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W	17	3	2	1	2298	15233	3702	3837

Folder Title:

State of the Union F/C [Fact Check] - Fiscal Discipline, Regulation, Social Security Reform,
01/20/2004

Withdrawn/Redacted Material

The George W. Bush Library

DOCUMENT NO.	FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
001	Comments	CEA Notes on SOTU Text [with attachment]	2	01/18/2004	P5;
002	Speech	[State of the Union Address - pages 8-14]	7	01/20/2004	P5; P6/b6;
003	Email	RE: State of the Union Budget Language - To: Christopher Michel - From: Joel Kaplan	2	01/16/2004	P5;
004	Email	RE: State of the Union Budget Language - To: Christopher Michel - From: Phillip Swagel	2	01/16/2004	P5;

COLLECTION TITLE:

Speechwriting, White House Office of

SERIES:

Drouin, Lindsey - Speech Files

FOLDER TITLE:

State of the Union F/C [Fact Check] - Fiscal Discipline, Regulation, Social Security Reform, 01/20/2004

FRC ID:

2298

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
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Withdrawal Marker

The George W. Bush Library

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Speechwriting, White House Office of

SERIES:

Drouin, Lindsey - Speech Files

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FOIA IDs and Segments:

2014-0126-F

OA Num.:

3837

NARA Num.:

3702

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TAX RELIEF TALKING POINTS

Over the past three years, President Bush has proposed and signed into law three bills reducing the tax burden on American families and businesses to spur savings, investment, and job creation.

I. ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT (Signed into law on June 7, 2001)

- Reduced marginal income tax rates across-the-board;
- Increased the child tax credit;
- Reduced the marriage penalty;
- Created a new 10 percent individual income tax rate bracket;
- Phased out and eliminated the death tax;
- Increased education tax benefits; and
- Expanded pension and saving opportunities.

II. JOB CREATION AND WORKER ASSISTANCE ACT (Signed into law on March 9, 2002)

- Provided 30-percent bonus depreciation for business investment through 2004;
- Extended unemployment insurance for 13 weeks; and
- Provided emergency tax relief to New York and other areas affected by the terrorist attacks of September 11, 2001.

III. JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT (Signed into law on May 28, 2003)

- Expanded the width of the 10 percent bracket in 2003;
- Accelerated across-the-board marginal income tax rate reductions;
- Increased the child credit to \$1,000 effective retroactively to January 1, 2003;
- Reduced the marriage penalty effective January 1, 2003;
- Increased the limit on small business expensing to \$100,000;
- Increased allowable bonus depreciation for businesses to 50 percent; and
- Reduced the top tax rate on dividends and capital gains to 15 percent.

The cumulative benefit of these three laws for family budgets and business investment is enormous. Under these laws, this year:

- A family of four earning \$40,000 will get tax relief of \$1,933;
- 109 million American taxpayers will see their taxes decline by an average of \$1,544;
- Nearly 5 million individuals and families will see their income tax liabilities eliminated completely;
- 42 million families with children will receive an average tax cut of \$2,067;

- 13 million elderly individuals will receive an average tax cut of \$1,795;
- 25 million small business owners will save \$2,853; and
- Lowering tax rates on dividends and capital gains will cut taxes an average of \$798 for 26 million investors, including seven million seniors who will save an average of \$1,088.

The cumulative effect on the economy is just as strong, laying the groundwork for increased economic growth and job creation. Compared to where the economy would otherwise be, by the second quarter in 2003, the tax relief signed by President Bush:

- Reduced the unemployment rate by nearly 1 percentage point;
- Increased the number of jobs by as much as 1.5 million; and
- Increased GDP by as much as 2 percent.

By the end of 2004, the tax relief signed by President Bush will have:

- Reduced the unemployment rate by as much as 1.6 percentage points;
- Increased the number of jobs by as many as 3 million; and
- Increased real GDP by as much as 3.5 to 4 percent.



For Immediate Release
Office of the Press Secretary
July 24, 2003

President Visits Philadelphia to Discuss Economy and Child Tax Credit

Today's Presidential Action

President Bush today visited the Financial Management Service facility in Philadelphia, Pennsylvania to highlight his economic agenda and its benefits for America's families. Beginning tomorrow this facility will send out checks to millions of families due to the increase in the child tax credit.

Increasing Child Tax Credit: The Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the child tax credit for 2003 to \$1,000 per child, up from \$600. The Treasury Department will provide the difference - \$400 per child - as an advance payment to each eligible taxpayer this summer.

The President also discussed the benefits of the Jobs and Growth Act with small business owners and employees at a small business in Livonia, Michigan. This new tax relief law will encourage investment by our Nation's entrepreneurs, speed up economic growth, and help generate new jobs for America's workers.

Strengthening Small Businesses and Creating Jobs: The tax relief signed into law by the President makes it easier for businesses to expand and grow. And small businesses, the engines of job creation, will greatly benefit under the new law, which quadruples the amount they can write off on the purchase of new equipment such as computers and machinery. Small business owners will have tax savings to invest in new equipment, hire additional workers, and increase pay.

Background: Jobs and Growth Tax Relief Reconciliation Act of 2003

On May 28, 2003, President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003, an enormous victory for American workers, American families, American investors, and American entrepreneurs and small businesses.

This law will enable the American people and small businesses to keep more of their own money. The more money families and small businesses have to save and invest, the more likely it is that people looking for work will find a job. Under the Jobs and Growth Act of 2003, this year:

- 91 million taxpayers will receive, on average, a tax cut of \$1,126.
- 68 million women will see their taxes decline, on average, by \$1,338.
- 45 million married couples will receive average tax cuts of \$1,786.
- 34 million families with children will benefit from an average tax cut of \$1,549.
- 6 million single women with children will receive an average tax cut of \$558.
- 12 million elderly taxpayers will receive an average tax cut of \$1,401.
- 23 million small business owners will receive tax cuts averaging \$2,209.
- 3 million individuals and families will have their income tax liability completely eliminated by the Act.

Example: A married couple with two children and income of \$40,000 will see their taxes decline under the Jobs and Growth Act of 2003 by \$1,133 - from \$1,178 to \$45 in 2003, a decline of 96 percent.

The Jobs and Growth legislation is an important step toward strengthening our economy, but the President will not be satisfied until every American who is looking for work can find it, every business has a chance to grow, and prosperity reaches every corner of America.



For Immediate Release
Office of the Press Secretary
January 10, 2004

President's Radio Address

◀ [Audio](#)

THE PRESIDENT: Good morning. As the year 2004 begins, America's economy is strong and getting stronger. More Americans than ever own their own homes. More businesses are investing. More manufacturers are seeing increased activity than at any time in the last 20 years. Stock market wealth has increased by more than \$3 trillion over the past year. And over the past five months, more than a quarter-million Americans started work at new jobs. In December, the unemployment rate fell to 5.7 percent, from a high of 6.3 percent last June.

This latest report underscores a choice about the future of our economy, and the future of those who are looking for work. We can continue on the path to prosperity and new jobs - a path marked by a pro-growth agenda that has cut taxes on paychecks for 109 million American taxpayers - or we can reverse the course by raising taxes on hardworking Americans. The choice is clear. Tax relief has got this economy going again, and tax relief will keep it moving forward.

In my budget for the upcoming fiscal year, I will call on Congress to make permanent all the tax relief we have delivered to the American people and our nation's small businesses. If Congress fails to act, this tax relief will disappear and millions of American families and small businesses would see tax hikes starting in 2005. For the sake of our economic expansion, and for the sake of millions of Americans who depend on small businesses for their jobs, we need Congress to act to make tax relief permanent.

Every American who pays income taxes got a tax cut: They should keep that tax cut in the future. American families saw the child credit double to \$1,000 per child: They should keep that higher credit. American investors, including millions of seniors, saw taxes fall on dividend income and investment gains: They should keep that tax relief. American small businesses received new tax incentives to invest in equipment and software: They should keep those incentives. Every American family, including every farmer, rancher, and small business owner, will see the death tax disappear in 2010, then reappear in 2011. But the death tax should stay buried.

Now is not the time to turn our backs on America's families and workers and entrepreneurs by letting much needed tax relief expire. Making tax relief permanent is a simple step that would keep our economy growing, so that every American who wants to work can find a job.

We must continue to take other steps to promote growth and job creation throughout our economy. We must promote free and fair trade, reform our class action system, and help businesses and their employees address the problem of rising health care costs.

To serve the economic needs of our country, we must also reform our immigration laws. Reform must begin by confronting a basic fact of life and economics: Some of the jobs being generated in America's growing economy are jobs American citizens are not filling. This past week, I proposed a new temporary worker program that would match willing foreign workers with willing American employers, when no Americans can be found to fill the jobs. If an American employer is offering a job that American citizens are not willing to take, we ought to welcome into our country a person who will fill that job.

The program I've outlined is not an amnesty program, an automatic path to citizenship. It is a program that recognizes the contributions that many undocumented workers are now making to our economy. This temporary worker program represents the best tradition of our society. It will help strengthen our economy, return order to our immigration system, and secure our homeland.

Thank you for listening.

END

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For Immediate Release
Office of the Press Secretary
January 10, 2004

Fact Sheet: President Bush Urges Congress to Make Tax Cuts Permanent

Today's Presidential Action

- During his weekly radio address, President Bush called upon Congress to make his tax cuts permanent and discussed his plan to create jobs in America and ensure a full economic recovery.
- **As 2004 begins, America's economy is strong and getting stronger.** More Americans than ever own their homes. More businesses are investing. Indicators of manufacturing activity are higher than at any time during the last 20 years, as was economic growth in the third quarter of 2003. Stock market wealth has increased by more than \$3 trillion over the past year. Because of the continuing effects of President Bush's tax relief, workers will continue to keep more of what they earn in the future, and small businesses will be better able to invest and grow. The President's policies are helping to put the economy on a path to sustained growth and job creation, but we cannot rest until the recovery is complete.
- **Over the past three years, President Bush has proposed and signed into law three separate tax relief measures, resulting in the significant reduction in tax burdens for millions of American families and businesses.** Failure to permanently extend the President's tax cuts would dramatically increase the burden on American taxpayers in future years. For example:
 - In 2005, the increased child credit, additional marriage penalty relief, and expanded 10-percent bracket will sunset, increasing the tax burden on a family of four earning \$40,000 by \$922.
 - In 2006, allowable small business expensing will shrink from \$100,000 to just \$25,000, increasing the cost of capital investments for America's small businesses.
 - In 2009, the top tax rate on dividends will increase from 15 to 35 percent, while the tax on capital gains will climb from 15 to 20 percent, raising the tax burden on retirees and families investing for their future.
 - In 2011, the rate relief, new 10-percent tax bracket, death tax repeal, marriage penalty relief, and all the remaining tax relief enacted over the past three years will sunset, resulting in a tax increase for every American man or woman who pays income taxes.
- **Efforts to repeal this tax relief would result in an immediate increase in taxes on these same families and businesses. For example, if none of the President's tax relief had been enacted, this April 15th:**
 - 109 million American taxpayers would see their tax burden increase by an average of \$1,544;
 - Nearly 5 million individuals and families who currently have no income tax liability would become subject to the income tax;
 - A family of four earning \$40,000 would have a tax increase of \$1,933;
 - 48 million married couples would receive an average tax increase of \$2,588;
 - 42 million families with children would receive an average tax increase of \$2,067;
 - 10 million single women with children would see an average tax increase of \$869;
 - 13 million elderly individuals would receive an average tax increase of \$1,795;
 - 25 million small business owners would incur tax increases of \$2,853; and
 - Taxes on dividends and capital gains would increase an average of \$798 for 26 million investors, including seven million seniors who would see average tax increases of more than \$1,088.

