TESTIMONY OF
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"FY 2002 ECONOMIC OUTLOOK, HIGHLIGHTS FROM FY 1994 TO FY 2001, FY 2002 BASELINE PROJECTIONS"

To appreciate just how much has changed in the eight years that are described in the budget document on which you have asked me to testify today, we must take stock of where we were in 1993.

At the end of fiscal year 1992, the budget deficit was $290 billion – the largest in U.S. history. The publicly held debt, at $3.0 trillion, was more than quadruple what it had been just 12 years before; and at 48.2 percent of the GDP, it was almost double what it was 12 years earlier. Economic growth had averaged only 1.7 percent in the four previous years. In 1992, unemployment surged to 7.8 percent. The most dangerous thing about this outlook was the prospect of a debt spiral, with debt growing faster than income, driven by interest on the debt, and interest on the interest. The deficit was projected to reach $390 billion by 1998 and $639 billion by 2003.

In fact, the deficit turned around after 1992. The debt peaked as a percentage of GDP in 1993, and began to fall in dollar terms with the balanced budgets after 1997. Today, the debt is down to 35 percent of GDP, and continues falling both in percentage **and** dollar terms. For three years in a row, we have been able to pay off $363 billion of this debt; and we are on a path to pay off $600 billion by the end of this year. We project surpluses, not deficits, as far as the eye can see; and the debt, far from exploding, can be extinguished within this decade – before the baby-boom generation begins to retire. We now enjoy the longest economic expansion in the recorded history of the United States, fueled by an unprecedented investment boom that has increased worker productivity and living standards.

Surrounded by all of this good news, we must not forget how much work it took to get here from the gloomy environs of just eight years ago.

The Economic and Budgetary Outlook

President Clinton came into office with the goal of revitalizing the economy. He proposed a three-part economic strategy: fiscal discipline to free resources for private investment; increased support for investment in our people, including education, health care and research; and engagement in the international economy, to open markets abroad to our products and services. The new budget policy proposed by President Clinton was enacted in 1993, and it has proven a great success.

The budget deficit declined until 1998 when we posted a budget surplus for the first time in 29 years. The budget is projected to end the current fiscal year with a surplus of $256 billion – the fourth year in a row of surplus, for the longest period of budget surpluses since the 1920s; and by far the longest string of consecutive years of budget improvement in our Nation's history. And the economic expansion, which celebrates its tenth year next month, is expected to continue for the indefinite future.

The Economic Outlook. The Clinton-Gore Administration has developed a final economic forecast, continuing its conservative, prudent approach. Since no economic forecast will be accurate all the time, this Administration continues to believe that it makes more sense to plan for middle-of-the-road conditions, to increase the likelihood that any errors are in the "right" direction. Previous Administrations often overestimated economic performance; such mistakes are dangerous, because they can encourage policymakers to avoid hard and essential choices, and with a surplus could lead policy in a direction that could undermine our fiscal health. The Administration's early decision to adopt a realistic economic forecast has served the Nation well.

The *Blue Chip* panel of 50 forecasts predicts a trend of real GDP growth averaging around 3.3 percent for most of the coming decade. The Administration's forecast for the next five years averages 3.2 percent. Due in large part to the retirement of the baby-boom generation, after 2005 the Administration projects growth slowing gradually to 2.9 percent per year in 2009-2011. It is uncertain how much of the actual acceleration in productivity growth since 1995 will be sustained; but since the FY 2001 forecast, favorable evidence has mounted, and most economists are now more sanguine about prospects for productivity growth. Compared with the FY 2001 Budget assumptions, the Administration has increased projected potential GDP growth, and now projects that labor productivity in the nonfarm business sector can increase at an average rate of 2.2 percent per year through 2011.

