 3.9-percent increase in overall discretionary spending for 2005, less than the average rate of growth in American family income and in keeping with the need to exercise responsible spending restraint. This includes a 7.1-percent increase in spending authority for defense, 9.7 percent for homeland security, and 0.5 percent—or below the rate of inflation—outside these areas.

This policy of spending restraint, reinforced by the budget enforcement measures described later in this chapter, is designed to ensure immediate and continuing progress in reducing the deficit from current levels.

### ***Fiscal Responsibility in the Long Term: Addressing the Real Fiscal Danger***

Social Security and Medicare are critical programs for ensuring the financial security and health of elderly Americans, and President Bush is committed to ensuring that these programs continue to deliver benefits both for today's beneficiaries and for future generations of retirees. Unless these programs are reformed however, over the long run they will overwhelm the rest of the budget and place an unsustainable burden on future generations.

While the outlook for the budget improves considerably over the next five years, looking at the budget over a much longer term yields a less encouraging picture. Although projections of the budget

### **Budget Authority and Outlays: Decisions versus Disbursements**

Budget authority and outlays are both important measures in the budget process. However, when measuring an Administration's and Congress' action on a budget, budget authority is the appropriate measure because it reflects legal authority the Congress and the President grant agencies to spend money. Outlays (actual expenditures) are the result of budget authority. The growth rates set forth in the text refer to budget authority.

The difference between the two boils down to budget decisions versus cash disbursements. At the time the Congress passes an appropriations bill and the President signs it into law, the law provides appropriations or budget authority, not outlays.

Outlays, on the other hand, are recorded at the time that cash for goods and services purchased by the Government is disbursed from the Treasury. The budget deficit is equal to the amount total outlays exceed total revenues for a particular fiscal year. Outlays lag budget authority, frequently by years for procurement and grant programs. As a result, outlays in a fiscal year come from both new appropriations and appropriations made in previous years. (The *Analytical Perspectives* volume provides a more detailed discussion of the relationship of budget authority to outlays.) The Congress and the President can only control outlays by changing budget authority levels.

*The Consolidated Appropriations Act of 2001 as an example.* On December 21, 2000, President Clinton signed the Consolidated Appropriations Act of Fiscal Year 2001, which provided funding for the remaining three regular appropriations bills (Labor, Health and Human Services and Education; Treasury and General Government; and the Legislative Branch). This omnibus appropriations bill provided \$126.6 billion in discretionary budget authority for fiscal year 2001, which was already in progress at the time. The bill was estimated by OMB to result in only \$62.5 billion in outlays in 2001, the last budget year of the Clinton Administration. While this bill was signed into law by President Clinton, the \$64.1 billion balance in outlays, more than half of the funding provided in this law, was estimated to be spent after 2001, and is still being spent today, all during budget years covered by the Bush Administration.

over the next few decades and beyond are subject to enormous uncertainty, fundamental forces are at work that will create serious fiscal problems if left unaddressed.

The main source of the long-run fiscal problem is demographics. As Americans live longer and the birth rate falls, the ratio of workers to retirees is decreasing. In the 1960s, there were five workers for every retiree, and in recent years this ratio has remained around 3.3. According to the Social Security actuaries, the ratio will begin to decline around 2007, reaching 2.9 in 2015 and 2.2 in 2030. The change is especially rapid during the years when the large baby boom generation born between 1946 and 1964 reaches retirement age; but even after the post baby boom generation begins to retire, the ratio will continue to fall, reaching 1.8 in 2080, the last year of the actuaries' projections.

Because the Nation's two largest entitlement programs, Social Security and Medicare, are based in large part on the principle that current workers pay the benefits of retirees, these programs are heavily influenced by this decline in the ratio of workers to retirees. So far, the effects of this shift on the budget have been muted, because today's retirees are from the relatively small pre-baby boom generation, while the baby boomers are still active in the labor force. In the next several decades, however, the impact of lower birth rates and longer life expectancy will begin to take a visible toll on both Social Security and Medicare.

