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**SUMMARY AND ANALYSIS**

# THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2008

**Prepared by the Republican Staff**
**Committee on the Budget**
**U.S. House of Representatives**

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8 February 2007

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives.

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## EDITOR'S NOTE

This document, prepared by the Republican staff of the Committee on the Budget, is intended to describe the highlights of the President's budget submission for fiscal year 2008. It reflects the key proposals in the budget and estimates provided by the administration's Office of Management and Budget. The Congressional Budget Office will prepare its own analysis of the President's budget during the next several weeks. For consistency, discretionary spending comparisons are based on levels in the current continuing resolution, H.J. Res. 102.

# FISCAL OVERVIEW OF THE PRESIDENT'S BUDGET

## SUMMARY

With revenue that outpaces spending over the next 5 years, the President's budget reaches balance by 2012 without raising taxes.

Spending in the President's budget increases at an average of 3.1 percent per year over the next 5 years, a reduction from last year's average growth projection of 3.6 percent over the same period. The President once again calls for a near freeze in non-defense, non-homeland security discretionary spending (spending subject to annual appropriation), and proposes a combination of entitlement initiatives and reforms that would yield net savings of $95.9 billion during 2008-12. The President's budget also fully accounts for costs of the Global War on Terrorism.

The President also, once again, calls for making the 2001 and 2003 tax relief provisions permanent, and providing modest new tax reductions. Even with these policies, the administration projects total revenue to grow an average of 5.4 percent per year. Revenue would increase from $2.5 trillion in 2007 to $3.3 trillion in 2012, or from 18.5 percent of gross domestic product [GDP] to 18.6 percent.

**The President's Budget: Total Spending, Revenue, and Deficits**
(dollars in billions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Annual Percent Change 2007-08 | Annual Percent Change 5-year annl.avg |
|---|---|---|---|---|---|---|---|---|
| Outlays | 2,784 | 2,902 | 2,985 | 3,049 | 3,157 | 3,246 | 4.2 | 3.1 |
| Revenue | 2,540 | 2,662 | 2,798 | 2,955 | 3,104 | 3,307 | 4.8 | 5.4 |
| Surplus/Deficit (-) | -244 | -239 | -187 | -94 | -54 | 61 | 2.1 | 175.5 |
| *Surplus/Deficit as % of GDP* | *-1.8* | *-1.6* | *-1.2* | *-0.6* | *-0.3* | *0.3* | | |

Source: Office of Management and Budget.

The combination of these fiscal policies eliminates the deficit and produces a $61-billion surplus in 2012.

For fiscal year 2007, the current fiscal year, the budget submission estimates a deficit of $244 billion (including the supplemental appropriations request for military operations in Iraq and Afghanistan that was submitted with the budget). This is a substantial drop from last year's projected deficit for 2007 of $354 billion. Under the President's policies, the Office of Management and Budget [OMB] estimates the deficit will decline to $239 billion, or 1.6 percent of GDP, in fiscal year 2008, and then will shrink dramatically until disappearing in 2012. The 2008 budget deficit forecast of 1.6 percent of GDP is the lowest the deficit has been in the past 5 years and ranks eighth as a share of the economy over the past 25 years.

## ANNUAL APPROPRIATIONS
## (Discretionary Spending)

The President requests new discretionary budget authority [BA] totaling $929.8 billion for fiscal year 2008, an increase of 6.5 percent over the $872.8 billion that was passed by the House for fiscal year 2007 non-emergency appropriations, and 6.8 percent above the President's 2007 request. (Because the 2007 levels are not final, the President's budget extrapolates from the continuing resolution currently in place – H.J. Res 102 – which provides funding for the government through 15 February. This discussion uses the President's numbers for comparison with 2007, with the understanding that these figures are subject to change by H.J. Res. 20, the omnibus appropriations measure recently passed by the House and awaiting action in the Senate.)