The unemployment rate in December was 4.0 percent, near the lowest point in three decades. It is projected to rise somewhat over the next few years, and to stabilize at an average rate of 5.1 percent -- still well below the 6.7 percent average rate from 1970 through 1992. Inflation was boosted this year by a spike in oil prices. With oil futures prices indicating some relief in 2001, inflation too is likely to decline. The Administration projects CPI inflation of 2.5 percent in 2001 (on a fourth quarter to fourth quarter basis), following a 3.4 percent rate during 2000. CPI inflation is expected to average 2.7 percent per year for 2002 through 2011 -- close to the average of 2.5 over the past five years. Inflation in the GDP chain-weighted price index is projected to average 2.1 percent through 2011.

Interest rates on Treasury debt fell to extremely low levels -- short maturities under five percent -- during the world financial crisis of 1997-1998. Rates rose following several interest rates hikes by the Federal Reserve during 1999 and 2000, but so far this year, they have declined significantly. The Administration projects that the 10-year rate will average near 5.8 percent -- its level of mid-November 2000 -- throughout the forecast period. Meanwhile, the short-term rate is projected to settle at around 5.3 percent, which would restore the usual upward-sloping yield curve. Projections are complicated by the ongoing reduction in Federal debt, which gradually removes Government bills, notes, and bonds from the market, which is a new trend in the modern history of the United States.

These projections are not intended to be a precise year-to-year forecast over ten years; instead, they reflect the average behavior expected for the economy over the medium term. In some years, growth could be faster than assumed; in other years, it could be slower. Similarly, inflation, unemployment, and interest rates could fluctuate around the projected values. If the assumptions hold on average, however, they should provide a prudent basis for budgeting. If fiscal and monetary policies remain sound, the economy could continue to outperform these relatively conservative projections over the longer term, as it has for the past several years.

The Budget Outlook. The Administration projects continuing budget surpluses in 2001 and subsequent years. On current-services assumptions, the unified surplus is projected at $256 billion in 2001 and $277 billion in 2002, rising consistently through the decade. The Social Security component of the surplus is expected to be $160 billion in 2001 and $176 billion in 2002, again increasing for the rest of the decade. The Medicare (Part A) outlook is much improved from eight years ago. Its surplus is estimated at $27 billion in 2001 and $35 billion in 2002, again increasing steadily for the next ten years. The on-budget surplus, $86 billion in 2000, is projected to be $98 billion in 2001. By 2011, it could reach $479 billion. Exclusive of Medicare (HI), the on-budget surplus is projected at $71 billion in 2001, $69 billion in 2002, and then rising consistently to $410 billion in 2011.

Risks in the outlook. Again, this Administration has consistently used prudent, conservative forecasts, so that most surprises have been favorable. Still, we recognize that economic expansions never proceed in a perfectly straight line; and just as there are periods within every expansion when the economy exceeds expectations, so there are times when it falls somewhat short. The current instance is an example of this regularity.

For all of the agencies to prepare their estimates for the budgetary exercise OMB undertakes in January or February of each year, the Administration’s economic forecast must be completed by Thanksgiving. At Thanksgiving of last year, our economists preliminary had data through October of 2000; and from the third quarter of 1999 through the third quarter of 2000, the economy had grown at a pace well over five percent. Our forecast anticipated that the economy would slow from that almost unbelievable pace to a 3.2 percent annual rate over the four quarters of 2000 -- a forecast that was a bit below the then-current consensus of economic forecasters. Since then, however, incoming data indicate that the economy has slowed somewhat more than we, and virtually all other forecasters, had expected.

Still, because even the longest expansions have months of relative strength and weakness, it is important not to panic every time the rate of growth slows. Extreme policy reactions, and even overly heated rhetoric, can do real damage.

It is possible that the economy will underperform our forecast this year, because it does appear that the fourth quarter of 2000 saw fairly slow growth. We should never become complacent, and assume that an expansion will go on forever. However, we, and most other forecasters, anticipate that the economy is merely consolidating its position after the torrid four quarters through June, and that growth will move back toward the economy's longer-term potential early in 2001. Today's situation bears no relation to the days of "stagflation" in the 1970s, when the economy seemed incapable of shaking simultaneous slow growth and inflation; or to the days immediately preceding this Administration, when we were on the brink of a bona fide debt explosion. Rather, what we see appears limited to a fairly selective inventory correction (localized in the motor vehicle sector), coupled with energy market disruptions which, thus far, the economy has weathered extremely well. We have already had similar pauses in growth in this very expansion – in 1994, when the Federal Reserve tightened monetary policy to head off what they feared would become an excessively strong recovery; and in 1998, when financial crisis arose in the far East. The budgetary consequences of a pause such as these would be minor.