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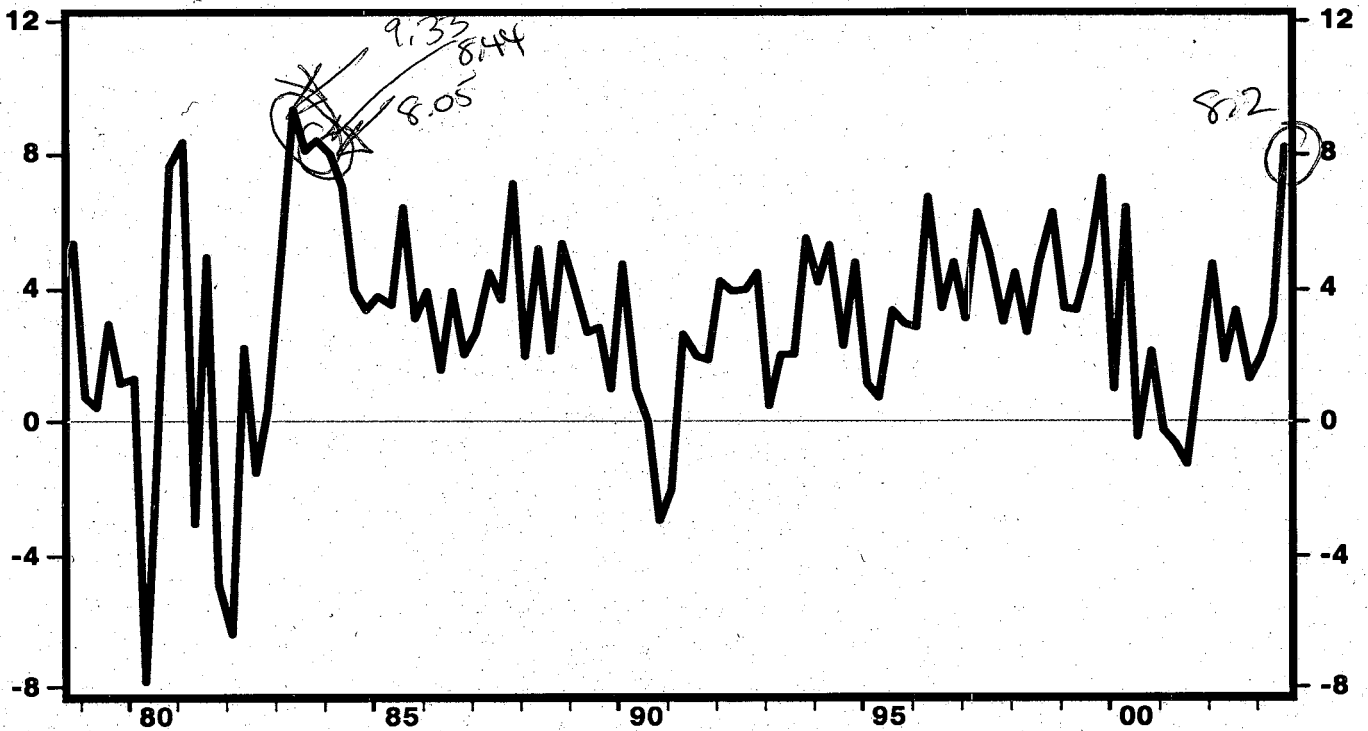
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Gross Domestic Product

% Change - Annual Rate

SAAR, BIL.Chn.2000\$



Source: Bureau of Economic Analysis / Haver Analytics

01/18/04 10:20

	Q1	Q2	Q3	Q4	Year
1996	2.85	6.72	3.40	4.76	3.70
1997	3.13	6.22	5.07	2.98	4.50
1998	4.50	2.67	4.69	6.22	4.18
1999	3.44	3.35	4.75	7.30	4.45
2000	1.02	6.43	-0.46	2.09	3.66
2001	-0.22	-0.64	-1.28	2.01	0.51
2002	4.71	1.90	3.36	1.29	2.19
2003	1.97	3.09	8.20	---	---

Gross Domestic Product

SAAR, Bil.Chn.2000\$

[% Change - Annual Rate]

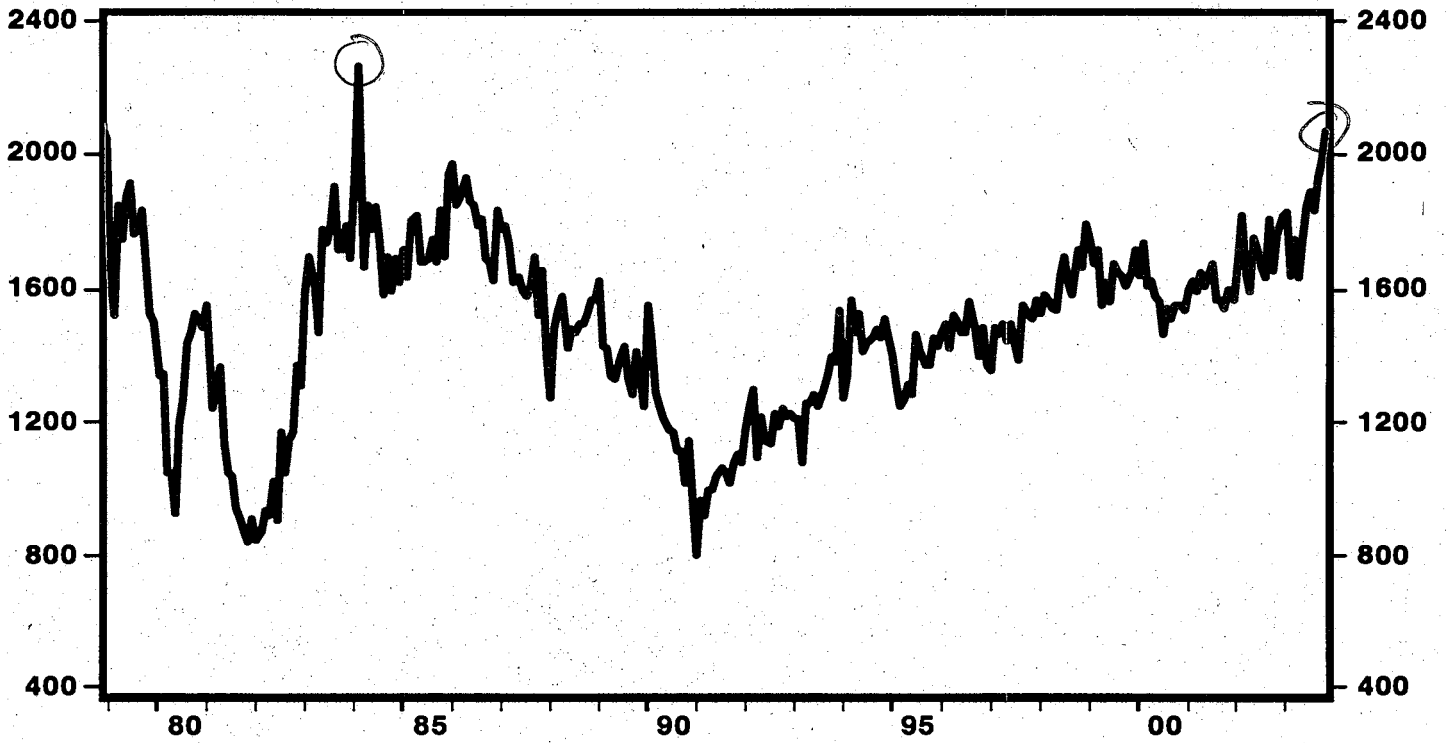
	Q1	Q2	Q3	Q4	Year
1979	0.78	0.38	2.91	1.18	3.16
1980	1.28	-7.83	-0.66	7.63	-0.23
1981	8.35	-3.08	4.93	-4.89	2.52
1982	-6.40	2.17	-1.51	0.36	-1.94
1983	5.02	9.33	8.14	8.44	4.52
1984	8.05	7.06	3.95	3.33	7.19
1985	3.74	3.46	6.40	3.11	4.13
1986	3.88	1.59	3.89	2.03	3.47
1987	2.66	4.47	3.68	7.17	3.38
1988	1.97	5.18	2.15	5.38	4.13
1989	4.12	2.65	2.88	1.02	3.54
1990	4.70	1.03	0.03	-2.99	1.88
1991	-2.02	2.62	1.94	1.89	-0.17
1992	4.21	3.91	3.98	4.48	3.32
1993	0.48	2.04	2.07	5.49	2.67
1994	4.13	5.32	2.26	4.77	4.02
1995	1.12	0.72	3.30	2.96	2.50
1996	2.85	6.72	3.40	4.76	3.70
1997	3.13	6.22	5.07	2.98	4.50
1998	4.50	2.67	4.69	6.22	4.18
1999	3.44	3.35	4.75	7.30	4.45
2000	1.02	6.43	-0.46	2.09	3.66
2001	-0.22	-0.64	-1.28	2.01	0.51
2002	4.71	1.90	3.36	1.29	2.19
2003	1.97	3.09	8.20	---	---

Source: Bureau of Economic Analysis /Haver Analytics

Nearly 20 years

Housing Starts

SAAR, Thous. Units



Source: Bureau of the Census /Haver Analytics

01/18/04 10:19

	Month			Quarter	Year
2001	1600	1625	1590	1605	
	1649	1605	1636	1630	
	1670	1567	1562	1600	
	1540	1602	1568	1570	1601
2002	1681	1817	1651	1716	
	1587	1752	1709	1683	
	1666	1630	1810	1702	
	1653	1760	1815	1743	1711
2003	1828	1640	1742	1737	
	1627	1745	1844	1739	
	1890	1831	1931	1884	
	1980	2070	---	---	---

Housing Starts

SAAR, Thous.Units

~~[% Change - Annual Rate]~~

	Month			Quarter	Year
1982	843	866	931	880	1057
	917	1025	902	948	
	1166	1046	1144	1119	
	1173	1372	1303	1283	
1983	1586	1699	1606	1630	1705
	1472	1776	1733	1660	
	1785	1910	1710	1802	
	1715	1785	1688	1729	
1984	1897	2260	1663	1940	1766
	1851	1774	1843	1823	
	1732	1586	1698	1672	
	1590	1689	1612	1630	
1985	1711	1632	1800	1714	1741
	1821	1680	1676	1726	
	1684	1743	1676	1701	
	1834	1698	1942	1825	
1986	1972	1848	1876	1899	1812
	1933	1854	1847	1878	
	1782	1807	1687	1759	
	1681	1623	1833	1712	
1987	1774	1784	1726	1761	1631
	1614	1628	1594	1612	
	1575	1605	1695	1625	
	1515	1656	1400	1524	
1988	1271	1473	1532	1425	1488
	1573	1421	1478	1491	
	1467	1493	1492	1484	
	1522	1569	1563	1551	
1989	1621	1425	1422	1489	1382
	1339	1331	1397	1356	
	1427	1332	1279	1346	
	1410	1351	1251	1337	
1990	1551	1437	1289	1426	1203
	1248	1212	1177	1212	
	1171	1115	1110	1132	
	1014	1145	969	1043	
1991	798	965	921	895	1009
	1001	996	1036	1011	
	1063	1049	1015	1042	
	1079	1103	1079	1087	

Source: Bureau of the Census /Haver Analytics

Housing Starts

SAAR, Thous. Units

[% Change - Annual Rate]

	Month			Quarter	Year
1992	1176	1250	1297	1241	1201
	1099	1214	1145	1153	
	1139	1226	1186	1184	
	1244	1214	1227	1228	
1993	1210	1210	1083	1168	1292
	1258	1260	1280	1266	
	1254	1300	1343	1299	
	1392	1376	1533	1434	
1994	1272	1337	1564	1391	1446
	1465	1526	1409	1467	
	1439	1450	1474	1454	
	1450	1511	1455	1472	
1995	1407	1316	1249	1324	1361
	1267	1314	1281	1287	
	1461	1416	1369	1415	
	1369	1452	1431	1417	
1996	1467	1491	1424	1461	1469
	1516	1504	1467	1496	
	1472	1557	1475	1501	
	1392	1489	1370	1417	
1997	1355	1486	1457	1433	1475
	1492	1442	1494	1476	
	1437	1390	1546	1458	
	1520	1510	1566	1532	
1998	1525	1584	1567	1559	1621
	1540	1536	1641	1572	
	1698	1614	1582	1631	
	1715	1660	1792	1722	
1999	1748	1670	1710	1709	1647
	1553	1611	1559	1574	
	1669	1648	1635	1651	
	1608	1648	1708	1655	
2000	1636	1737	1604	1659	1573
	1626	1575	1559	1587	
	1463	1541	1507	1504	
	1549	1551	1532	1544	
2001	1600	1625	1590	1605	1601
	1649	1605	1636	1630	
	1670	1567	1562	1600	
	1540	1602	1568	1570	