**The President's Budget: Discretionary Totals**
(dollars in billions)

| | 2007 | 2008 | Annual Dollar Change | Annual Percent Change |
|---|---|---|---|---|
| Regular Budget Authority: | | | | |
| Department of Defense - Military | 435.5 | 481.4 | 45.9 | 10.5 |
| Homeland Security (nondefense) | 34.1 | 36.4 | 2.3 | 6.7 |
| Other Nonsecurity | 403.2 | 412 | 8.8 | 2.2 |
| Subtotal - Regular Appropriations | 872.8 | 929.8 | 57 | 6.5 |
| Emergency Supplemental Budget Authority: | | | | |
| Enacted FY2007 Supplemental | 72.0 | | | |
| Anticipated FY2007 and FY2008 Supplemental | 103.0 | 145.2 | | |
| Subtotal - Supplemental and Emergency | 175.0 | 145.2 | | |
| Total | 1,047.8 | 1,075 | 27.2 | 2.6 |

Source: Office of Management and Budget
Figures may not add due to rounding.

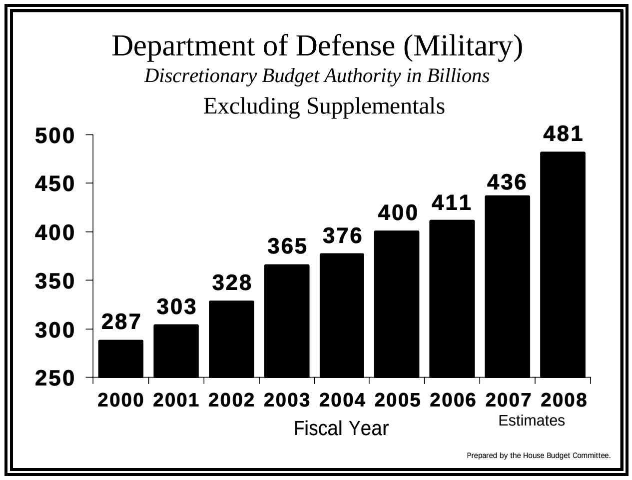
The budget continues the President's trend of shifting funding toward his priorities – namely defense and homeland security. The 6.5-percent increase in discretionary spending over the likely 2007 level can be attributed largely to a 10.5-percent increase in defense spending and an 6.7-percent increase in homeland security spending.

Non-security discretionary spending is projected to increase by 2.2 percent from 2007 to 2008. But over the 5 years covered by the budget submission (2008-12), the administration assumes an annual average increase of 1 percent for programs and activities in this category (excluding emergency spending). This rate is well below the projected rate of consumer price inflation, and a sharp reduction from the 2.2-percent average rate of increase in the preceding 5-year period.

In addition to the regular discretionary proposal, the President requests emergency supplemental appropriations of $103 billion in fiscal year 2007 and projects emergency supplementals of $145 billion in 2008, and $50 billion in 2009. Of the $103 billion requested in 2007, $99.6 billion is for ongoing operations in Iraq and Afghanistan, and $3.4 billion is for hurricane-recovery activities. These funds are in addition to the $70 billion in emergency funding already appropriated in 2007. The $145 billion for 2008 emergency funding and the $50 billion for 2009 emergency funding is entirely for the Global War on Terrorism. The 2009 figure is strictly a placeholder to ensure that outlays for the war are considered in deficit projections. The growth rate in discretionary spending between 2007 and 2008 including emergency spending is forecast at 2.6 percent.

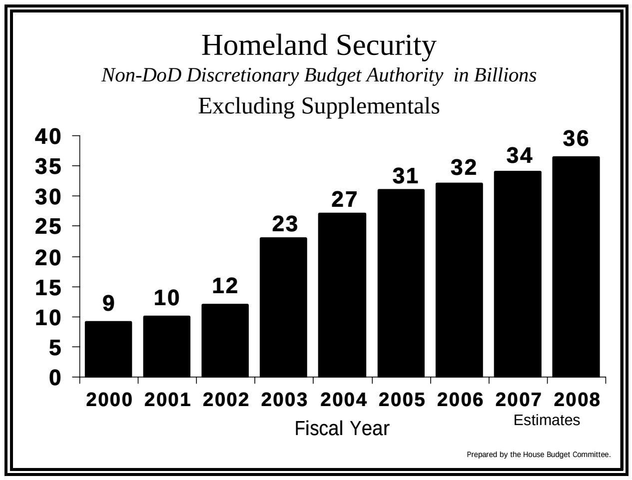
A further look at these three individual categories follows:

- **Defense Appropriations.** The administration recommends $481.4 billion in BA for fiscal year 2008 for the military functions of the Department of Defense, an increase of 10.5 percent over the $435.5 billion for fiscal year 2007. This continues the growth trend in recent years for this category, though at a significantly faster rate than the 6.2-percent average annual growth of 2001-07 (see chart).

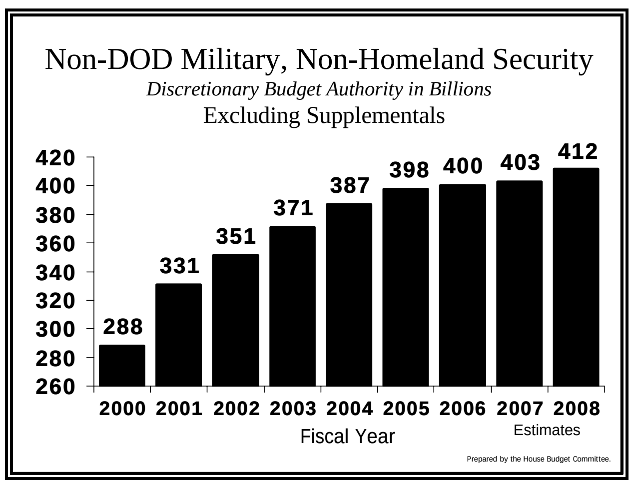



- **Homeland Security Appropriations.** The administration recommends $36.4 billion in fiscal year 2008 for non-defense homeland security – an increase of $2.3 billion, or 6.7 percent, over the $34.1 billion in fiscal year 2007. Prior to 11 September 2001, spending for homeland security was about $9 billion. Since then, this category has grown at an average annual rate of 22.6 percent. The President's requested increase for fiscal year 2008 reduces this rate of growth, but is still more than twice the inflation rate.

  The Department of Homeland Security [DHS ] will increase from $32 billion in 2007 to $34.3 billion in 2008 under the President's request. This $2.3-billion increase is a 7.2-percent year-over-year increase for this agency. (This does not reflect discretionary spending outside DHS or mandatory spending within the Department.)




- **All Other Appropriations.** The administration recommends $412 billion in fiscal year 2008 for appropriated spending other than defense and Homeland Security – an increase of nearly $9 billion, or 2.2 percent, above the level



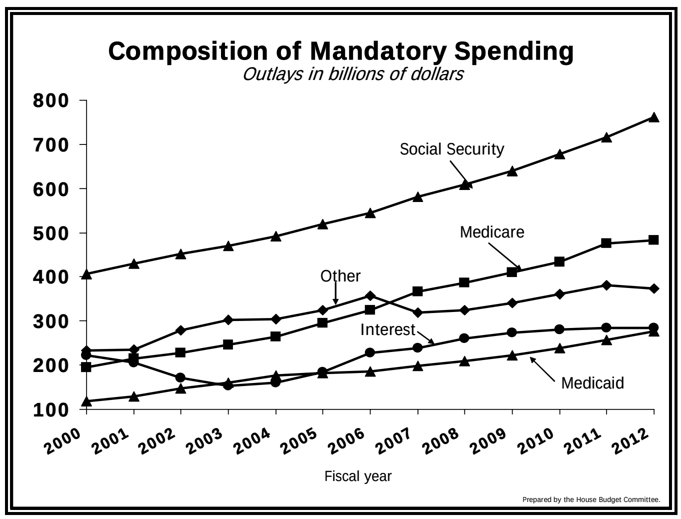
for fiscal year 2007 (see chart). For years after 2008, as noted above, the budget assumes a 1-percent average annual increase (excluding emergencies) in this portion of discretionary spending from the 2008 level. It is primarily through this spending restraint, combined with the mandatory proposals described below, that the President is able to balance the budget in 2012.