Our economic forecast and the recently released *Economic Report of the President* explain why the expansion remains solid; the underlying forces that made the expansion of the 1990s the longest ever remain in place. The economy has none of the imbalances that usually afflicted expansions in their last days. Inflation is low, productivity growth remains rapid, and inventories generally are not out of line in most industries. The unemployment rate is still only 4.0 percent – a level that, just a few years ago, most economists would have called impossibly low. That low unemployment rate supports consumer spending, which therefore is likely to remain a positive for overall GDP growth. Business investment is also likely to remain strong, given that technical change continues to drive the price of new, improved investment goods down, and competitive pressures force businesses to modernize and remain productive. And together, consumer spending and business non-residential fixed investment make up almost 83 percent of GDP, and have accounted for all of GDP growth since 1992. (Some of the other parts of the economy have grown, and some have shrunk, with the effects canceling out. The Federal Government, as measured in the national accounts, has shrunk at an annual rate of about 0.8 percent since the first quarter of 1993.) Fiscal policy, thus far, remains sound; and sound fiscal policy facilitates the policymaking of the Federal Reserve, as Fed spokesmen have made clear. Strong investment and intense competitive pressures reinforce both each other, and the recent extraordinarily rapid productivity growth. And as Federal Reserve Chairman Alan Greenspan has emphasized, the unprecedented recent progress in the speed of transmission and analysis of information should help to keep business plans on track, and to minimize the duration and severity of minor economic fluctuations, such as we are experiencing now.

Fortunately, our extraordinary progress at eliminating the deficit and reducing the debt allows us to focus our attention where it should be in the event of any risk of an economic slowdown – that is, on the potential human cost. In 1992, when some analysts feared that the economy could fall into a double-dip recession, there was also the danger that a further slowdown would add even more to our then-bloated deficit and debt. Now, in contrast, we can allow the budget's automatic stabilizers to work, without concern about the consequences of modest increases in employment-sensitive outlays, or decreases in receipts. And finally, we have a strong, independent and credible Federal Reserve. Federal Reserve policy is now more effective because the markets have come to trust that the Fed will not be subject to political jawboning in Washington. The Federal Reserve saw us through the earlier pauses in this expansion, and so earned a considerable measure of trust. Today's low inflation, rapid productivity growth, and intense competitive pressure allow the Fed wide latitude to respond to any further slowing in the economy; and the Fed, as they demonstrated just a few weeks ago, can react far faster than the legislative process.

A minor economic pause does not threaten our recent budgetary progress. Federal budget outcomes are little affected by short economic cycles; the budget continued to improve during the two slow economic periods of the current economic expansion (the tightening of monetary policy in 1994, and the international financial dislocation in 1998). Rather, the enduring risk to the budget would be a slower long-run rate of growth of the economy. And most economists would say that the recent developments in the economy are much more short-term, cyclical events than they are longer-term, trend developments. The fundamental private-sector drivers of the recent expansion – very rapid technological change and intense competition – are not at all affected by any blips in the monthly or quarterly economic indicators. That is why most economists express confidence that the economy will soon be back at its long-run potential rate of growth.

Because our economic expansion remains sound, and because we retain wide policy flexibility to deal with any short-term weakness that should appear, policymakers should not fixate on the immediate economic situation to the exclusion of important long-run issues. Probably the most important development on the economic horizon – unique in some very long time period, or ever – is that our families are smaller than in the past, and our population is living longer – with the retirement of the baby boom about to put those phenomena in our collective face. For all of the effort put into its study, we do not know, to any meaningful level of confidence, the effect of the retirement of the baby boom on the economy, or on the budget.