Source: Bureau of the Census /Haver Analytics

Housing Starts

SAAR, Thous.Units

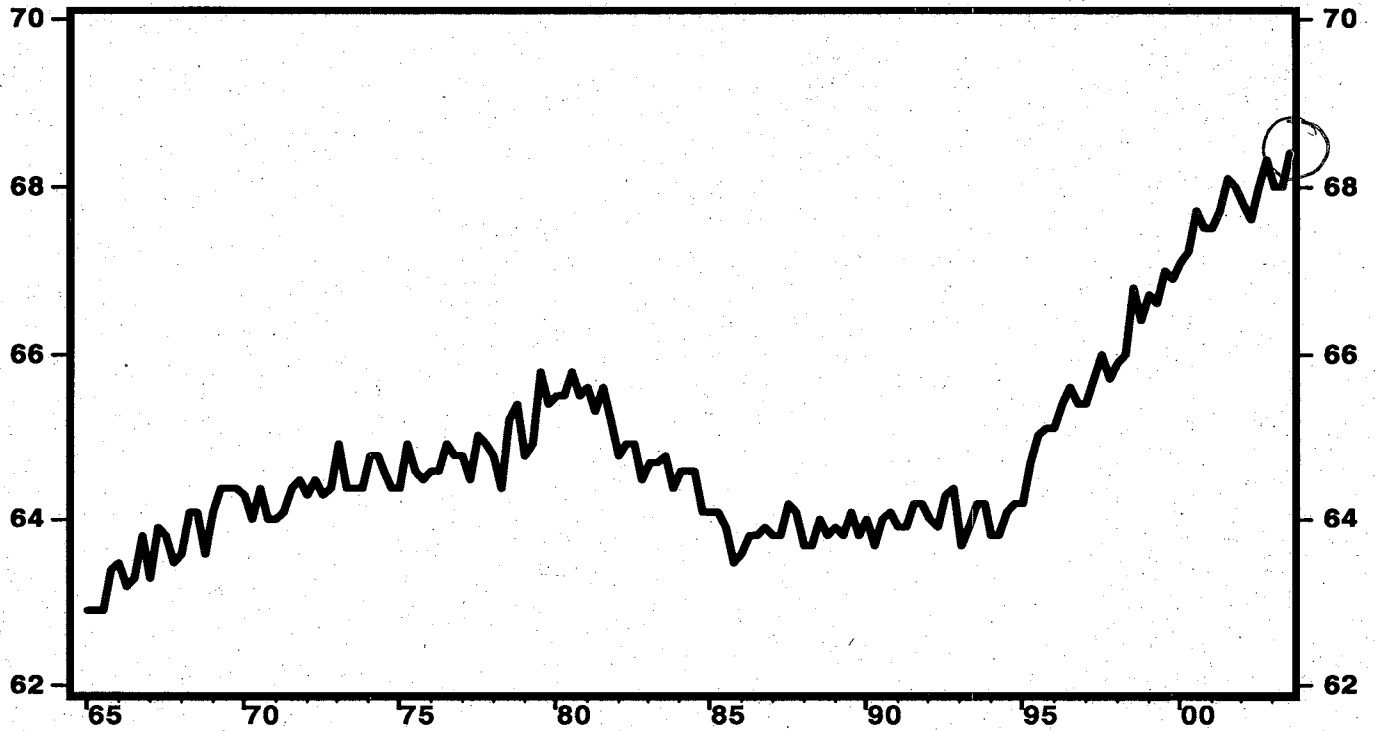
[% Change - Annual Rate]

	Month			Quarter	Year
2002	1681	1817	1651	1716	1711
	1587	1752	1709	1683	
	1666	1630	1810	1702	
	1653	1760	1815	1743	
2003	1828	1640	1742	1737	---
	1627	1745	1844	1739	
	1890	1831	1931	1884	
	1980	2070	---	---	

Source: Bureau of the Census /Haver Analytics

Homeownership Rate: United States

NSA, %



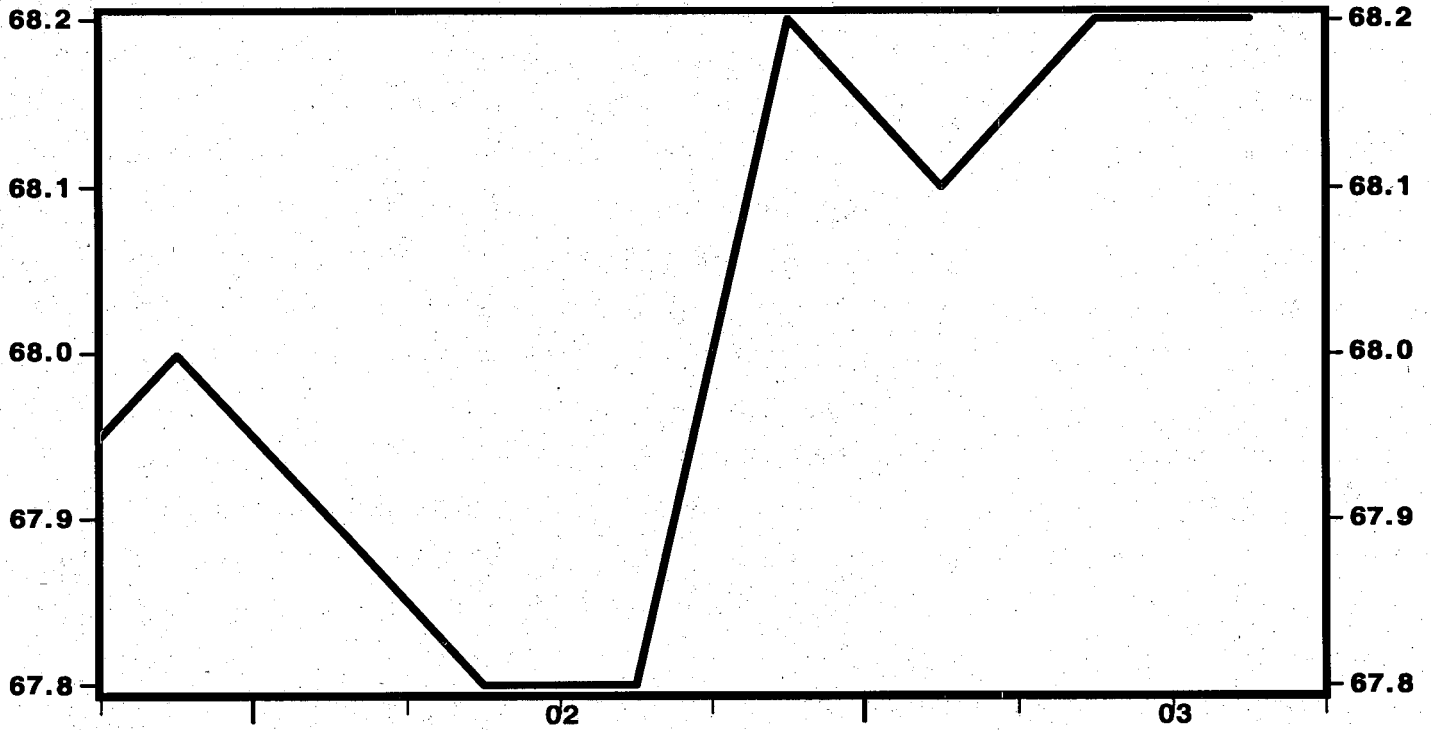
Source: Bureau of the Census /Haver Analytics

01/18/04 10:18

	Q1	Q2	Q3	Q4	Year
1996	65.1	65.4	65.6	65.4	65.4
1997	65.4	65.7	66.0	65.7	65.7
1998	65.9	66.0	66.8	66.4	66.3
1999	66.7	66.6	67.0	66.9	66.8
2000	67.1	67.2	67.7	67.5	67.4
2001	67.5	67.7	68.1	68.0	67.8
2002	67.8	67.6	68.0	68.3	67.9
2003	68.0	68.0	68.4	---	---

Homeownership Rate: United States

SA, %



Source: Bureau of the Census /Haver Analytics

01/18/04 10:46

	Q1	Q2	Q3	Q4	Year
1996	65.2	65.4	65.4	65.4	65.4
1997	65.5	65.8	65.8	65.7	65.7
1998	66.0	66.1	66.6	66.4	66.3
1999	66.8	66.7	66.8	66.9	66.8
2000	67.2	67.3	67.5	67.5	67.4
2001	67.6	67.8	67.9	68.0	67.8
2002	67.9	67.8	67.8	68.2	67.9
2003	68.1	68.2	68.2	---	---

Homeownership Rate: United States

NSA, %

[% Change - Annual Rate]

	Q1	Q2	Q3	Q4	Year
1965	62.9	62.9	62.9	63.4	63.0
1966	63.5	63.2	63.3	63.8	63.5
1967	63.3	63.9	63.8	63.5	63.6
1968	63.6	64.1	64.1	63.6	63.8
1969	64.1	64.4	64.4	64.4	64.3
1970	64.3	64.0	64.4	64.0	64.2
1971	64.0	64.1	64.4	64.5	64.3
1972	64.3	64.5	64.3	64.4	64.4
1973	64.9	64.4	64.4	64.4	64.5
1974	64.8	64.8	64.6	64.4	64.7
1975	64.4	64.9	64.6	64.5	64.6
1976	64.6	64.6	64.9	64.8	64.7
1977	64.8	64.5	65.0	64.9	64.8
1978	64.8	64.4	65.2	65.4	64.9
1979	64.8	64.9	65.8	65.4	65.2
1980	65.5	65.5	65.8	65.5	65.6
1981	65.6	65.3	65.6	65.2	65.4
1982	64.8	64.9	64.9	64.5	64.8
1983	64.7	64.7	64.8	64.4	64.7
1984	64.6	64.6	64.6	64.1	64.5
1985	64.1	64.1	63.9	63.5	63.9
1986	63.6	63.8	63.8	63.9	63.8
1987	63.8	63.8	64.2	64.1	64.0
1988	63.7	63.7	64.0	63.8	63.8
1989	63.9	63.8	64.1	63.8	63.9