## ENTITLEMENT INITIATIVES AND REFORMS
## (Mandatory Spending)

Mandatory spending in the President's budget would reach $1.456 trillion in fiscal year 2007, somewhat lower than the OMB "baseline" – which reflects amounts that would occur under current laws and policies without change – and $1.527 trillion in fiscal year 2008, roughly $10.5 billion lower than the OMB baseline level. The proposed 2008 spending is roughly 4.2 percent above the 2007 baseline level of $1.465 trillion for fiscal year 2007. Total mandatory spending continues to increase each following year at an average annual rate of 5.6 percent, reaching $1.922 trillion in fiscal year 2012.

The net effect of the administration's proposals is to moderate the rate of growth in total mandatory spending. This results in net savings – measured against the baseline as described above – of $90 million in fiscal year 2007, $9.7 billion in fiscal year 2008, and $95.9 billion for fiscal years 2008-12. These savings grow to $309.3 billion for 2008-17. The savings during 2008-12 are caused primarily by the President's Medicare proposals, which would save an estimated $65.6 billion over the 5-year period.

Several administration savings proposals are repeated from the fiscal year 2007 request. These include: increasing sales of the National Defense Strategic Minerals Stockpile; increasing Pension Benefit Guaranty Corporation [PBGC] premiums; reforming child tax and earned income tax credits; reducing agriculture commodity programs; imposing Environmental Protection Agency [EPA] fees; recovering unemployment insurance benefit overpayments; and imposing spectrum license fees. In addition to those recurring proposals, the administration proposes substantial savings from Medicare.




**The President's Budget: Net of Mandatory Proposals**
(dollars in billions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2007-12 | 2008-17 |
|---|---|---|---|---|---|---|---|---|
| Total Mandatory Proposals | -0.1 | −9.7 | −17.4 | −18.8 | −23.1 | -26.9 | −96.0 | −309.3 |

Source: Office of Management and Budget.

## Initiatives

The largest mandatory spending initiative in the President's budget is for the Social Security personal accounts. This proposal would allow workers to invest some of their payroll taxes into personal retirement accounts for their use upon retirement, which increases spending. When those workers begin to draw on their personal accounts as a supplement to Social Security, spending will be commensurately reduced, so this increase in spending occurs only during the transition to a retirement system in which personal accounts are a basic component of retirement security. This cost begins in fiscal year 2012, and outlays associated with the provision increase spending by $637.4 billion between 2012 and 2017.

**The President's Budget: Major Entitlement Initiatives**
(dollars in millions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2008-12 | 2008-17 |
|---|---|---|---|---|---|---|---|---|
| Soc. Security Personal Accounts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 29,348 | 29,348 | 637,441 |
| Increase Pell Grants | 0.0 | 532 | 2,375 | 3,256 | 4,133 | 5,039 | 15,335 | 43,058 |
| Medicaid/SCHIP | 0.0 | 710 | 1,095 | 620 | 890 | 845 | 4,160 | 9,680 |
| Farm Bill | 0.0 | 500 | 500 | 500 | 500 | 500 | 2,500 | 5,000 |
| TANF | 0.0 | 0.0 | 240 | 296 | 309 | 326 | 1,171 | 2,768 |

Source: Office of Management and Budget.

The second largest initiative calls for an increase in the Pell Grant maximum award from $4,050 to $5,400. This program is expected to phase in over 5 years.