Fiscal discipline demonstrably has been a major contributor to the outstanding performance of our economy. Reversing that key policy is not a solution to any near-term concerns, but is clearly counter to our long-term interests. We now know that fiscal responsibility is good for economic growth – that budget improvement reduces Federal credit demands, which reduces interest rates, which stimulates investment, which contributes to economic growth – which further strengthens the budget. We also know that fiscal responsibility gives us the soundest, surest preparation for the uncertain effects of the demographic certainty of population aging and the impending retirement of the baby boom; the lower our debt when the baby boom retires, the greater the policy flexibility that we will have. Discarding fiscal responsibility is thus the wrong side of a sure, two-way policy bet; it is bad for the economy in the short run, and leaves us more exposed to budgetary uncertainties in the long run. In its last policy budget about one year ago, this Administration established a $500 billion reserve, as a protection against longer-range uncertainties. It is not prudent to spend every last available penny in an uncertain world.

We tried to give some sense of the uncertainty of our world in this budgetary volume. The future is uncertain, and the more distant the projection, the greater the uncertainty. Over the history of five-year budget projections (first required by the Congressional Budget Act of 1974, and thus starting with the fiscal 1976 budget), the average forecast error for the deficit (or surplus – regardless of sign, expressed as a percentage of GDP) of the fiscal year already in progress was 0.6 percent of GDP (in today's terms, over $60 billion -- not a trivial sum for a year already one-fourth over). The average error for the coming year was twice as large -- 1.2 percent (or more than $120 billion today). Errors grew even further as the projection was more distant, averaging 4.0 percent of GDP (more than $400 billion today) for the five-year ahead (the most distant) projections. (The Clinton Administration's errors were only slightly smaller than those of other Presidencies; but unlike all the others, we have run smaller deficits or larger surpluses than we projected.) Such enormous uncertainty about budgets just a few years in the future should influence policymakers' decisions about expensive, long-term commitments on the basis of mere projections -- especially now, when the public debt, though declining, is still about the same percentage of GDP as it was in 1985; and when the baby-boom generation is just seven years from beginning to collect Social Security benefits.

The Long-Term Outlook: Though long-run budget projections are inherently uncertain, they can warn of potential problems, which may be more easily solved if addressed sooner. In the 1990s, policymakers increasingly focused on long-range projections, some looking as far as 75 years ahead -- especially for the budget effects of population aging and reforms to Social Security or Medicare.

Prior to the 1993 Clinton program, the Federal deficit was projected to spiral out of control in this decade. The outlook improved after enactment of the 1993 program, although deficits continued for a time. Following the passage of the bipartisan Balanced Budget Agreement (BBA) in 1997, a unified budget surplus was projected beginning in 2002, and for about 20 years; even so, the deficit was expected to return in the long run. Since 1997, the economy and the budget have performed much better than projected when the BBA was passed. Projections of publicly held Federal debt have steadily declined. Lower interest payments have reinforced the improvement of the budget, and have significantly extended the long-run surplus projections.

Still, the long-term current services baseline is a mechanical extrapolation of the budget implications of current law, and thus is not intended to reflect likely policy actions. Moreover, the range of uncertainty around such projections is very large – as the computations just described make clear. Under reasonable alternative assumptions, the budget could return to deficit within a few years following the retirement of the baby boom. The underlying demographic pressures are formidable, and if the demographic or economic outcomes prove to be less favorable than assumed here, the surplus would be threatened.

The favorable long-term budget results in these projections can be realized only with prudent policy -- choosing continuing reductions in outstanding debt, rather than expensive tax cuts or spending increases -- while sustaining private saving, investment, and productivity growth.

Realistic Budgeting

In that spirit, the budget process must have a realistic current services baseline, and a comprehensive view of all of the options at the very outset.

