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President Roh Moo-hyun of South Korea; James A. Baker III, cochair, and Lee H. Hamilton, cochair, Iraq Study Group; and Usama bin Laden, leader of the Al Qaida terrorist organization.

Remarks on the National Economy and the Federal Budget

October 11, 2006

Thank you all. Please be seated. Good afternoon. Thanks for coming to the White House.

In 2004, I made a promise to the American people: we would cut the Federal budget deficit in half over 5 years. Today I'm pleased to report that we have achieved this goal, and we've done it 3 years ahead of schedule.

This morning my administration released the budget numbers for fiscal 2006. These budget numbers are not just estimates; these are the actual results for the fiscal year that ended February the 30th [September 30th]. * These numbers show that the budget deficit has been reduced to $248 billion and is down to just 1.9 percent of the economy. As a percentage of the economy, the deficit is now lower than it has been for 18 out of the last 25 years. These budget numbers are proof that progrowth economic policies work. By restraining spending in Washington and allowing Americans to keep more of what they earn, we're creating jobs, reducing the deficit, and making this Nation prosperous for all our citizens.

Today I'm going to talk about the progrowth economic policies that helped bring a dramatic reduction in the Federal deficit. I'm going to remind the American people that we cannot afford to be complacent. I'll discuss some of the issues that I intend to address over the next 2 years to help ensure that our dynamic economy continues to grow and provide jobs.

Before I do so, I do want to recognize members of my Cabinet who have joined us. I want to thank the Secretary of the Treasury, Hank Paulson, for being here today. Mr. Secretary, thank you for your service. And the Director of the Office of Management and Budget, affectionately known as OMB—Rob Portman. Thanks for coming, Rob. I thank Steve Preston, who is the Administrator of the U.S. Small Business Administration. Thanks for being here, Steve.

I see members of my staff who are here, who probably should be working—[*laughter*]—instead of taking time off. But I thank you for coming.

The reduction of the deficit I've announced today is no accident. It is the result of the hard work of the American people, and because of sound fiscal policies here in Washington. When I first came to office, I thought taxes were too high—and they were—and this economy of ours was headed into a recession. Some people said the answer was to centralize power in Washington and to let politicians decide what to do with the people's money. I had a different approach. I have a different view. And therefore, we chose a different course of action.

See, I believe that our economy prospers when we trust the people to make the decisions on how to save, spend, or invest. And so starting in 2001, we worked with Members of the United States Congress to pass the largest tax relief ever passed since Ronald Reagan was the President. We cut taxes on everybody who pays income taxes. I was concerned about this kind of selective tax cutting. I didn't think that was fair. Our attitude was if you pay income taxes, you ought to get relief.

We reduced the marriage penalty. We doubled the child tax credit, and we put the death tax on the road to extinction. We cut the tax rate paid by most small businesses. Most small businesses are a subchapter S corporation, for example, or a limited partnership, and therefore, pay tax at the individual income tax rate. And therefore, when you cut the rates on people who pay income taxes, you're cutting tax on small businesses.

And by the way, it was really the cornerstone in many ways of our economic recovery policy, because we understand that 70 percent of new jobs in America are created by small businesses, and therefore, when small businesses have more capital to spend, it is more likely they'll create jobs.

We increased the amount small businesses can expense, on the knowledge that providing incentive for people to buy plant and equipment will cause somebody to have to

* White House correction.

make the plant and equipment that the person purchases. We encouraged economic expansion by cutting taxes on dividends and capital gains, understanding that by cutting those types of taxes, we're reducing the cost of capital, which makes it easier for people to borrow so we can expand our economy. In other words, we had a comprehensive plan that when enacted, has left nearly $1.1 trillion in the hands of American workers, families, investors, and small-business owners. And they have used this money to help fuel economic expansion that's now in its 37th straight month of growth.

The theory was, was that if we can encourage entrepreneurship and investment and consumption by reducing taxes, it will cause the economy to recover from a recession and a terrorist attack, corporate scandals, war, hurricanes—and it has. The progrowth policies have worked. Since August of 2003, this economy of ours has added more than 6.6 million new jobs. And the national unemployment rate is down to 4.6 percent. People are working, and that's good for our country.

Behind these numbers are millions of individual workers who start each day with hope because they have a job that will enable them to do their duties to support their families, or to put food on the table. Behind these numbers are small-business owners that are being rewarded for taking risk. Government can't make anybody successful; we can make the environment such that people are willing to take risk. And when small businesses take risk, the economy flourishes and grows.