## Reforms

Medicare savings provide the largest 5-year savings. The reduced growth in Medicare spending would produce savings of $4.7 billion for fiscal year 2008, $66 billion for fiscal years 2008-12, and $252.5 billion for 2008-17. Nevertheless, net Medicare outlays continue to grow at an average of 5.6 percent per year. The next largest savings proposal is a reduction in lender subsidy payments by 50 basis points for student loans. This will create savings of $688 million in 2008, $11.2 billion over 5 years, and $29.5 billion over 10 years. Likewise, Medicaid reforms provide a savings of $29 billion over a 10-year period; still, total Federal spending for Medicaid and the related State Children's Health Insurance Program [SCHIP] continues growing at about 7 percent per year. A proposal to recall Federal Perkins Loans revolving funds results in a savings of $419 million in 2008, $3.2 billion over 5 years, and $6.4 billion over 10 years.

**The President's Budget: Major Entitlement Reforms**
(dollars in millions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2008-12 | 2008-17 |
|---|---|---|---|---|---|---|---|---|
| Medicare | 0.0 | −4.696 | −9,113 | −13,077 | −17,463 | -21,695 | −66,044 | −252,432 |
| Reduce Lender Subsidy Payments for Student Aid | 0.0 | −688 | −2,165 | −2,558 | −2,792 | -2,986 | −11,189 | −29,494 |
| Medicaid/SCHIP Reforms | 0.0 | −1,925 | −2,170 | −2,385 | −2,680 | -2,850 | −12,010 | −29,090 |
| Reform PBGC | 0.0 | 0.0 | -1,390 | −1,387 | −1,400 | -1,295 | −5,472 | −10,569 |
| Recall Perkins Loan Funds | 0.0 | -419 | -498 | -713 | -814 | -779 | -3,223 | -6,358 |
| ANWR | 0.0 | 0.0 | −3,502 | −2 | −503 | -3 | −4,010 | −4,025 |
| UI Integrity | 0.0 | 0.0 | −484 | −494 | −351 | -355 | −1,684 | −3,619 |

Source: Office of Management and Budget.

## REVENUE PROPOSALS

As noted, the President's budget projects that Federal tax revenue will grow at an average of 5.4 percent per year over the next 5 years. This rate compares with double-digit revenue growth in the past 2 years, and an 8.1-percent increase in tax revenue in the first quarter of fiscal year 2007 (October-December 2006). The projection assumes that provisions of the tax relief laws enacted in 2001 and 2003 will continue throughout the projection period, and will not expire as scheduled after 31 December 2010.

**The President's Budget: Receipts Proposals - Summary**
(dollars in billions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Total 2008-12 |
|---|---|---|---|---|---|---|---|
| Make Permanent 2001, 2003 Tax Relief[a] | 0.188 | -0.690 | -1.595 | -13.789 | -146.513 | -211.358 | -373.945 |
| Incentives and Tax Relief | 0.061 | -1.325 | -32.348 | -39.893 | -33.528 | -24.951 | -132.045 |
| Extend Expiring Provisions | -9.186 | -51.266 | 4.089 | -9.385 | -10.738 | -11.865 | -79.165 |
| Revenue Offsets | 0.017 | 1.568 | 2.815 | 3.541 | 4.241 | 4.571 | 16.736 |
| Other | -0.466 | -0.453 | -6.786 | -7.245 | -7.770 | -8.332 | -30.586 |
| **Total Receipts Effect (with permanence of 2001, 2003 provisions as additional relief)** | **-9.386** | **-52.166** | **-33.825** | **-66.771** | **-194.308** | **-251.935** | **-599.005** |
| **Total Receipts Effect (with permanence of 2001, 2003 provisions assumed in baseline)** | **-9.574** | **-51.476** | **-32.230** | **-52.982** | **-47.795** | **-40.577** | **-225.060** |
| Total Outlay Effect[b] | --- | -0.388 | -0.297 | 4.021 | 3.780 | 17.646 | 24.762 |

Source: Office of Management and Budget.
[a] The administration assumes the permanence of these provisions within the baseline, not as new legislation. This table represents the revenue effects both ways. Totals may not add due to rounding.
[b] Reflects refundable portion of certain tax credit provisions, under the assumption that the permanence of 2001 and 2003 provisions are not in the baseline.