Unrealistic budget baselines make for bad choices. The Government should not understate the likely cost of fulfilling its core responsibilities – just as a typical family, in its budget, should not low-ball the cost of food and utilities to make illusory room for a down-payment on a boat. Thus, the baseline should include a reasonable measure of the likely increase of the costs of providing the core services of government. It is easy to take for granted the need to maintain critical functions like air traffic safety, law enforcement, the administration of Social Security and Medicare, and national security -- both defense and diplomacy. But as the last few years have demonstrated, at the end of the day, these functions must, and will, be provided. Pretending that inflation does not exist, and that basic costs can magically be hard-frozen, has never yielded a workable budget. Instead, it is more likely to provide temporary cover for large, unaffordable, non-essential uses of the Government's resources – to be followed later by funding of the necessary Federal activities, an over-commitment of the budget, spending of the Social Security and Medicare surpluses, and a return to deficits and debt.

The current services baseline shows what future surpluses would be if laws already enacted were left unchanged. It is not intended to be a prediction of the final outcome of the budget process, but it is an essential starting point in developing the annual budget, and it serves several useful purposes. First, it provides a measuring stick against which competing proposals can be compared; it clearly shows the extent to which proposals change the level of services provided under current law. Second, it warns of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs, and shows what resources are available for priority needs.

In our baseline document, we discuss the baseline, provide some alternative baseline formulations, and finally discuss and summarize pending Administration policies that provide an important reference point.

The rules in the Budget Enforcement Act (BEA) specify how to develop baseline estimates. These rules require largely mechanical applications of estimating models. Receipts and mandatory programs are projected based on continuation of existing laws into the future.

In some instances, these rules can understate the full demands on future resources. For example, baseline rules require that certain provisions of law that affect receipts and mandatory programs expire as specified under current law. But a number of such provisions have been routinely extended in the past. Because it is highly likely that they will again be extended at their expirations, their omission from the baseline estimates understates virtually certain demands on resources. It might be more prudent to include these expiring provisions as part of the baseline before considering further policy changes.

Specifically, extension of expiring provisions of the tax code that have been previously extended would reduce tax receipts by $118 billion over the 10 years, 2002 through 2011. Similarly, emergency farm aid is assumed only for the current crop year, even though such aid has been provided to farmers routinely in recent years. If aid at the average level of the past three years were provided each year, total spending would increase by $74 billion over the projection period. To be sure, some savings provisions that have been routinely extended are also affected by the BEA rules. For example, customs user fees are due to expire at the end of 2003. If extended, these fees would yield $14 billion over the projection period. Still, the balance of expiring provisions in the official baseline is heavily weighted toward overstating future available surpluses. Accounting for expiring tax and mandatory spending provisions that have been renewed in the past would reduce the cumulative surplus over the next ten years by more than $180 billion (including provisions that both decrease and increase the surplus).

The BEA baseline rules for discretionary programs and accounts, also, can exaggerate or understate funding needed to meet future demands. For example, there are two instances where there are already enacted caps for specific discretionary programs at levels above the inflation-adjusted levels required by the BEA. The Transportation Equity Act for the 21st Century (TEA–21) established new caps for highway and mass transit spending that created a guaranteed spending level tied to the collections of receipts in the Highway trust fund. Failure to acknowledge the higher TEA–21 levels understates transportation spending by $24 billion over the 10-year projection period. Likewise, the new conservation spending category established in this year's appropriations bills provides dedicated funding, which may be appropriated for conservation programs. The BEA baseline underfunds these programs by $7 billion over 10 years compared with the newly enacted caps.

There are also specific programmatic reasons why BEA baseline rules can misstate funding needs. For example, the rules do not allow for the certain need for funding for the next decennial census. Census spending on its traditional path would be $9 billion higher over the next 10 years than projected under BEA baseline rules. On the other side, the BEA rules assume continued funding at the same level into the future for the one-time 2001 appropriation for the construction of the Woodrow Wilson Bridge across the Potomac River. A full accounting of such discretionary anomalies, both favorable and unfavorable, would reduce the projected surplus over the next ten years by more than \$30 billion. The additional debt service entailed by both the mandatory and the discretionary anomalies would reduce the cumulative surplus by yet another \$56 billion, yielding a total diminution of the ten-year surplus by more than \$270 billion.