Source: Bureau of the Census /Haver Analytics

Homeownership Rate: United States

NSA, %

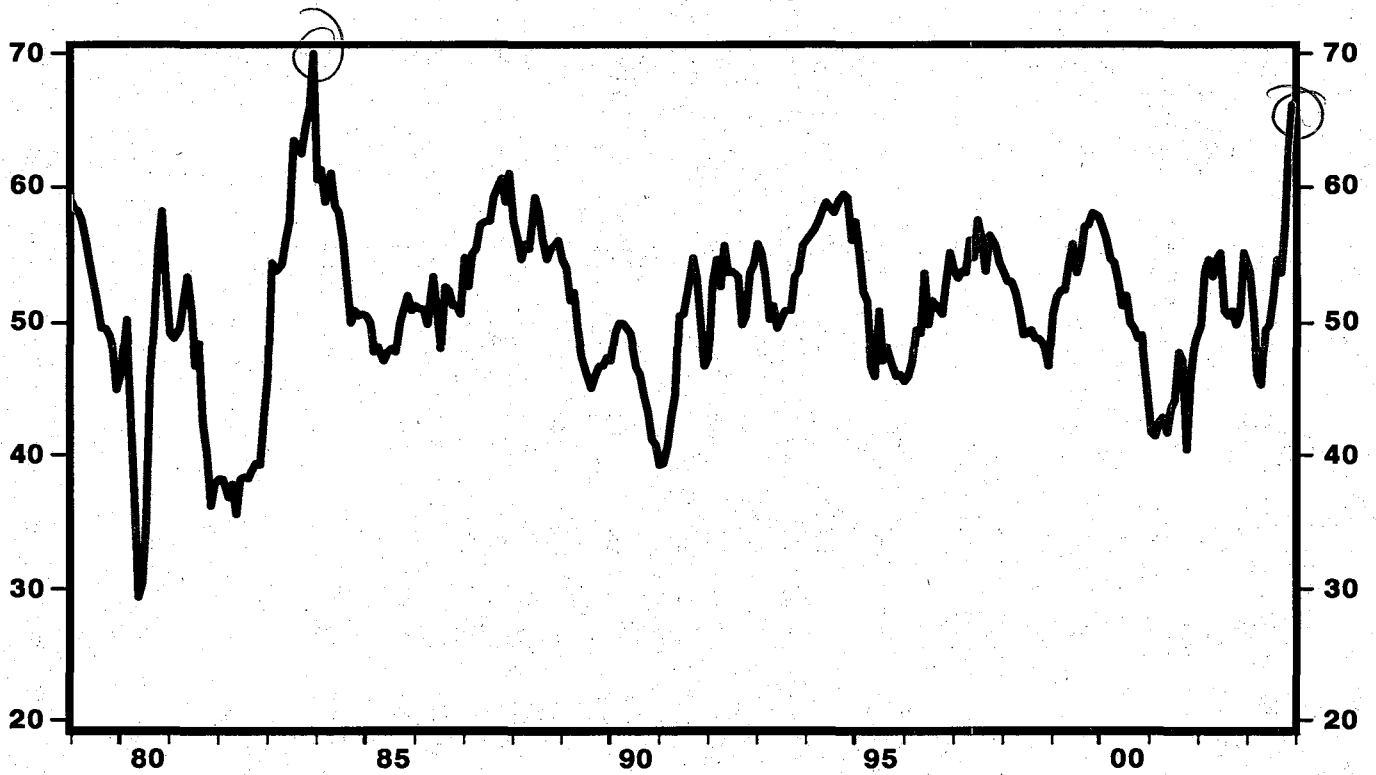
[% Change - Annual Rate]

	Q1	Q2	Q3	Q4	Year
1991	63.9	63.9	64.2	64.2	64.0
1992	64.0	63.9	64.3	64.4	64.2
1993	63.7	63.9	64.2	64.2	64.0
1994	63.8	63.8	64.1	64.2	64.0
1995	64.2	64.7	65.0	65.1	64.8
1996	65.1	65.4	65.6	65.4	65.4
1997	65.4	65.7	66.0	65.7	65.7
1998	65.9	66.0	66.8	66.4	66.3
1999	66.7	66.6	67.0	66.9	66.8
2000	67.1	67.2	67.7	67.5	67.4
2001	67.5	67.7	68.1	68.0	67.8
2002	67.8	67.6	68.0	68.3	67.9
2003	68.0	68.0	68.4	---	---

Source: Bureau of the Census /Haver Analytics

ISM Mfg: PMI Composite Index

SA, 50+ = Econ Expand



Source: NAPM /Haver

01/18/04 10:27

	Month			Quarter	Year
2001	41.7	41.5	42.5	41.9	
	42.8	41.7	43.5	42.7	
	44.1	47.8	47.2	46.4	
	40.4	45.7	48.5	44.9	43.9
2002	49.8	53.8	54.7	52.8	
	53.3	54.7	55.2	54.4	
	50.7	50.3	50.7	50.6	
	49.7	50.5	55.2	51.8	52.4
2003	53.9	50.5	46.2	50.2	
	45.4	49.4	49.8	48.2	
	51.8	54.7	53.7	53.4	
	57.0	62.8	66.2	62.0	53.5

ISM Mfg: PMI Composite Index

SA, 50+ = Econ Expand

[% Change - Annual Rate]

	Month			Quarter	Year
1983	46.0	54.4	53.9	51.4	59.3
	54.2	56.1	57.5	55.9	
	63.6	63.1	62.5	63.1	
	64.4	66.0	69.9	66.8	
1984	60.5	61.3	58.9	60.2	55.8
	61.0	58.6	58.1	59.2	
	56.1	53.0	50.0	53.0	
	50.8	50.3	50.6	50.6	
1985	50.3	49.9	47.8	49.3	49.2
	48.2	47.1	47.8	47.7	
	47.9	47.7	49.9	48.5	
	50.9	52.0	50.7	51.2	
1986	51.2	51.0	51.0	51.1	51.1
	49.7	53.4	50.5	51.2	
	48.0	52.6	52.4	51.0	
	51.2	51.2	50.5	51.0	
1987	54.9	52.6	55.0	54.2	57.5
	55.5	57.2	57.4	56.7	
	57.5	59.3	60.1	59.0	
	60.7	58.8	61.0	60.2	
1988	57.5	56.2	54.6	56.1	56.2
	55.8	55.5	59.3	56.9	
	58.2	56.0	54.6	56.3	
	55.5	55.6	56.0	55.7	
1989	54.7	54.1	51.5	53.4	48.9
	52.2	49.3	47.3	49.6	
	45.9	45.1	46.0	45.7	
	46.8	46.8	47.4	47.0	
1990	47.2	49.1	49.9	48.7	46.4
	50.0	49.5	49.2	49.6	
	46.6	46.1	44.5	45.7	
	43.2	41.3	40.8	41.8	
1991	39.2	39.4	40.7	39.8	47.1
	42.8	44.5	50.3	45.9	
	50.6	52.9	54.9	52.8	
	53.1	49.5	46.8	49.8	
1992	47.3	52.7	54.6	51.5	52.6
	52.6	55.7	53.6	54.0	
	53.9	53.4	49.7	52.3	
	50.3	53.6	54.2	52.7	

Source: National Association of Purchasing Management /Haver Analytics

ISM Mfg: PMI Composite Index

SA, 50+ = Econ Expand

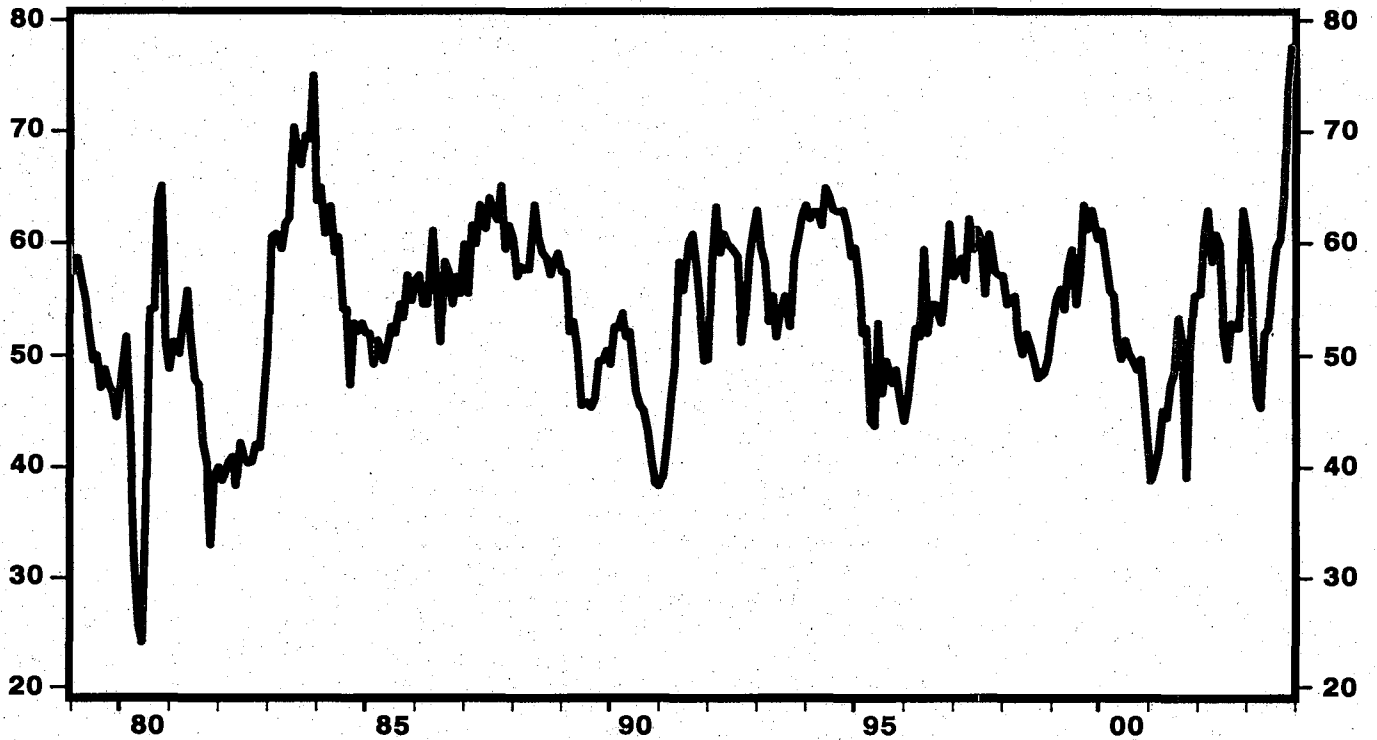
[% Change - Annual Rate]

	Month			Quarter	Year
1993	55.8	55.2	53.5	54.8	52.5
	50.2	51.2	49.6	50.3	
	50.2	50.7	50.8	50.6	
	53.4	53.8	55.6	54.3	
1994	56.0	56.5	56.9	56.5	57.8
	57.4	58.2	58.8	58.1	
	58.5	58.0	59.0	58.5	
	59.4	59.2	56.1	58.2	
1995	57.4	55.1	52.1	54.9	49.5
	51.5	46.7	45.9	48.0	
	50.7	47.1	48.1	48.6	
	46.7	45.9	46.2	46.3	
1996	45.5	45.9	46.9	46.1	50.1
	49.3	49.1	53.6	50.7	
	49.7	51.6	51.1	50.8	
	50.5	53.0	55.2	52.9	
1997	53.8	53.1	53.8	53.6	55.0
	53.7	56.1	54.9	54.9	
	57.7	56.3	53.9	56.0	
	56.4	55.7	54.5	55.5	
1998	53.8	52.9	52.9	53.2	50.2
	52.2	50.9	48.9	50.7	
	49.2	49.3	48.7	49.1	
	48.7	48.2	46.8	47.9	
1999	50.6	51.7	52.4	51.6	54.6
	52.3	54.3	55.8	54.1	
	53.6	54.8	57.0	55.1	
	57.2	58.1	57.8	57.7	
2000	57.0	56.2	54.6	55.9	51.7
	54.4	52.9	51.1	52.8	
	52.0	49.9	49.6	50.5	
	48.8	48.9	44.6	47.4	
2001	41.7	41.5	42.5	41.9	43.9
	42.8	41.7	43.5	42.7	
	44.1	47.8	47.2	46.4	
	40.4	45.7	48.5	44.9	
2002	49.8	53.8	54.7	52.8	52.4
	53.3	54.7	55.2	54.4	
	50.7	50.3	50.7	50.6	
	49.7	50.5	55.2	51.8	

Source: National Association of Purchasing Management /Haver Analytics

ISM Mfg: New Orders Index

SA, 50+ = Econ Expand



Source: NAPM /Haver

01/18/04 10:27

	Month			Quarter	Year
2001	38.6	40.0	41.3	40.0	
	45.1	44.4	47.1	45.5	
	48.5	53.2	51.0	50.9	
	38.9	50.5	55.3	48.2	46.2
2002	55.5	60.6	63.1	59.7	
	58.3	60.9	59.8	59.7	
	51.8	49.6	52.8	51.4	
	52.2	52.4	62.9	55.8	56.7
2003	59.7	52.3	46.2	52.7	
	45.2	51.9	52.2	49.8	
	56.6	59.6	60.4	58.9	
	64.3	73.7	77.6	71.9	58.3

ISM Mfg: New Orders Index

SA, 50+ = Econ Expand

[% Change - Annual Rate]