The result of this demographic shift is a steady worsening of the finances of the Social Security and Medicare programs. Today, Social Security's dedicated revenues, boosted by the payroll taxes of the large baby boom generation, are more than sufficient to finance the benefits paid to the relatively small generation of retirees born before the boomers. In only about a decade, however, the balance begins to turn unfavorable as the boomers enter retirement and leave a relatively smaller generation

of younger workers. According to the Social Security actuaries, the current surplus of dedicated revenues over benefit payments of 0.7 percent of GDP will begin to shrink once the baby boomers begin to retire, turning into a small deficit starting in 2018. By 2030, with the entire baby boom generation in retirement, the program will face a gap of 1.4 percent of GDP. The actuaries estimate that the gap will grow to 2.3 percent of GDP in 2080, at which point Social Security's dedicated revenues would only be sufficient to cover two-thirds of benefit payments under current law.

Medicare faces the same demographic pressures as Social Security, exacerbated in this case by continued high rates of growth in health care costs. Over the last two decades, Medicare's spending per beneficiary has grown 1.6 percentage points faster than GDP per capita. Due to the combined effects of growth in Medicare enrollment and continued excess growth in health costs, the worsening of Medicare's finances is expected to be even more severe than that of Social Security. Medicare's two programs, Hospital Insurance and Supplementary Medical Insurance, already face a gap between dedicated tax revenues and benefits of 0.8 percent of GDP. (This gap is covered by a transfer of general revenues from the general fund to the Medicare trust funds.) The 2003 Medicare trustees' report projected that this gap would grow dramatically in the next few decades, reaching 1.1 percent of GDP in 2015 and 2.6 percent of GDP in 2030. By 2075, the gap would be 6.5 percent of GDP, with dedicated revenues covering only 28 percent of benefits.

A different way of understanding the size of the imbalance facing Social Security and Medicare is to compute today's equivalent of the cumulative financing shortfall in these two programs for some future period, traditionally over the next 75 years. For Social Security, the 75-year gap between dedicated revenues and benefit payments totals \$4.9 trillion. For Medicare, the combined shortfalls of the Hospital Insurance and the Supplementary Medical Insurance programs in the 2003 trustees' report totaled \$15.8 trillion. The cumulative shortfall for Social Security alone exceeds the present level of debt held by the public; together with Medicare, the financing shortfall is more than five times the level of the current debt.

Even a 75-year time frame for analyzing Social Security and Medicare can be misleading because it does not take into account the degree of the financing shortfall beyond the 75-year period. For example, the Social Security actuaries estimate that a flat 1.92-percent increase in the payroll tax would be sufficient to put Social Security in actuarial balance over 75 years, leaving the trust fund with a small balance at the end of the period. The trust fund would be exhausted immediately thereafter, however, because of the continuing gap between benefit payments and the program's dedicated income. An alternative approach looks at the program going out into the indefinite future. Considered in this framework, estimates of Social Security's unfunded obligations jump to \$11.9 trillion, or more than double the number produced by the 75-year calculation.

*The Effects of Economic Growth.* Stronger economic growth is crucial to improving the budget picture in the short term, and it will have long-term benefits as well. The acceleration in the rate of growth in labor productivity is certainly encouraging, and may continue indefinitely. Stronger economic growth alone, however, will not resolve the long-run imbalance in Social Security and Medicare.

Social Security benefits are financed by payroll taxes. As worker productivity rises, real wages tend to follow. This means that an acceleration of economic growth today should increase the amount of payroll tax income flowing into the Social Security trust fund. However, future Social Security benefits are linked to current wages, so as wages and payroll taxes rise, future benefits increase roughly in proportion, and the actuarial imbalance in Social Security is reduced only slightly.

The Medicare program is financed by a combination of premiums, payroll taxes, and general revenues, so that if the economy continues to exhibit strong growth, it will see an increase in proceeds in the same way that Social Security would. Unlike Social Security, however, Medicare benefits are not determined by wage levels, but by health care costs. Thus, a stronger economy can increase the

flows of revenues into Medicare without automatically increasing future benefits, thereby reducing Medicare's actuarial imbalance.