There are further reasons why future discretionary needs might well exceed the BEA baseline. Future discretionary costs are estimated by adjusting the current year enacted level by inflation into future years. But in recent years, discretionary appropriations have grown above the rate of inflation. Although the inflation adjustment specified by the BEA is a reasonable measure to maintain the purchasing power of Federal programs, this recent experience suggests that funding might need to be higher.

One possible reason is that many programs might need more funding to serve an increasing population. Funding for the Child Care and Development Block Grant provides assistance to a set number of children per year under baseline rules. As the population of young children grows, the increment would go without assistance at this funding level. If population were factored in to the baseline calculations for all discretionary programs (as it is automatically for mandatory programs), discretionary outlays would grow by \$362 billion over 10 years.

Beyond such issues regarding the formulation of an accurate baseline, sound budgeting requires that every expense be on the table at the outset; the budget process cannot begin with a serial presentation of a few unanalyzed goodies, leaving the Nation to discover only later that it is over-committed. More than a quarter-century ago, the Congress saw the folly of piecemeal budgeting, and enacted the core of today's Congressional budget process – which presumes the consideration and enactment of an overall blueprint at the very outset of the legislative process. Some might believe that they have ideas of such high priority that their enactment should precede the overall process; but if those proposals are indeed so essential, then surely they will find a place in the overall plan, and be enacted at the head of an orderly queue. Others might believe that their proposed policies will somehow expand the economy, and thus the pool of resources available for the budget, and so should precede the normal budget process. But that kind of end-justifies-the-means policymaking is wrong on two scores. First of all, there are surely dozens of mutually incompatible policies that would be advanced on exactly the same ground. And second, we have learned from the 1990s that prosperity comes not from magic bullets, but rather from adherence to sound principles, of which fiscal responsibility is the key.

The Benefits of Being Debt-Free

Paying off the debt is a desirable and feasible objective.

Our current economic prospect is unique in our history, and most likely in the history of any other developed Nation. I have already noted that our current economic expansion is the longest in our recorded history. The current string of years of consistent fiscal improvement is the longest on our records. Our unemployment and inflation rates are the best in decades, as is our string of consecutive budget surpluses. Our prospect of retiring the publicly held debt is also unusual; to the best of the evidence of the Nation's archives, the United States has been debt-free for only a short period within the year of 1835.

But along with such unprecedented or once-in-a-lifetime economic and budgetary achievements, we also have unique challenges. Only 70 years ago, retirement was rare, and poverty among the aged was the rule rather than the exception. Government took responsibility for creating a retirement program to form the bedrock of the income of the elderly, and this program – Social Security – was and is the most successful single program, in a broad consensus judgment, in the history of the Federal Government. Now, with the typical life span growing longer because of improved health care, public health, diets, environmental protection, and a host of other reasons – and because of the chance demographic event that we now call the "baby boom" – the Federal Government must adjust to another situation that, as far as we know, no society or government has ever faced before.

It should come as no surprise that, with our unique achievements and our unique challenges, we must reassess old rules of thumb, and reconsider customs in the behavior and finance of our Government. One instance where we clearly must think anew is the assumption that we will always have a public debt, and that – because we have made at least a partial virtue of that necessity in the past – a debt is, on balance, a good thing.

Life without a public debt will be different; but it will be better, not worse. The reason why we should be more than willing to accept any temporary disorientation caused by the gradual disappearance of the public debt is that continued Federal budget surpluses provide enormous benefits to the U.S. economy. Over the last eight years, our Nation's savings have grown, solely because the Federal Government has ceased depleting, and has begun to augment, the savings pool. With those increased savings have come lower interest rates, and a greater inducement to businesses to invest. With that greater investment – the share of inflation-adjusted GDP devoted to business fixed investment is almost double that of the 1980s and early 1990s – have come the economic growth and the advancement of productivity that have distinguished this economic expansion from all others in documented U.S. history.