The budget proposes a number of tax and trade policy changes that affect revenue (and, to a lesser extent, outlays as well). Taking these policies into account, OMB projects that receipts will increase from $2.540 trillion (18.5 percent of GDP) in fiscal year 2007 to $3.307 trillion (18.6 percent of GDP) in fiscal year 2012. Over the past 40 years, the average level of Federal revenue has been 18.2 percent of GDP.

The administration's tax and trade policies have budget effects of $9.6 billion in fiscal year 2007, $51.5 billion in fiscal year 2008, and $225.1 billion over 5 years; the President's new deduction for health insurance will increase outlays by $14.3 billion over 5 years. The administration would partially offset these budget effects by enacting a number of revenue-raising provisions that would increase revenue by $1.6 billion in fiscal year 2008 and by $16.7 billion over 5 years. The President also has a number of proposals that will close loopholes, curtail tax avoidance, and improve tax compliance.

The overall set of revenue proposals, summarized in the table on the previous page, can be categorized as follows: making permanent the 2001 and 2003 tax legislation; new tax relief initiatives; investing in health; extending expiring provisions; revenue offsets; and other provisions. These proposals are detailed in the revenue section of this analysis.

## DEBT AND NET INTEREST

The budget projects debt held by the public growing from $5.1 trillion in 2007 (36.9 percent of GDP) to $5.7 trillion in 2012 (32.1 percent of GDP). Over the past 40 years, debt held by the public has averaged 41.7 percent of GDP. The budget projects net interest costs of $261 billion in 2008 (9.0 percent of total spending), growing to $285 billion by 2012 (8.8 percent of total spending).

# DISCRETIONARY OVERVIEW

Discretionary spending is funding provided in annual non-emergency appropriations bills to finance a broad range of Federal programs, projects and activities, including national defense and foreign aid, transportation, national parks, education, scientific research, environmental protection, nutrition assistance for low-income children and families as well as homeland security.

According to the data for the recently completed fiscal year 2006, 38 percent of total Federal outlays were discretionary – or approximately 7.8 percent of gross domestic product – even after including outlays for emergency supplemental appropriations.

The President's fiscal year 2008 budget request would provide $929.8 billion in new discretionary budget authority [BA], not including supplemental spending for ongoing military operations in Iraq and Afghanistan or hurricane recovery activities related to Katrina. This would represent a nominal increase of 6.5 percent over the fiscal year 2007 non-emergency level of $872.8 billion and 6.8 percent above the 2007 budget request.

Like previous years' budget submissions, the regular 2008 discretionary budget puts a priority on security-related spending, requesting a 10.5-percent increase for total national defense programs and activities, and a 10.3-percent increase for government-wide homeland security spending (non-DOD, less proposed discretionary fees).

The budget submission also proposes holding non-security discretionary spending below the rate of inflation, recommending an increase of 2.2 percent over the appropriated 2007 level.

The budget also requests emergency supplemental funds totaling $103 billion in fiscal year 2007. Of this, $99.6 billion would be for ongoing military and international affairs operations in Iraq, Afghanistan as well as for the Global War on Terror. The budget also requests $3.4 billion in emergency spending for Katrina disaster-recovery activities.

In addition, the President's budget requests $145.2 billion in total funding for fiscal year 2008 operations in Iraq, Afghanistan, and in the Global War on Terror, as well as providing a placeholder level of $50 billion for fiscal year 2009. To date, more than $500 billion in emergency discretionary supplemental funding has been appropriated for Iraq and Afghanistan, including $70 billion in 2007. Also, about $123 billion in total budgetary resources – including discretionary and mandatory spending, as well as tax provisions – have been provided for Katrina and Rita related hurricane recovery.

The following table provides a functional summary of broad categories of the President's discretionary spending recommendations.

