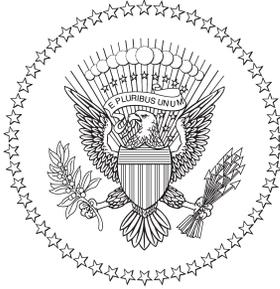


Economic Report of the President



Transmitted to the Congress
February 2005

together with
THE ANNUAL REPORT
of the
COUNCIL OF ECONOMIC ADVISERS

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**ECONOMIC REPORT
OF THE PRESIDENT**

ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

The United States is enjoying a robust economic expansion because of the good policies we have put in place and the strong efforts of America's workers and entrepreneurs. Four years ago, our economy was sliding into recession. The bursting of the high-tech bubble, revelations of corporate scandals, and terrorist attacks hurt our economy, leading to falling incomes and rising unemployment.

We acted by passing tax relief so American families could keep more of their own money. At the same time, we gave businesses incentives to invest and create jobs. Last year, we gained over 2 million new jobs, and the economy's production of goods and services rose by 4.4 percent. The unemployment rate is now 5.2 percent, which is lower than the average of each of the past three decades and the lowest since the attacks of September 11, 2001. Our pro-growth policies are taking us in the right direction.

As I start my second term, we must take action to keep our economy growing. I will not be satisfied until every American who wants to work can find a job. I have laid out a comprehensive strategy to sustain growth, create jobs, and confront the challenges of a changing America.

I am committed to restraining spending by eliminating government programs that do not work and by making government provide important services more efficiently. I have pledged to cut the deficit in half by 2009, and we are on track to do so.

The greatest fiscal challenges we face arise from the aging of our society. Because Americans are having fewer children and living longer, seniors are becoming a larger proportion of the population. This change has important implications for the Social Security system, because the benefits paid to retirees come from taxes on today's workers. In 1950, there were 16 workers paying into Social Security for every person receiving benefits. Now there are just over 3, and that number will fall to 2 by the time today's young workers

retire. We will not change Social Security for those now retired or nearing retirement. We need to permanently fix the Social Security system for our children and grandchildren. I will work with the Congress to fix Social Security for generations to come.

The current tax code is a drag on the economy. It discourages saving and investment, and it requires individuals and businesses to spend billions of dollars and millions of hours each year to comply with the complicated system. I will lead a bipartisan effort to reform our tax code to make it simpler, fairer, and more pro-growth.

We are working to make health care more affordable and accessible for American families. The Medicare modernization bill I signed gives seniors more choices and helps them get the benefits of modern medicine and prescription drug coverage. We have created health savings accounts, which give workers and families more control over their health care decisions. We will open or expand more community health centers for those in need. To help control health costs and make health care more accessible, we must let small businesses pool risks across states so they can get the same discounts for health insurance that big companies get. We will increase the use of health information technology that will make health care more efficient, cut down on mistakes, and control costs.

Our litigation system encourages junk lawsuits and harms our economy, and the system must be reformed. I support medical liability reform to control the cost of health care, keep good medical professionals from being driven out of practice, and ensure that patient care—not avoidance of lawsuits—is the central concern in all medical decisions. I support class action reform to eliminate the waste, inefficiency, and unfairness of the class-action system. And I support reforms to the asbestos litigation system in order to protect victims with asbestos-related injuries and prevent frivolous lawsuits that harm our economy and cost jobs.

I will continue to push for energy legislation to help keep our economy strong. We must modernize our electricity system to make it more reliable. To make our energy supply more secure, we must explore for more energy in environmentally friendly ways in our own country, develop alternative sources of energy, and encourage conservation.

I will work to further simplify and streamline federal regulations that hinder growth and encumber our job creators. Our economy needs to allow entrepreneurs to spend more time doing business and less time with their lawyers and accountants.

I believe that Americans benefit from open markets and free and fair trade, and I am working to open up markets around the world and make sure that

the playing field is level for our workers, farmers, manufacturers, and other job creators. In the past four years, we concluded free-trade agreements with Singapore, Chile, Australia, Morocco, Bahrain, Jordan, and six countries in Central America and the Caribbean. My Administration will continue to work to expand trade on a multilateral, regional, and bilateral basis, and to enforce our trade laws to help ensure a level playing field.

I have a plan to prepare our young people for the jobs of the 21st century. We have brought greater accountability to our public schools and are working to improve our high schools. We have made Pell grants available to one million more students, and we will work to make college more affordable by increasing the size of Pell grants for low-income students. We are reforming our workforce training programs to help Americans obtain the skills needed for the jobs that our economy is creating.

I have an ambitious agenda for the next four years. During my first term, working with the Congress, I put policies in place to ensure a rapid recovery and to support strong growth. In my second term, together we will cut the budget deficit in half, fix Social Security, reform the tax code, reduce the burden of junk lawsuits, ensure a reliable and affordable energy supply, continue to promote free and fair trade, help make health care affordable and accessible for American families, and expand the quality and availability of educational opportunities. These policies will produce an economic environment that continues to unleash the creativity and energy of the American people.

A handwritten signature in black ink, reading "George W. Bush". The signature is written in a cursive, flowing style with a large loop at the end of the name.

THE WHITE HOUSE
FEBRUARY 2005

THE ANNUAL REPORT
OF THE
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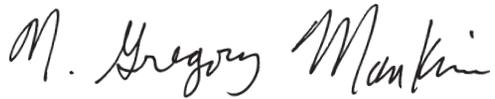
LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS,
Washington, D.C., February 11, 2005

MR. PRESIDENT:

The Council of Economic Advisers herewith submits its 2005 Annual Report in accordance with the provisions of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

Sincerely,



N. Gregory Mankiw
Chairman



Kristin J. Forbes
Member



Harvey S. Rosen
Member