Furthermore, the budget surplus has become our most important bulwark against international financial risks. If we dissipate the surplus, we would rely more on foreigners to finance our investments, and increase the risk that foreign investors cease to supply the United States with funds. In such a scenario, interest rates would rise, and the economy would slow – sharply. Although National savings have increased significantly since the 1980s and early 1990s, our savings are still too low; and the budget surplus is too important a support to national savings to speculate on the basis of an old, tired, failed theory.

And though the financial markets will have to adjust to the end of a free-flowing supply of Treasury securities, talk of the costs of that transition likely exaggerates. The Fed executed monetary policy before the public debt explosion of the 1980s, and it will be able to execute monetary policy after the public debt explosion is consigned to history. The private sector, and the financial industry in particular, have innovated to make the most of a world with a large public debt. The private sector, and the financial industry in particular, **will** innovate to make the most of a world **without** a large public debt. So-called "super-senior notes" (highly collateralized private debt securities); diversified bundles of private-sector securities; "swaps;" and other innovations that we do not yet recognize have begun, and will continue, to fill the market niche previously taken by the oversized issuances of public debt.

Conclusion

The second chapter in the volume of the budget package that we in this Administration have called *Analytical Perspectives* has been entitled "Stewardship." On this last day of our Administration, we are proud to cite the budget, and the economy, as evidence of our stewardship. We resolved in the early days to leave to our successors a Nation that was stronger than that which we inherited; and we are confident that we have accomplished that objective.

In the course of our stewardship, we have learned some things; and it would seem appropriate at this time to pass on what we have learned. We have learned that compliance with the basic, fundamental tenets of fiscal responsibility carries great rewards; and so we would urge that, especially in light of the impending demographic challenges to our economy and our budget, the example of fiscal responsibility be continued. We have learned that conservative, prudent economic forecasts lead to responsible budgeting and favorable results, while the wishful thinking and riverboat-gamble policies of the past too often led to over-subscribed resources and adverse budget surprises. We have learned that comprehensive budget planning yields better analysis and better choices than by-the-piece budget policies. It would seem wise to profit from the experience of these eight years.

In particular, if the Nation is to achieve most or all of the commonly expressed policy objectives for the Federal Government today – pay off the debt, extend prescription drug coverage to the elderly on Medicare, expand health-care insurance coverage for low-income children and adults, increase funding for defense, extend the popular expiring tax provisions, and provide tax cuts – then we must plan our budget conservatively, and comprehensively.

The future is uncertain; and so our budget should always have something in hand, in case outcomes are unfavorable. We learned in the 1980s that betting the budget on an optimistic forecast and speculative policies is unwise. We learned in the 1990s that fiscal discipline works. We know that every day takes us closer to demographic developments whose occurrence is certain, but whose effects are profoundly uncertain. This is no time for another self-indulgent fiscal experiment; we should not rush to undertake counter-***productive*** fiscal policy. We should stay with what works, and make allowances for the uncertainties just a few years in the future. That would best serve those who will follow us – a concept that somehow seems somewhat more vivid to me on this particular day.

And in one more perspective, the making of fiscal policy in this country has changed enormously. Eight years ago, the paramount objective of most budget choices was to find a way to make it through the fiscal year. Now, policymakers can think in terms of the effects of their choices over a lifetime. The budget progress of the last eight years has enormously raised the sights of our Nation. We must not yield that tremendous progress.

This is a rare moment in American history. Never before has our Nation enjoyed so much prosperity, at a time when social progress continues to advance and our position as the global leader is secure. Today, we are well prepared to make the choices that will shape the future of our Nation for decades to come.

By reversing the earlier trend of fiscal irresponsibility, using conservative economic estimates, balancing the budget, and producing an historic surplus, we have helped restore our national spirit and produced the resources to help opportunity and prosperity reach all corners of this Nation. We have it within our reach today, by making the right choices, to offer the promise of prosperity to generations of Americans to come. If we keep to the path of fiscal discipline, we can build a foundation of prosperity for the future of the Nation.

The challenge now, in this era of surplus, is to make balanced choices to use our resources to meet both the evident, pressing needs of today, and the more distant, but no less crucial, needs of generations to come.