**The President's Budget: Discretionary Budget Authority by Function (Excluding Emergencies)**
(dollars in billions)

| **Function** | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| National Defense | 432.4 | 455.8 | 501.9 | 531.4 | 541.8 | 548.3 | 557.3 |
| International Affairs | 31.4 | 30.9 | 36.2 | 36.6 | 36.9 | 37.3 | 37.7 |
| General science, space | 24.5 | 24.8 | 27.3 | 28.4 | 29.6 | 30.8 | 32.2 |
| Energy | 3.8 | 3.6 | 4.2 | 4.2 | 4.6 | 4.7 | 4.8 |
| Natural Resources | 30.2 | 27.9 | 28.7 | 28.6 | 28.6 | 29.2 | 29.5 |
| Agriculture | 6.0 | 5.6 | 5.8 | 5.8 | 5.8 | 5.9 | 6.0 |
| Commerce/Housing Credit | 1.8 | 2.6 | 3.0 | 3.6 | 6.7 | 1.2 | 0.9 |
| Transportation | 24.7 | 21.5 | 23.4 | 18.7 | 18.9 | 19.4 | 19.7 |
| Community/Regional Development | 13.2 | 12.8 | 10.7 | 10.7 | 10.7 | 11.0 | 11.1 |
| Education, Training, Employment | 78.8 | 78.7 | 76.2 | 76.0 | 75.8 | 77.5 | 78.2 |
| Health | 50.9 | 51.0 | 52.3 | 53.9 | 51.8 | 53.0 | 53.6 |
| Medicare | 4.9 | 4.8 | 5.2 | 5.2 | 5.2 | 5.3 | 5.3 |
| Income Security | 47.0 | 46.7 | 49.2 | 49.9 | 49.8 | 50.9 | 51.4 |
| Social Security | 4.6 | 4.6 | 4.9 | 4.9 | 4.9 | 5.0 | 5.0 |
| Veterans Benefits | 33.0 | 33.3 | 39.6 | 38.8 | 38.6 | 39.4 | 39.7 |
| Administration of Justice | 39.5 | 39.3 | 43.6 | 45.4 | 45.9 | 47.1 | 48.0 |
| General government | 16.6 | 15.7 | 17.6 | 17.6 | 17.7 | 18.2 | 18.3 |
| Allowances | -- | 13.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 843.4 | 872.8 | 929.8 | 959.4 | 973.0 | 984.3 | 998.5 |

## DEFENSE

Funding for national defense represents more than half of all annual discretionary appropriations, covering costs associated with military and civilian defense personnel, housing troops and their families, research, development and procurement of critical new weapons technologies and capabilities, maintaining military readiness, training and other operating costs.

Of the $929.8 billion discretionary total, $481.4 billion would be for defense and the Department of Defense's [DOD] base budget, representing a 10.5-percent increase over the regular fiscal year 2007 level of $435.5 billion and a 62 percent increase since 2001.

For ongoing military operations in Iraq and Afghanistan (less foreign affairs funding), the President's budget requests $93.6 billion in fiscal year 2007 and $141.7 billion for fiscal year 2008. This request would not only cover direct support for deployment and in-theater U.S. military operations, but also resetting and recapitalization of worn and damaged equipment, training of Iraq and Afghan security forces, intelligence activities, support for Coalition Forces as well as infrastructure reconconstruction and build-out.

In addition, $50 billion in emergency spending is requested for these operations for fiscal year 2009. As noted previously, this level is simply a placeholder to ensure that some amount of funding for these operations is represented in the overall Federal budget totals, despite the uncertainty associated with such projections due to changing operational requirements.

### Key Provisions

- **Military Pay.** The President's 2008 budget would provide a 3-percent pay increase for basic military and civilian pay.

- **Operations and Maintenance [O&M].** The budget request recommends a 2008 funding level of $164.7 billion, a $16.1 billion increase, or 11 percent over the current, fiscal year 2007, level.

- **Procurement.** The budget assumes $101.7 billion to procure equipment and weapons systems, representing a $20.4-billion increase over the current fiscal year 2007 level.

