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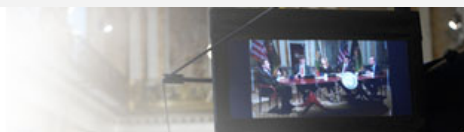
Henry M. Paulson Jr.

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U.S. DEPARTMENT OF THE TREASURY

Press Center



Testimony of Treasury Secretary Henry M. Paulson Before the Senate Finance Committee on the President's Fiscal Year 2008 Budget

2/6/2007

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Washington, D.C. – Chairman Baucus, Senator Grassley, Members of the Committee:

I am pleased to be here today to provide an overview of the President's budget for fiscal year 2008. As the Secretary of the Treasury, my top priority is keeping America's economy strong for our workers, our families, and our businesses. And the President's budget supports that goal.

We start from a position of strength. Our economy appears to be transitioning from a period of above-trend growth to a more sustainable level of about three percent growth. More than 7.4 million jobs have been created since August 2003. Our unemployment rate is low at 4.6 percent. And over the last 12 months, real wages have increased 1.7 percent. Economic growth is finding its way into workers' paychecks as a result of low inflation. That means family budgets are going further.

Strong economic growth also benefits the government's fiscal position. In the first quarter of fiscal year 2007, budget receipts totaled \$574 billion, an increase of 8 percent over the same period in fiscal year 2006. As a result of increased revenue over the last two years, we have brought the federal budget deficit down to 1.8 percent of GDP.

The President has submitted a budget that reflects our strong economy and our nation's priorities: continued job creation and wage growth, vigorous prosecution of the war on terror, increased access to affordable health insurance, improved energy security, and a strong fiscal position from which we can address long-term challenges such as strengthening Social Security and Medicare for future generations.

This budget supports a strong economy by maintaining fiscal discipline. It maintains our current tax policy, which has helped our economy rebound from recession to its current robust health. With a steadily growing economy, tax revenues combined with fiscal discipline should bring the federal budget into balance in five years. In fact, we are submitting a budget that includes a surplus in 2012, which is achievable if we keep our economy growing. While no one has a crystal ball, our economic assumptions are close to the consensus of professional forecasters.

The President's budget addresses important domestic priorities. Health care is high on this list. Under current law, the tax subsidy for health insurance purchased through employers will average more than \$300 billion a year for the next ten years. For that huge expenditure we get a system in which rising costs are a burden to families and businesses, and in which millions of people have no insurance at all.

The President's proposal would make health care more affordable and more accessible. It would give all taxpayers who buy health insurance, whether on their own or through their employer, and no matter the cost of the plan, the same standard tax deduction for health insurance – \$15,000 for a family, or \$7,500 for an individual. The President's proposal would help hold down health care costs by removing the current tax bias that encourages over-spending. Costs would become clearer, giving patients more power to make informed choices about their health care spending. The proposal would also jumpstart the individual insurance market, so consumers have more choices than are available today. Health care would become more consumer-driven, more affordable, and more accessible for millions of Americans.

Energy security is another concern of the American people, and it is a priority addressed in the President's budget. President Bush has put forth an ambitious goal of reducing America's projected gasoline consumption by 20 percent over the next 10 years. We can achieve this goal by dramatically increasing the supply and use of alternative fuels, and improving fuel-efficiency by reforming and increasing CAFE.

The expanded fuels standard will provide entrepreneurs and investors a guaranteed demand for alternative fuels, which will accelerate private investment and technological development. Reforming CAFE will allow us to increase the fuel economy of our automobiles as fast as technology allows. With a more diverse fuel supply and better fuel efficiency, we can make our economy less vulnerable to supply disruptions and confront climate change through technologies that reduce carbon dioxide emissions.

Finally, the President's budget, by emphasizing fiscal discipline and economic growth, lays the right foundation for dealing with entitlement reform – a challenge we all have a responsibility to address. Strengthening Social Security and Medicare is the most important step we can take to ensure the retirement security of our children and grandchildren, the long-term stability of the federal budget, and the continued growth of the American economy. I look forward to sitting down with Democrats and Republicans, without pre-conditions, and finding common ground on these critical issues.

Mr. Chairman, the President's budget priorities – a strong economy, national security, fiscal discipline, health care and energy innovation, and laying the groundwork for entitlement reform – are the right priorities for America and for the workers, businesses, and investors who drive our economy.

I am confident that, working together, we will keep our economy strong and chart a course for maintaining our global economic leadership in the years ahead.

Thank you for the opportunity to discuss this today – and I now welcome your questions.