	Month			Quarter	Year
1983	50.3	60.6	60.8	57.2	64.5
	59.4	61.8	62.3	61.2	
	70.3	68.1	66.9	68.4	
	69.5	69.2	74.8	71.2	
1984	63.7	64.9	60.9	63.2	57.1
	63.2	59.2	60.5	61.0	
	54.1	54.0	47.2	51.8	
	52.9	52.0	52.8	52.6	
1985	51.8	51.8	49.1	50.9	52.4
	51.3	49.5	50.7	50.5	
	52.5	51.8	54.6	53.0	
	53.4	57.2	54.8	55.1	
1986	56.7	57.1	54.5	56.1	56.1
	54.4	61.1	55.3	56.9	
	51.2	58.4	57.3	55.6	
	54.5	57.0	55.4	55.6	
1987	59.8	55.4	61.6	58.9	61.3
	59.8	63.4	61.2	61.5	
	64.0	62.7	62.1	62.9	
	65.3	59.3	61.5	62.0	
1988	60.3	57.0	57.9	58.4	58.9
	57.6	57.7	63.6	59.6	
	60.6	59.2	58.6	59.5	
	57.2	58.4	59.0	58.2	
1989	57.3	57.3	52.0	55.5	50.2
	53.1	50.7	45.6	49.8	
	45.8	45.2	46.0	45.7	
	49.3	49.3	50.4	49.7	
1990	49.1	52.5	52.3	51.3	47.5
	53.7	51.7	52.0	52.5	
	46.7	45.5	44.9	45.7	
	43.1	40.4	38.5	40.7	
1991	38.1	39.2	42.4	39.9	50.9
	46.1	48.9	58.4	51.1	
	55.6	60.1	60.7	58.8	
	58.0	53.5	49.5	53.7	
1992	49.6	58.3	63.3	57.1	57.8
	59.1	60.9	59.8	59.9	
	59.5	58.8	51.1	56.5	
	53.8	58.8	61.0	57.9	

Source: National Association of Purchasing Management /Haver Analytics

ISM Mfg: New Orders Index

SA, 50+ = Econ Expand

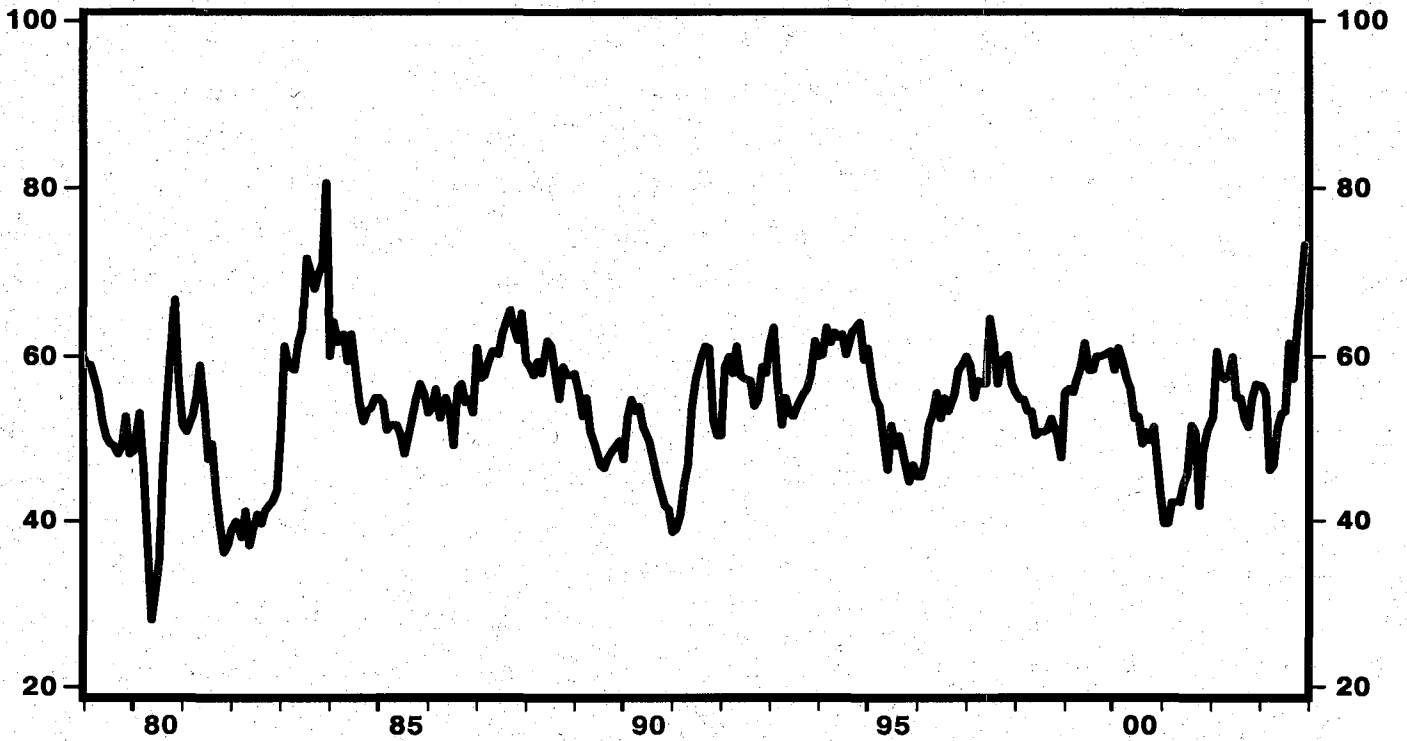
[% Change - Annual Rate]

	Month			Quarter	Year
1993	63.0	59.7	58.1	60.3	57.0
	53.0	55.2	51.6	53.3	
	53.8	55.3	52.6	53.9	
	58.9	60.4	62.4	60.6	
1994	63.5	62.2	62.8	62.8	62.6
	62.7	61.6	65.0	63.1	
	64.2	63.0	62.7	63.3	
	63.0	61.5	58.9	61.1	
1995	59.7	56.6	51.9	56.1	49.9
	52.2	44.0	43.5	46.6	
	52.7	46.5	49.4	49.5	
	47.5	48.6	45.9	47.3	
1996	44.1	46.1	49.1	46.4	52.9
	52.3	51.7	59.4	54.5	
	51.9	54.6	54.6	53.7	
	52.9	56.9	61.7	57.2	
1997	57.0	57.6	58.6	57.7	58.7
	56.6	62.3	59.4	59.4	
	61.3	60.3	55.4	59.0	
	60.9	57.4	57.2	58.5	
1998	57.1	54.6	54.9	55.5	51.8
	55.3	51.5	50.2	52.3	
	51.8	50.9	49.4	50.7	
	48.0	48.3	49.7	48.7	
1999	52.4	55.0	55.9	54.4	57.9
	54.0	57.8	59.4	57.1	
	54.6	57.5	63.5	58.5	
	61.3	63.1	60.3	61.6	
2000	61.1	58.7	55.6	58.5	52.0
	55.2	51.3	49.7	52.1	
	51.3	50.2	49.3	50.3	
	48.7	49.6	42.7	47.0	
2001	38.6	40.0	41.3	40.0	46.2
	45.1	44.4	47.1	45.5	
	48.5	53.2	51.0	50.9	
	38.9	50.5	55.3	48.2	
2002	55.5	60.6	63.1	59.7	56.7
	58.3	60.9	59.8	59.7	
	51.8	49.6	52.8	51.4	
	52.2	52.4	62.9	55.8	

Source: National Association of Purchasing Management /Haver Analytics

ISM Mfg: Production Index

SA, 50+ = Econ Expand



Source: NAPM /Haver

01/18/04 10:27

	Month			Quarter	Year
2001	39.7	39.9	42.2	40.6	
	42.3	42.3	44.5	43.0	
	45.8	51.8	50.9	49.5	
	42.0	48.4	51.1	47.2	45.1
2002	52.6	60.5	57.5	56.9	
	57.2	57.7	59.7	58.2	
	55.0	54.9	52.5	54.1	
	51.5	54.9	56.6	54.3	55.9
2003	56.3	55.4	46.3	52.7	
	47.0	51.5	52.9	50.5	
	53.3	61.6	57.3	57.4	
	62.6	68.3	73.0	68.0	57.1

ISM Mfg: Production Index

SA, 50+ = Econ Expand

[% Change - Annual Rate]

	Month			Quarter	Year
1983	50.8	61.1	58.4	56.8	65.3
	58.2	61.5	63.2	61.0	
	71.5	69.9	67.8	69.7	
	69.6	70.7	80.6	73.6	
1984	59.9	64.0	61.5	61.8	58.0
	62.3	59.3	62.3	61.3	
	58.2	54.3	52.2	54.9	
	53.4	53.8	54.9	54.0	
1985	54.9	54.2	51.2	53.4	52.7
	51.6	51.9	50.5	51.3	
	48.2	50.6	52.8	50.5	
	54.9	56.5	55.3	55.6	
1986	52.9	53.6	56.0	54.2	53.9
	52.5	55.1	53.5	53.7	
	49.3	56.0	56.5	53.9	
	54.2	54.7	53.0	54.0	
1987	60.7	57.3	57.6	58.5	61.5
	59.3	60.6	60.1	60.0	
	62.5	64.2	65.5	64.1	
	63.2	61.9	65.1	63.4	
1988	59.3	58.6	57.7	58.5	58.5
	59.1	58.0	61.7	59.6	
	61.2	57.8	54.8	57.9	
	58.7	57.5	57.6	57.9	
1989	57.9	55.6	52.7	55.4	50.9
	54.9	50.7	49.5	51.7	
	46.9	46.7	48.0	47.2	
	48.5	49.2	49.7	49.1	
1990	47.4	52.8	54.7	51.6	48.7
	53.5	53.9	51.3	52.9	
	49.8	47.9	45.5	47.7	
	43.6	42.1	41.8	42.5	
1991	38.9	39.1	41.2	39.7	50.5
	44.5	46.9	53.7	48.4	
	57.2	59.8	61.2	59.4	
	60.7	52.1	50.6	54.5	
1992	50.4	58.7	59.7	56.3	57.1
	57.8	61.2	57.6	58.9	
	57.4	56.8	53.9	56.0	
	54.7	58.6	57.9	57.1	

Source: National Association of Purchasing Management /Haver Analytics

ISM Mfg: Production Index

SA, 50+ = Econ Expand

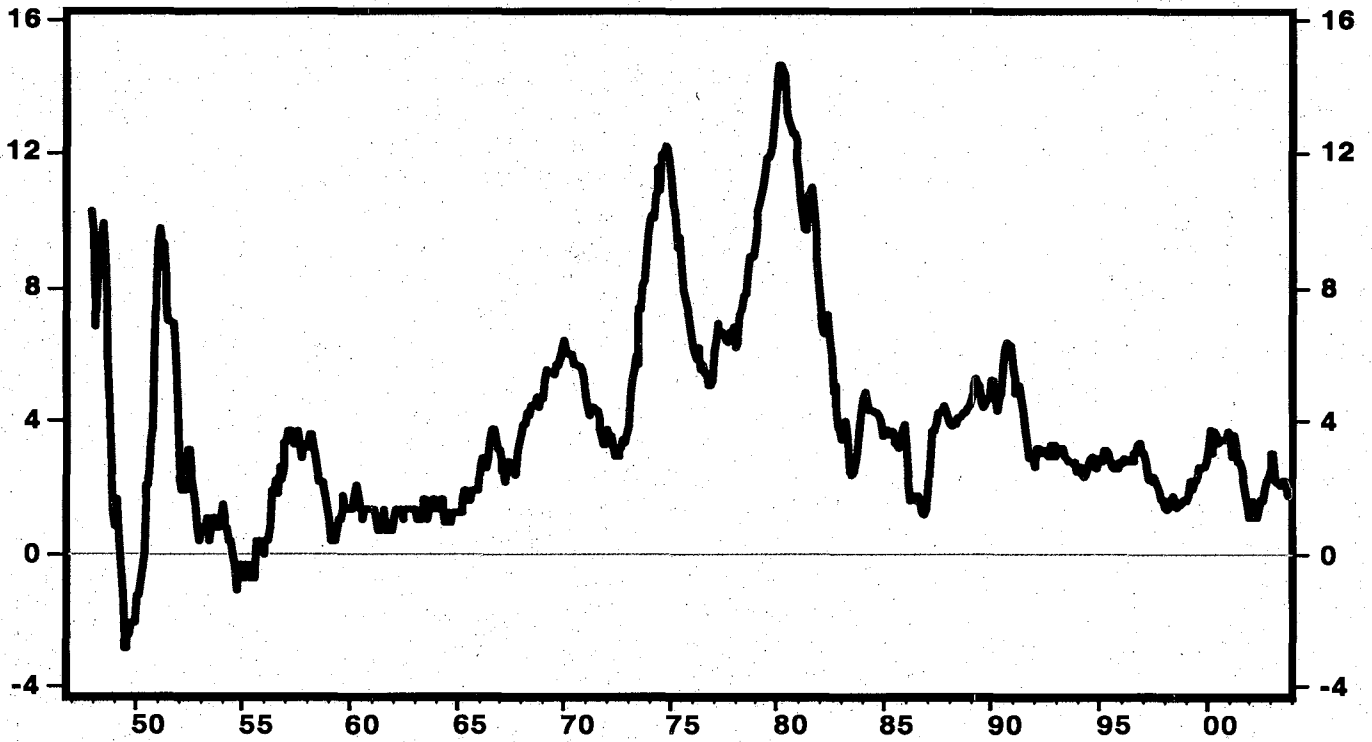
[% Change - Annual Rate]