You know, last week I went to a FedEx facility here in DC. The Secretary and I went, and we met with a group of entrepreneurs who are helping to drive this economic growth. It was a fascinating meeting. It was really exciting, wasn't it, Hank? I mean, it was so wonderful to sit with dreamers and doers. We met a guy—I think he said he was an engineering graduate from Purdue—who on his way from upstate New York to Purdue to go to college, he and his brother would stop and dive for golf balls—[*laughter*]—and then they'd sell the golf balls to help pay for college. He has since—he and his brother have since started an Internet company that sells golf clubs. And he's successful, and he's employing people, and he's excited, and he appreciates the tax cuts. [*Laughter*]

We talked to the Under Armour man. I don't know if you ever heard of that product. I know I'm not supposed to advertise—[*laughter*]—so I won't. [*Laughter*] But here's a dreamer. The man had an idea. He didn't like the way the cotton shirts that he wore absorbed his bodily fluids when he exercised, so he came up with a better product. And it worked. And now he's built a huge business, and he's talking about how to continue to expand, and he's worried about our trade policy. Here's a small-business guy who came out of a garage, and he's talking to the Secretary of the Treasury and the President of the United States about making sure we have intellectual property rights protection in China.

My point to you is, is that America must remain entrepreneurial heaven if we want to be the leading economy in the world, and we will do so through good policy. And that's by keeping taxes low. As a matter of fact, the best policy would be for Congress to have certainty in the Tax Code by making the tax cuts we passed permanent.

Back to the budget. When we announced—when I announced the plan to cut the deficit in half by 2009, a lot of folks said it's just simply not going to be done. They said that we had to choose between cutting the deficit and keeping taxes low—or another way to put it, that in order to solve the deficit, we had to raise taxes. I strongly disagree with those choices. Those are false choices. Tax relief fuels economic growth, and growth—when the economy grows, more tax revenues come to Washington. And that's what's happened. It makes sense, doesn't it? As businesses expand, people pay more taxes, and when you pay more taxes, there's more revenues that come to our Treasury.

Tax revenues grew by $253 billion in 2006. That's an increase of 11.8 percent. Over the last 2 years, we've seen the largest back-to-back increases in tax revenues ever, and the largest percentage increase in 25 years. In other words, when you put policies in place that cause the economy to grow, tax revenues increase.

I know that sounds counterintuitive for some here in Washington. People say, "Well,

they're cutting taxes; that means less revenue." But that's not what happened over the past 2 years. As a matter of fact, I'm convinced that if we had raised taxes, it would cause there to be an economic decline, which would make it harder to balance the budget over the years.

In February this year, we projected the Federal budget deficit for 2006 would be $423 billion. That was the best guess. Today's report, as I mentioned to you, shows that the deficit came out at 248 billion—so, $175 billion less than anticipated. The difference is because we have a growing economy, and the difference is because we've been wise about spending your money.

Congress votes every year on day-to-day spending, and it's called discretionary spending. There's two types of spending in Washington: discretionary spending, over which Congress has got discretion—and we're involved; we submit a budget; and we've got the capacity to veto to help bring some discipline to the process—or mandatory spending. Mandatory spending helped—just happens. It's formula driven. It's—the Congress doesn't allocate money for it; it just comes to be, based upon the circumstances involved.

Every year since I took office, we have reduced the growth of discretionary spending that is not related to the military and the homeland. And the reason that's the case is, I believe it's important for the President to lead and to set budget priorities, and so long as we've got kids in combat, they're going to have what it takes to do their job. And so long as there's an enemy that wants to strike us, we'll spend money to protect the homeland. Those are the most important jobs we have.

The last two budgets have actually cut nondefense, nonhomeland discretionary spending. And I want to applaud the Congress for making hard choices. Every program sounds fantastic in Washington, until you actually determine whether or not they're working. And a lot of times, the nice-sounding programs are not delivering the results that the people expect. And so we worked with Congress to focus on those programs that work and do away with those that don't work. It's not easy, by the way, to get rid of somebody's pet project that's not working. But you've just got to know that Rob and his office are working hard to do just that.