*Social Security Modernization.* Shortly after taking office, the President established the bipartisan President's Commission to Save Social Security. The charge of the Commission was to present options to modernize and restore solvency to Social Security through the addition of voluntary personal retirement accounts, while preserving current benefits to those already in or near retirement. In its final report, the Commission outlined three models for reform, all of which would provide substantially higher expected benefits than those payable under current-law Social Security revenues. The President remains committed to strengthening Social Security through the establishment of voluntary personal accounts in which workers would be permitted to save and invest a portion of their payroll tax contributions. These accounts would provide individuals with more choices, increase total expected Social Security benefits, permit individual participants to bequeath unused assets to their heirs, advance-fund a portion of future program obligations, and reduce the long-term imbalance between costs and revenues.

*Medicare Modernization.* From the beginning of the Administration, the President has been committed to fulfilling Medicare's promise of health care security for America's seniors and those with disabilities. The President has vigorously pursued modernizing Medicare's outdated benefit package to include prescription drug coverage, provide more reliable choices of health care coverage, and offer better coverage of preventive services. The President has also insisted that any Medicare modernization effort address the program's long-term financing shortfall so that Medicare can continue to honor its promises to future generations.

Passage of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 fulfills the President's commitment to modernize Medicare. Seniors and the disabled will now have access to prescription drugs and other health care innovations. Moreover, the legislation lays the foundation for addressing Medicare's long-term financing challenge by dramatically increasing beneficiary choices and market-based competition, which are the essential ingredients for improved quality and lower cost growth.

During the development of this landmark legislation, the Administration recognized that this enhanced benefit package, while a vital addition to the Medicare program, would put additional pressure on the long-term growth in program costs. The Administration therefore insisted that the legislation require a comprehensive analysis of Medicare's financial position and new fiscal safeguards to alert the President and the Congress when Medicare's dedicated revenues are projected to fall below levels adequate to sustain the program.

The full impact of Medicare's financial shortfall has been obscured because traditional financial measures of Medicare focus on only half the program—the outlook for the Hospital Insurance trust fund, which covers hospital expenses. These measures do not consider Medicare's other trust fund, the Supplementary Medical Insurance (SMI) trust fund, which pays for doctor and outpatient services and now the new prescription drug benefit. The SMI trust fund is partially financed by beneficiary premiums, but the remainder is paid for by an unlimited tap on general revenues, the ultimate source of which is the Federal taxpayer.

The new legislation requires the Medicare Trustees to analyze the Medicare trust funds on a combined basis. This comprehensive view of the program is necessary to provide a clear assessment of Medicare's true fiscal status. The legislation also requires an analysis of the program's reliance on general revenues to make up the gap between expenditures and dedicated revenues. The trustees must issue a warning if Medicare's reliance on general revenues is projected to exceed 45 percent of total Medicare expenditures at any point during the following six years. Current projections indicate that Medicare will rely on general revenues for 31 percent of funding this year, and that the level of

general revenue funding may reach 45 percent by 2014. If the Trustees issue warnings in two consecutive years, the bill provides special legislative procedures to allow the President and the Congress to address the shortfall in advance of financial crisis in the Medicare trust funds.

### ***Budget Enforcement: Slowing the Growth in Spending***

Through pursuit of the President's pro-growth economic policies and responsible restraint in Federal spending, the President's Budget puts the deficit on a responsible downward path. Since the Congress has the power of the purse, the President cannot reduce spending on his own. In order to ensure restraint in the growth of Federal spending, the President's Budget proposes a comprehensive framework to establish spending controls in law binding both the Congress and the Executive Branch.

The Administration's proposal is largely based on the Budget Enforcement Act (BEA). From 1991 to 2002, the BEA set statutory budget authority and outlay limits on discretionary spending and a pay-as-you-go requirement 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.