	Month			Quarter	Year
1993	61.5	63.5	56.7	60.6	56.5
	51.6	55.0	53.1	53.2	
	52.7	53.9	55.2	53.9	
	56.1	57.5	61.7	58.4	
1994	59.7	60.2	63.4	61.1	61.8
	61.4	62.7	62.0	62.0	
	62.3	60.2	62.8	61.8	
	63.3	63.9	59.5	62.2	
1995	60.9	57.4	54.8	57.7	51.1
	54.1	49.9	46.1	50.0	
	51.6	49.1	50.5	50.4	
	47.0	45.0	46.9	46.3	
1996	45.6	45.7	47.3	46.2	52.7
	51.6	53.0	55.5	53.4	
	52.4	55.1	53.5	53.7	
	55.4	58.1	58.9	57.5	
1997	59.8	58.9	55.0	57.9	58.5
	56.8	56.7	56.5	56.7	
	64.5	61.5	56.6	60.9	
	59.4	60.1	56.7	58.7	
1998	55.6	54.6	54.5	54.9	52.1
	53.3	53.2	50.6	52.4	
	50.8	50.7	51.2	50.9	
	52.4	50.4	47.7	50.2	
1999	55.6	56.0	55.7	55.8	58.5
	57.2	58.5	61.6	59.1	
	58.1	58.3	59.9	58.8	
	59.7	60.2	60.6	60.2	
2000	58.2	60.8	59.1	59.4	53.5
	57.3	55.8	52.5	55.2	
	52.7	49.6	50.9	51.1	
	49.7	51.3	43.8	48.3	
2001	39.7	39.9	42.2	40.6	45.1
	42.3	42.3	44.5	43.0	
	45.8	51.8	50.9	49.5	
	42.0	48.4	51.1	47.2	
2002	52.6	60.5	57.5	56.9	55.9
	57.2	57.7	59.7	58.2	
	55.0	54.9	52.5	54.1	
	51.5	54.9	56.6	54.3	

Source: National Association of Purchasing Management /Haver Analytics

CPI-U: All Items

12-month %Change SA, 1982-84=100



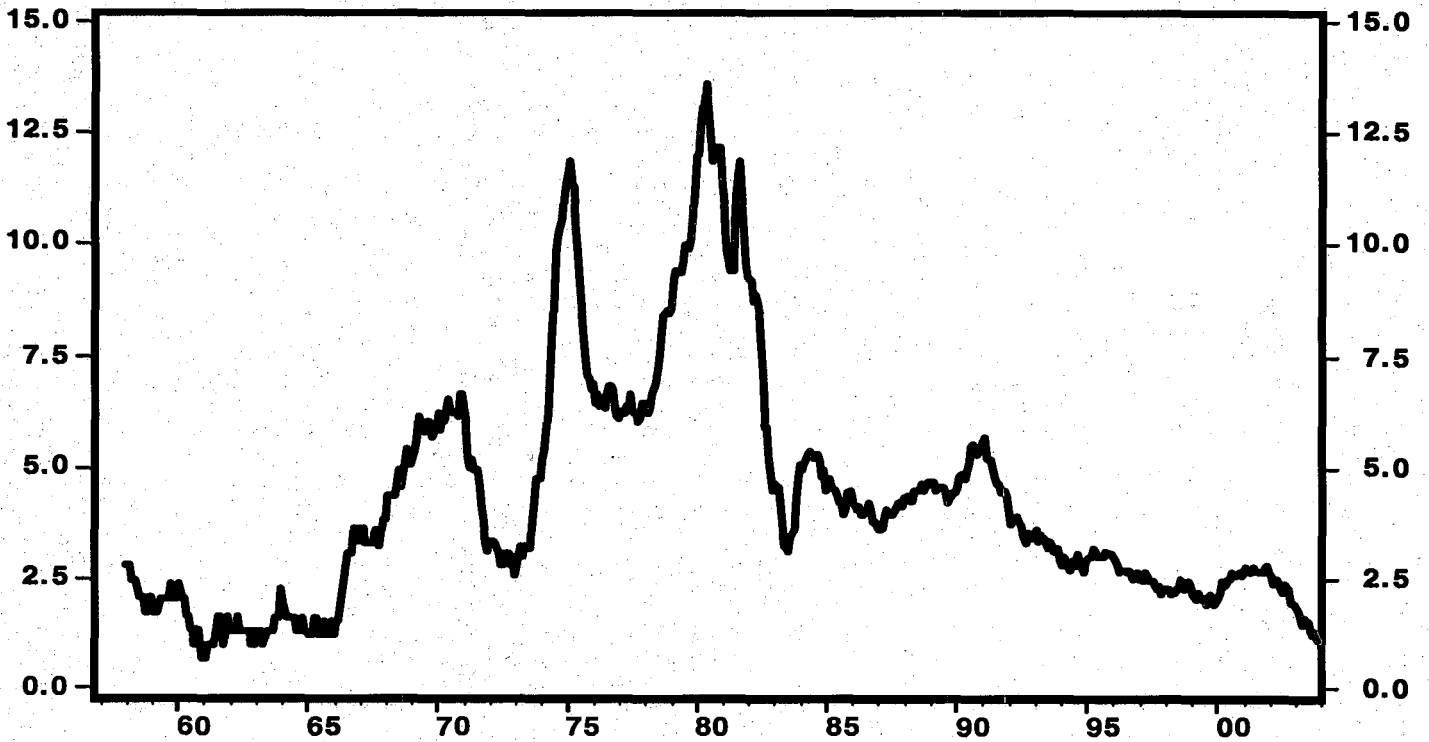
Source: Bureau of Labor Statistics /Haver Analytics

01/18/04 10:29

	Month			Quarter	Year
2001	3.72	3.59	2.92	3.41	
	3.28	3.62	3.25	3.38	
	2.78	2.78	2.59	2.72	
	2.13	1.84	1.55	1.84	2.83
2002	1.14	1.08	1.42	1.21	
	1.59	1.18	1.07	1.28	
	1.46	1.69	1.57	1.58	
	2.03	2.25	2.43	2.24	1.58
2003	2.59	3.04	3.03	2.88	
	2.23	2.12	2.11	2.15	
	2.11	2.22	2.27	2.20	
	2.10	1.76	1.87	1.91	2.28

CPI-U: All Items Less Food and Energy

12-month %Change SA, 1982-84=100



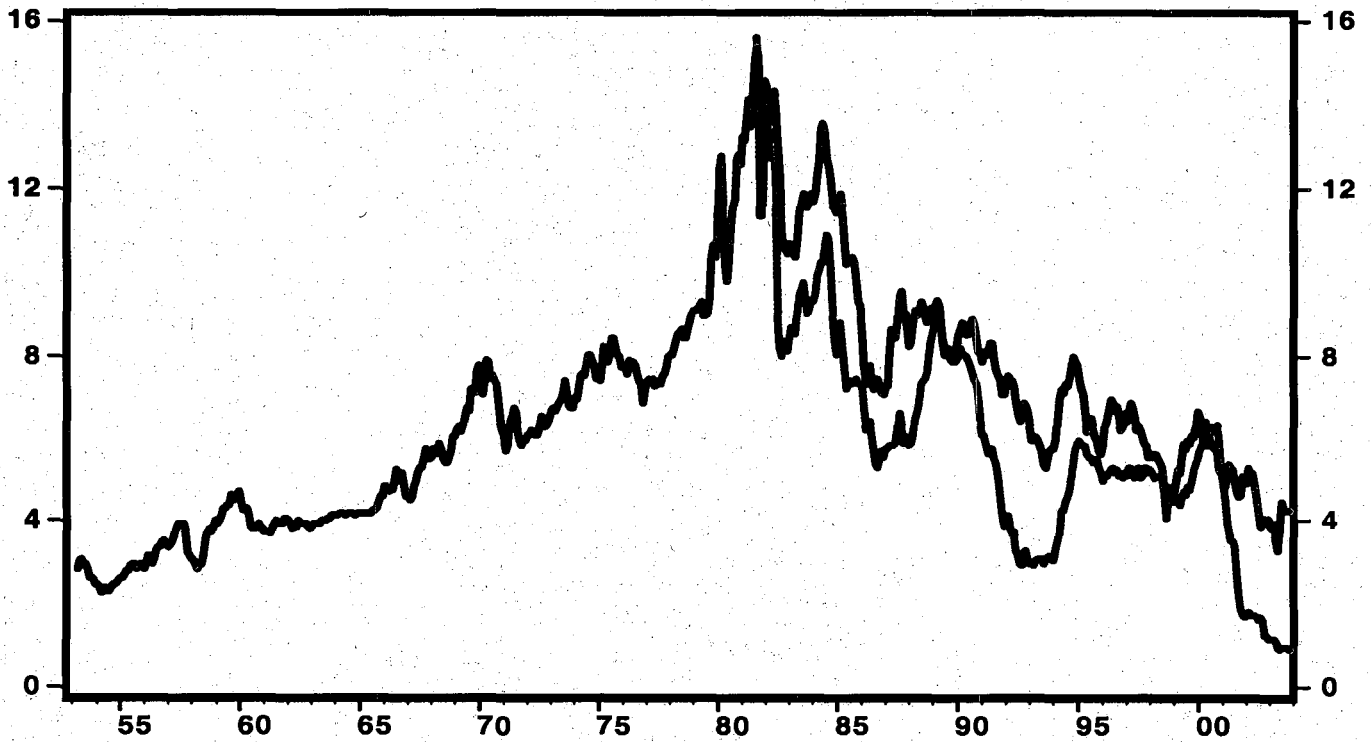
Source: Bureau of Labor Statistics /Haver Analytics

01/18/04 10:29

	Month			Quarter	Year
2001	2.62	2.73	2.67	2.67	
	2.61	2.60	2.71	2.64	
	2.70	2.64	2.63	2.66	
	2.63	2.73	2.78	2.71	2.67
2002	2.61	2.55	2.38	2.51	
	2.49	2.48	2.26	2.41	
	2.20	2.36	2.30	2.28	
	2.24	1.97	1.96	2.06	2.31
2003	1.91	1.85	1.74	1.83	
	1.48	1.58	1.47	1.51	
	1.52	1.31	1.20	1.34	
	1.30	1.15	1.09	1.18	1.47

10-Year Treasury Note Yield at Constant Maturity
% p.a.