I believe Congress can make the President's job more effective in dealing with bad spending habits if they gave me the line-item veto, and let me tell you why. The President is presented with a dilemma: On the one hand, we sit down and we negotiate the budget with the Congress. We say, "Here's the top line we can live with," and they'll pass appropriations that meet our top line. But the problem is, within the appropriations are oftentimes programs that may not have been properly debated, in other words, stuck in—earmarked. They may not be meeting national priorities. And therefore, the President is confronted with either vetoing a good budget bill because he doesn't like parts of the bill, or accepting the overall bill and the bad parts exist in it.

And so one way to remedy that is to give the President the capacity to analyze the appropriations process, to remove—approve spending that is necessary, redline spending that is not, and send back the wasteful and unnecessary spending to Congress for an up-or-down vote. That's how we define line-item veto.

It makes sure that the President is directly involved with the process in deciding the size of the slices of the pie, once the size of the pie has been delivered. But it also makes sure that Congress is involved with the process of approving, up or down, whether or not the spending is needed or not needed.

Governors have got this power; 43 Governors have got the authority, and they use it effectively. One of the advantages is this, that they know—if the chief executive has got the line-item veto, then legislators will understand that a program they may try to sneak into a bill will see the light of day, and therefore, make it less likely somebody will try to sneak something into the bill. It's kind of preventative maintenance.

The House has passed the bill. The Senate really needs to get the line-item veto to my desk. If Senators from both political parties are truly interested in helping maintain fiscal discipline in Washington, DC, and they want to see budgetary reform, one way to do so

is to work in concert with the executive branch and pass the line-item veto.

And for those of you who are here, who are helping us get that legislation out of the Senate, I want to thank you for your work. The reason I brought it up is, I am absolutely convinced it is necessary to make sure that we continue to maintain budget discipline here in Washington, DC.

We've made good progress, as I mentioned to you, in getting the fiscal house in order, but there's another problem with our budget, and that has to do with mandatory spending, particularly with Social Security, Medicare and Medicaid. These are really important programs. They're called entitlement programs because when each of us retire, we're entitled to a benefit, in Social Security for example.

And yet the health of these programs—the health is in serious jeopardy. Why? Because there's a lot of people like me and Paulson who are fixing to retire. [*Laughter*] As a matter of fact, both of us reach retirement age at the same time, which is in 2008. That's quite convenient in my case. [*Laughter*]

But unlike the previous generation, there's a lot more of us, and we've been promised greater benefits than the previous generation. In other words, the Government has made promises with a future generation's money that we can't keep. And so the fundamental question facing the Government in Washington, DC, is, will we have the will necessary to deal with these entitlement programs to leave behind a better budget picture, to deal with the unfunded liabilities and the mandatory programs for future generations?

One reason Secretary Paulson came to work in this administration is because he wanted to understand whether or not we were committed to continue trying to bring Social Security reform, to modernize the system. Look, you don't have to cut benefits. You've just got to slow the rate at which benefits are growing in order to make sure a future generation is not strapped with a budgetary system that is unaffordable.

And I assured Hank that I was deeply committed to working to solve Social Security, because I believe the call for those of us who are blessed to be in public service is to confront problems now. It's so much easier to quit and just say, "Let's let another Congress deal with it." The problem is, is that the longer we wait, the more costly it becomes for future Congresses. And so now is the time. Now is the time. And Hank and I are going to—after these elections come and go, we're going to work with the leaders and—to say, "We're all responsible for getting something done." My hope is, in the last 2 years of this administration, we can set aside needless politics and focus on what's right for the United States of America and solve these entitlement programs once and for all.

I hope you're optimistic about this country's future, because I sure am. I am optimistic because I have great faith in American ingenuity, and I know how hard our people work. I am optimistic because we're an innovative society, and there's a lot of really capable, smart people continuing to make sure we remain innovative. I'm optimistic because the public sector and private sector encourages important research and development to make sure America is on the leading edge of change. I'm optimistic that we have put good policy in place that will encourage the entrepreneurial spirit. And I firmly believe, so long as this is an entrepreneurial-oriented country, America will remain the economic leader we want her to be.

I want to thank you all for coming to hear this proclamation of good news. [*Laughter*] God bless.

NOTE: The President spoke at 2:10 p.m. in Room 450 of the Dwight D. Eisenhower Executive Office Building. In his remarks, he referred to H.R. 4890, the "Legislative Line Item Veto Act of 2006."

Proclamation 8066—General Pulaski Memorial Day, 2006

October 11, 2006

By the President of the United States of America

A Proclamation

On General Pulaski Memorial Day, we remember Casimir Pulaski, a Polish-born hero of the American Revolution who fought and