Currently, there is insufficient focus on how individual spending bills affect total spending. Whether it is an appropriations bill or a proposal to increase mandatory spending, there is enormous pressure to add spending. Legislation tends to be considered in isolation and not in the context of the entire budget. In isolation, these spending items may appear to have sufficient merit, particularly when there is no overall accounting of the effect of enacting an increase in spending. However, when added to the \$2 trillion in current spending and the growth in Federal spending under current law, they can pose a significant threat to deficit reduction efforts.

The President's 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, the Administration will transmit a legislative proposal to establish discretionary spending limits, mandatory spending controls, and a new mechanism to measure the Federal Government's long-term unfunded obligations and to prohibit a net increase in these obligations. (Chapter 14 of the *Analytical Perspectives* volume provides an overview of the Administration's proposals for BEA extension and other budget reforms.)

*Discretionary Spending Limits.* The President proposes annual statutory limits on discretionary spending through 2009 that would be adhered to throughout the budget process. The President's proposal would require a three-fifths vote of the Senate for an appropriations bill that caused these limits to be exceeded. 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.

*Mandatory Spending Controls.* 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 nearly two-thirds of the budget.

In order to control mandatory spending, the President proposes to require legislative proposals that increase mandatory spending to be offset by reductions in other mandatory spending. Like his discretionary spending enforcement mechanism, this proposal would require a three-fifths vote of the Senate for legislation that violated this requirement. If legislation was enacted that caused a net increase in mandatory spending, OMB would be required to make across-the-board reductions in non-exempt programs. The President's proposal would modify the pay-as-you-go mechanism that

was in existence from 1991–2002 to set a requirement that mandatory spending legislation could not cause a net increase in spending.

In the case of the President's proposed health care credit, the Budget includes contingent offsets that would cover the estimated increases in mandatory spending that would result from this proposal. When the Congress moves legislation to implement the President's health care credit proposal, the Administration will work with the Congress to offset this additional spending.

*Long-term Unfunded Obligations.* As discussed earlier, the real fiscal danger is posed by the long-term unfunded obligations of the Social Security, Medicare, and other entitlement programs. Spending decisions on entitlements often have ramifications on the budget outlook far beyond the conventional 10-year window used to score changes in policy. Enforcement mechanisms are needed to address the long-term impact of entitlement spending expansions.

The 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 the program's reliance on general revenues is 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 avoid enactment of such legislation if it would expand the unfunded obligations of these programs over the long run. These measures will highlight the long-term financial challenges facing the Nation and prevent enactment of policy changes that appear to cost little in the short run but result in massive increases in the spending burdens passed on to future generations.

The number of people of retirement age is projected to surge by about 80 percent over the next 30 years, raising costs for federal health and retirement programs. Meanwhile, the number of workers whose taxes help pay for those benefits is expected to grow by only 15 percent. In addition to that demographic situation, costs per enrollee in federal health care programs are likely to grow much faster than inflation. As a result, spending on Medicare, Medicaid, and Social Security as a share of GDP will rise sharply. In the absence of changes to federal programs, that rise could lead to unsustainable levels of debt.

CBO, *The Budget and Economic Outlook: An Update*  
August 2003

*Tax rate increases of sufficient dimension to deal with our looming fiscal problems arguably pose significant risks to economic growth and the revenue base. The exact magnitude of such risks are very difficult to estimate, but they are of enough concern, in my judgment, to warrant aiming to close the fiscal gap primarily, if not wholly, from outlay restraint. At the same time, the dimension of the challenge, especially in later years, cannot be underestimated.*

Alan Greenspan, Chairman of the Federal Reserve  
Remarks at the Securities Industry Association Meeting in Florida  
November 2003

While the President's proposed budget enforcement proposals can be effective tools in implementing responsible spending restraint, these tools will only succeed if implemented and followed by both the Congress and the Administration. The President and the Congress have made great strides in reducing the growth in non-security related spending during a particularly challenging period of America's history. These new tools will enable us to continue and expand on this progress this year and in the years ahead.