3-Month Treasury Bill Market Bid Yield at Constant Maturity
%



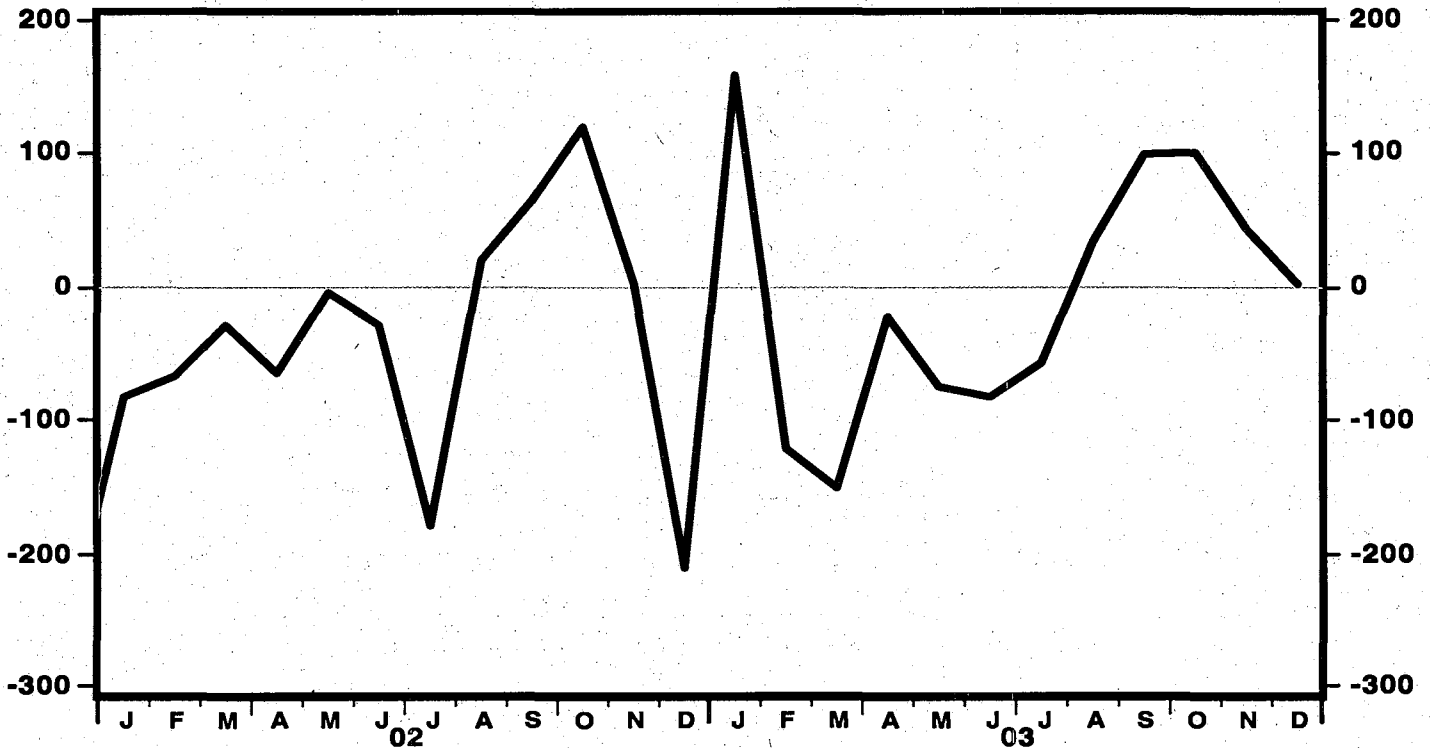
Source: Federal Reserve Board /Haver Analytics

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	Month			Quarter	Year
2001	5.16	5.10	4.89	5.05	
	5.14	5.39	5.28	5.27	
	5.24	4.97	4.73	4.98	
	4.57	4.65	5.09	4.77	5.02
2002	5.04	4.91	5.28	5.08	
	5.21	5.16	4.93	5.10	
	4.65	4.26	3.87	4.26	
	3.94	4.05	4.03	4.01	4.61
2003	4.05	3.90	3.81	3.92	
	3.96	3.57	3.33	3.62	
	3.98	4.45	4.27	4.23	
	4.29	4.30	4.27	4.29	4.01

All Employees: Total Nonfarm

Difference - Period to Period SA, Thous



Source: Bureau of Labor Statistics /Haver Analytics

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	Month			Quarter	Year
2001	-9	124	-33	199	
	-280	-17	-166	-327	
	-197	-148	-169	-468	
	-352	-298	-239	-792	40
2002	-83	-68	-29	-397	
	-66	-4	-28	-120	
	-179	20	65	-164	
	119	1	-211	99	-1454
2003	158	-121	-151	-113	
	-22	-76	-83	-241	
	-57	35	99	-81	
	100	43	1	207	-321

High-Growth Industry Occupations Requiring Post Secondary Education or Associate's Degree

Advanced Manufacturing

Postsecondary Vocational Certificate

- Robotics technologist – degree from a technical school
- Chemical Technician – two- or three-year post-secondary programs or certificates
- Environmental Technician – three-year technologist certificate

Associate Degree

- Robotics Technologists
- Integrated Systems Technologists
- Industrial Engineering Technologists
- CAD-CAM Designer
- Environmental Technician
- Machinist Technology
- Manufacturing Technology
- Tool and Dye Maker
- Semi-conductor Technician
- Mechanical Drafter and Designer
- Metallurgical Technology
- Industrial Maintenance Technician
- Process Control Technician

Automotive Industry

Postsecondary Vocational Certificate

- Automotive service technicians and mechanics
- Mobile heavy equipment mechanics, except engines

Associate Degree

- Automotive Technoogy
- Automotive Mechanics Technology
- Auto Body Collision
- Auto Transmission Specialist

Biotechnology Industry

Associate Degree

- Biological Technicians
- Agricultural and Food Science Technicians

- Chemical Technicians
- Bioprocess Technicians
- Chemical Technicians
- Research Assistants
- Research Technicians
- Laboratory Technicians
- Quality Control Technicians

Construction Industry

Associate Degree

- Carpenters
- Electricians
- Sheet Metal
- Plumbers
- Welding
- Assistant Project Managers
- Assistant Job Site Superintendents
- Estimators
- Civil Engineer
- Drafting and Design Technician

Energy

Associate Degree

- Energy Conservation and Use Technician
- Heating, Ventilating and Air Conditioning Technicians
- Industrial Electrical Technicians

Financial Industry

Associate Degree

- Banking and Finance
- Accountant
- Bookkeeper
- Office Manager

Geospatial Industry

Postsecondary Vocational Certificate

- Mechanical drafters
- Electrical drafters
- Architectural & civil drafters

Associate Degree

- Environmental engineering technicians
- Electrical and electronic engineering technicians
- Mechanical engineering technicians
- Industrial engineering technicians
- Civil engineering technicians

Health Care Industry

Postsecondary Vocational Certificate

- Surgical technologists
- Medical transcriptionists
- Licensed practical and licensed vocational nurses

Associate Degree

- Medical records and health information technicians
- Dental hygienists
- Cardiovascular technologists and technicians
- Nuclear medicine technologists
- Radiologic technologists and technicians
- Diagnostic medical sonographers
- Registered Nurses

Hospitality

Associate Degree

- Hospitality Management
- Culinary Sciences

Information Technology Industry

Associate Degree

- Network Systems Administration
- Network Systems Developer
- Program Developer
- Database Administration
- Multi-media Specialist
- Digital Media Designer
- Customer Services Technician
- Computer Publishing

Retail

Associate Degree

- Buyers and Purchasing
- Business Services Consultant
- Floor Level Supervision

Transportation

Associate Degree

- Diesel Mechanics
- Maintenance Mechanics

Withdrawal Marker

The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Speech	[State of the Union Address - pages 8-14]	7	01/20/2004	P5; P6/b6;

**This marker identifies the original location of the withdrawn item listed above.
For a complete list of items withdrawn from this folder, see the
Withdrawal/Redaction Sheet at the front of the folder.**

COLLECTION:

Speechwriting, White House Office of

SERIES:

Drouin, Lindsey - Speech Files

FOLDER TITLE:

State of the Union F/C [Fact Check] - Fiscal Discipline, Regulation, Social Security Reform, 01/20/2004

FRC ID:

2298

FOIA IDs and Segments:

2014-0126-F

OA Num.:

3837

NARA Num.:

3702

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- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
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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.

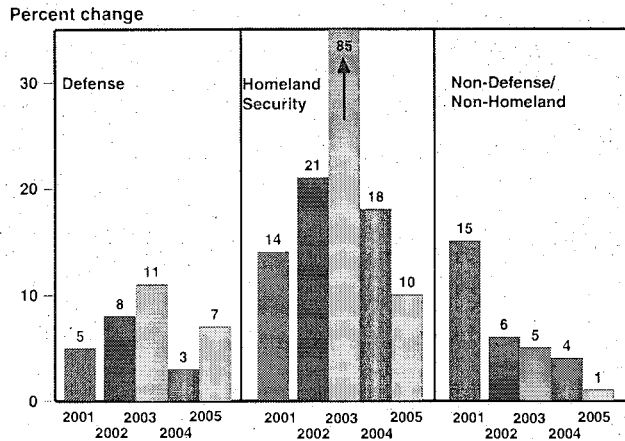
President Bush has acted decisively to meet these challenges. He has championed three overriding priorities—winning the War on Terror, protecting the homeland, and restoring strong economic growth—and his budgets have met those priorities.

The War on Terror. Within days of the September 11th 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 11th 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 11th 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



Note: Growth rates exclude supplemental appropriations. Supplementals increase defense and homeland security growth rates dramatically (these categories got 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 in 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 11th 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 2001.

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 and 2003.

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 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.

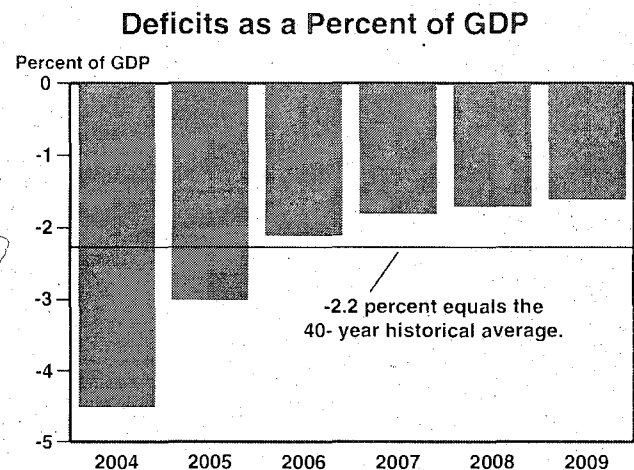
A deficit of \$521 billion is a legitimate subject of concern. Yet, even a deficit of this size should be kept in perspective. The potential impact of the deficit on credit markets and the overall economy is more appropriately measured by expressing it relative to the size of the Nation's GDP. A 2004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

The deficits of this year and last 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, the current level of deficits has 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. The declining deficit projections produce a declining ratio of debt to GDP over this period—at a level well below the average of the last two decades. 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.

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 hold constant as a share of GDP, at around 19.4–19.6 percent. The rise in receipts as a share of



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

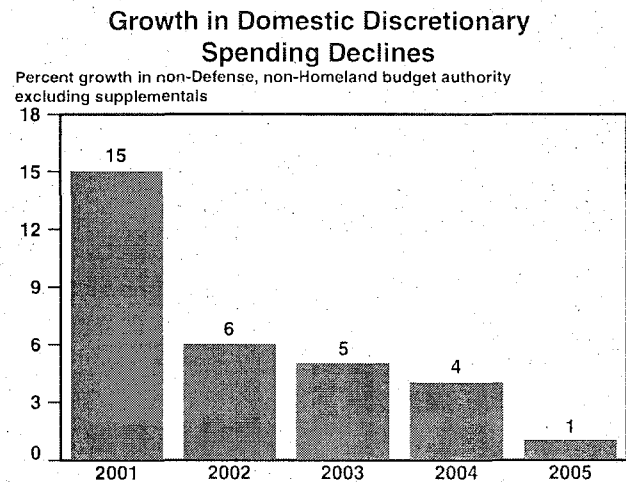
GDP, coupled with a roughly flat ratio of outlays to GDP, produces the declining ratio of the deficit to GDP projected in the budget.

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 restrain the growth in spending outside these key areas. 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 this trend of increasing restraint on non-security related spending.

The current budget proposes a 3.9-percent increase in overall discretionary spending for 2005, consistent with the average growth in 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.



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 is an example. On December 21, 2000, President Clinton signed the Consolidated Appropriations Act of 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 2001, which was already in progress at the time. This omnibus 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 remaining outlays from this law were incurred after 2001, during budget years covered by the Bush Administration.

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 over the long-run, however, 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 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

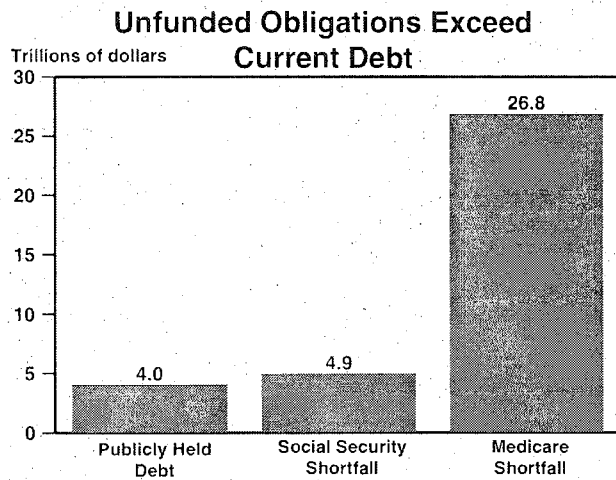
generation, while the baby boomers are still active in the labor force. In the next several decades, however, the impact of lower birth rates and longer life expectancy will begin to take a visible toll on both Social Security and Medicare.

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 gap is projected to grow dramatically in the next few decades, reaching 1.9 percent of GDP in 2015 and 4.6 percent of GDP in 2030. By 2080, the gap would be 11.6 percent of GDP, with dedicated revenues covering only one-quarter 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 total \$26.8 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 seven 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, providing more reliable choices of health care coverage, and offering 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 by 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. From 1991 to 2002, the Budget Enforcement Act (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 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 for 2004–2009 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 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 reliance on 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 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.

Over the longer term, the federal budget faces significant strains, which will begin within the current 10-year budget window and intensify as more of the baby-boom generation reaches retirement age. 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 tools will enable us to continue and expand on this progress this year and in the years ahead.

Agency Growth in Discretionary Spending: FY 2001-2005

(Budget authority in billions of dollars)

Agency	2001 Actuals	2002 Actuals	2003 Actuals	2004 Estimate	2005 Request	Growth:			
						'04-'05		Average '01-'05	Cummulative '01-'05
						Delta	%		
Agriculture.....	19.2	20.1	21.7	20.7	19.1	-1.7	-8.1%	-0.2%	-0.9%
Commerce.....	5.1	5.4	5.6	5.8	5.7	-0.1	-1.0%	2.9%	12.1%
Defense.....	302.5	327.8	365.2	375.3	401.7	26.5	7.1%	7.3%	32.8%
Education.....	40.1	48.5	53.1	55.7	57.3	1.7	3.0%	9.3%	43.0%
Energy.....	20.0	20.9	22.0	23.3	23.6	0.3	1.2%	4.2%	17.7%
Health and Human Services.....	54.0	59.5	65.7	69.3	68.2	-1.1	-1.6%	6.0%	26.2%
Homeland Security*.....	14.0	15.7	22.1	27.1	28.3	1.3	4.6%	19.3%	102.3%
Housing and Urban Development.....	28.4	29.4	30.1	30.4	31.3	0.8	2.8%	2.5%	10.3%
Interior.....	10.3	10.5	10.5	10.6	10.8	0.2	1.9%	1.4%	5.7%
Justice.....	18.4	18.6	19.0	19.3	18.7	-0.6	-3.1%	0.5%	2.1%
Labor.....	11.9	12.1	11.8	11.7	11.9	0.1	1.3%	-0.1%	-0.4%
State.....	7.7	9.0	9.0	9.3	10.3	1.0	10.7%	7.3%	32.8%
Transportation.....	14.6	12.8	13.5	13.9	13.3	-0.5	-3.9%	-2.1%	-8.3%
Treasury.....	10.3	10.5	10.7	11.2	10.8	-0.4	-3.6%	1.1%	4.3%
Veterans Affairs.....	22.4	23.8	26.4	29.1	29.7	0.5	1.8%	7.3%	32.5%
Corps of Engineers.....	4.7	4.5	4.6	4.6	4.0	-0.6	-13.1%	-4.1%	-15.4%
Environmental Protection Agency.....	7.8	7.9	8.1	8.4	7.8	-0.6	-7.2%	-0.2%	-1.0%
Executive Office of the President.....	0.3	0.3	0.3	0.3	0.3	0.0	0.6%	6.9%	30.5%
General Services Administration.....	0.2	0.2	1.3	0.5	0.2	-0.2	-49.2%	5.3%	22.8%
International Assistance Programs.....	12.6	12.7	13.8	15.7	19.3	3.7	23.5%	11.3%	53.6%
Judiciary Branch.....	4.0	4.3	4.6	4.8	5.4	0.6	11.5%	7.8%	35.2%
Legislative Branch.....	2.8	3.0	3.4	3.6	4.0	0.4	12.3%	9.8%	45.4%
NASA.....	14.3	14.8	15.3	15.4	16.2	0.9	5.6%	3.3%	14.0%
National Science Foundation.....	4.4	4.8	5.3	5.6	5.7	0.2	3.0%	6.7%	29.7%
Office of Personnel Management.....	0.2	0.2	0.2	0.3	0.6	0.3	112.9%	29.5%	181.1%
Small Business Administration.....	0.9	0.8	0.8	0.8	0.7	-0.1	-10.4%	-6.8%	-24.7%
Social Security Administration.....	6.0	6.4	6.7	7.2	7.6	0.4	5.9%	5.9%	25.8%
Other Agencies.....	6.8	6.5	7.7	7.7	5.9	-1.8	-23.7%	-3.5%	-13.3%
Total, Discretionary Spending.....	643.8	691.0	758.5	787.3	818.4	31.1	3.9%	6.2%	27.1%
<i>Emergency Response Funds and Supplementals.....</i>	<i>20.0</i>	<i>43.8</i>	<i>90.9</i>	<i>87.3</i>					

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Speechwriting, White House Office of

SERIES:

Drouin, Lindsey - Speech Files

FOLDER TITLE:

State of the Union F/C [Fact Check] - Fiscal Discipline, Regulation, Social Security Reform, 01/20/2004

FRC ID:

2298

FOIA IDs and Segments:

2014-0126-F

OA Num.:

3837

NARA Num.:

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Subjects: [Government spending](#), [Tax cuts](#), [Budget deficits](#), [Federal budget](#)

Classification Codes: [1110 Economic conditions & forecasts](#), [1120 Economic policy & planning](#), [1210 Politics & political bet](#)

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The increases in all other discretionary accounts have been modest by historical standards. In the last budget year of the previous administration (FY '01), domestic spending unrelated to defense or homeland security grew by an eye-popping 15%. With the adoption of President [Bush]'s first budget (FY '02), that number was reduced to 6%; then 5% the following year; and now 3% for the current fiscal year. There is room for more restraint, especially as the economy recovers, but this is hardly the record of a domestic-program spending spree.

None of this is to suggest that our fiscal situation should not remain a matter of concern. With major expenditures in Iraq, and Treasury receipts only beginning to reflect a recovering economy, we still face a deficit in the \$500 billion range for the current fiscal year -- larger than anyone wants. But that size deficit, at roughly 4.5% of GDP (compared with a modern peak of 6% during the Reagan years), is not historically out of range; and it is entirely manageable, if we continue the president's strong pro-growth economic policies and sound fiscal restraint. Indeed, with adoption of the president's policies, our projections show a solid path toward cutting the deficit in half, toward a size that is below 2% of GDP, within the next five years.

Full Text (840 words)

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President Bush has resolutely pursued three top priorities: winning the war on terror, protecting the homeland and strengthening the economy. While rarely challenging these goals, some commentators now suggest that, in their pursuit, the administration has unwisely neglected deficit reduction and fiscal discipline. From the left, the president's tax cuts are blamed for driving the federal budget into deficit. From the right, the president is criticized for acquiescing in a congressional domestic spending spree. Neither charge stands up to scrutiny.

First, to trace the roots of today's deficits, recall the circumstances the country faced in the early months of this administration: President Bush took office with a stock market in collapse and an economy entering recession; he was soon to confront as well the revelation of corporate scandals and, of course, terrorism on American soil. The resulting economic "perfect storm," which dramatically drove down Treasury receipts, is by far the largest reason we face budget deficits today. Had there not been one dime of tax relief under President Bush, the federal budget would still have run a substantial deficit in 2003.

In fact, the president's tax cuts have been critical to his priority of strengthening the economy and creating jobs. Perhaps the best timed in American history, these tax cuts deserve much credit for today's brightening economic picture: the highest quarterly growth in 20 years (8.2%), which, though unlikely to remain as high, is a harbinger of sustained growth to come; extraordinary productivity growth; continued strength in housing starts and retail sales; and encouraging signs of renewed business investment. These indicators suggest that job growth, which typically lags recovery, should continue to strengthen in the months ahead. And sustained growth will be good news for our budget picture as well: As the economy improves, Treasury revenues will too -- and budget deficits, now projected to peak in this fiscal year, will decline.

Second, as to the president's spending policies, what the record shows is a commitment to national security -- and restraint elsewhere. Most critics of the president's fiscal record begin by saying they support the additional spending that has been necessary to respond to 9/11 and the global war on terror, but they then proceed to complain about spending levels that are largely made up of those costs. It is true that discretionary spending (the spending over which the president and Congress have control through annual appropriations) has risen substantially in the three most recent budget years. But more than three-quarters of that increase has been directly related to our response to 9/11, enhanced homeland security and the global war on terror.

The increases in all other discretionary accounts have been modest by historical standards. In the last budget year of the previous administration (FY '01), domestic spending unrelated to defense or homeland security grew by an eye-popping 15%. With the adoption of President Bush's first budget (FY '02), that number was reduced to 6%; then 5% the following year; and now 3% for the current fiscal year. There is room for more restraint, especially as the economy recovers, but this is hardly the record of a domestic-program spending spree.

To those who lament that the president hasn't vetoed a single spending bill, the response is simple: He hasn't needed to. Recently concluded negotiations on the latest appropriations bills, for example, reflect effective presidential and congressional leadership. ~~The president asked for, and the House has passed, a total increase in discretionary budget authority no larger than the growth in family income this year: 4%.~~

~~As in previous years, commentators of all stripes will doubtless find plenty to criticize in the latest appropriations spending priorities and policies. But a complaint that domestic spending has run amok in this year's appropriations bills, is not supported by the numbers, which bear repeating: 3% growth in non-national-security-related spending authority, and 4% growth in overall discretionary spending authority.~~

None of this is to suggest that our fiscal situation should not remain a matter of concern. With major expenditures in Iraq, and Treasury receipts only beginning to reflect a recovering economy, we still face a deficit in the \$500 billion range for the current fiscal year -- larger than anyone wants. But that size deficit, at roughly 4.5% of GDP (compared with a modern peak of 6% during the Reagan years), is not historically out of range; and it is entirely manageable, if we continue the president's strong pro-growth economic policies and sound fiscal restraint. ~~Indeed, with adoption of the president's policies, our projections show a solid path toward cutting the deficit in half, toward a size that is below 2% of GDP, within the next five years.~~

With renewed economic growth and Congress' cooperation in focusing spending on our most critical priorities, we can accomplish the great goals the president has set for the country, while dramatically improving our budget situation.

Mr. Bolten is the director of the Office of Management and Budget.

(See related letter: "Letters to the Editor: The Great Bogus Budget 'Surplus' of 2000" -- WSJ Dec. 23, 2003)

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