- **Research, Development, Test and Evaluation [RDT&E].** The budget request recommends $75.1 billion for fiscal year 2008 for RDT&E activities such as basic science and engineering research as well as developing specific weapons systems.

- **Military Construction.** The 2008 budget requests $18.233 billion for fiscal year 2008 to build and sustain military bases, facilities and infrastructure on a global-basis. This request would be an increase of $10.7 billion over the current fiscal year 2007 level.

## HOMELAND SECURITY

This category of spending is a crosscutting government-wide function that includes a broad range of 31 Federal departments and agencies. Spending for this mission is designed to develop the capacity to defend Americans and their homes and businesses, protect key assets and other critical infrastructure, and provide relief and recovery assistance in the event of a public health or security emergency.

Although about 46 percent of homeland security funding in fiscal year 2006 occurred within the Department of Homeland Security [DHS] and the Department of Defense (30 percent), significant shares go to the Department of Justice (5.4 percent) and the Department of Health and Human Services (8 percent).

The President's budget requests $61.1 billion for total government-wide homeland security activities in fiscal year 2008, including $41.4 billion for gross discretionary non-DOD spending, including discretionary fee-funded activities. Excluding discretionary fee-funded activities, the President requests a net $36.4 billion for non-defense homeland security activities, an increase of $3.4 billion, or 10 percent over the $32.98 billion level assumed appropriated in the current fiscal year 2007.

Within the government-wide spending request for this category, the President's budget recommends $29.7 billion in funding for non-emergency security related activities at the Department of Homeland Security, an increase of $2.8 billion over the 2007 level.

### Key Provisions

- **Strengthen Border Security.** The President's budget proposes spending $3.6 billion to hire 3,000 new Border Patrol agents, a 27-percent increase over the 2007 level.

- **Domestic Counterterrorism.** The 2008 budget submission requests $4.89 billion to support government-wide domestic law enforcement counterterrorism efforts to identify, apprehend and prosecute terrorists in order to protect the U.S. from attacks.

- **Avian Influenza Pandemic.** The budget request would provide $870 million in funding for activities to protect against the influenza pandemic, including buying antiviral medications and stockpiling medical supplies and developing a pandemic vaccine.

- **Domestic Nuclear Detection office [DNDO].** The 2008 budget requests $562 million for detection technology systems to protect against efforts to bring or use radiological materials in the U.S. This would represent a 17 percent increase over the 2007 level.

## NON-SECURITY DISCRETIONARY SPENDING

Non-security discretionary spending comprises all the non-defense, non-homeland security related programs and activities of the Federal Government, including section 8 rental housing assistance, the Economic Development Administration, the National Aeronautics and Space Administration, the Army Corps of Engineers, the Bureau of the Census, Amtrak, the Federal Bureau of Investigation, foreign aid and the Peace Corps. This category of spending represents approximately 44 percent of the total 2008 discretionary budget proposed by the President.

In his fiscal year 2008 budget request, the President recommends $412 billion in new discretionary funding, an increase of 2.2 percent over the fiscal year 2007 level, well below the rate of inflation.

Assuming this request, non-security discretionary budget authority will have increased by almost 25 percent since 2001.

### Key Provisions

Among the key program-level spending provisions are the following:

- **Veterans Medical Care.** The President's budget calls for $34.2 billion in discretionary funding for veteran's medical care (less proposed fees), an increase of $4.89 billion over the current fiscal year 2007 level. Assuming this requested level, spending on veteran's medical care will have increased by 83.4 percent since 2001.

- **Federal-Aid Highways.** The President proposes to fully fund the SAFETEA-LU guaranteed level of $39.6 billion in obligation limitations (controls set by the Appropriations Committee on "contract authority," a form of mandatory budget authority) for the Federal highway program. This represents an increase of $500 million billion over the 2007 level of $39.1 billion for fiscal year 2007.

- **Section 8 Housing Vouchers.** The President's budget proposes $16 billion in tenant based rental assistance, an increase of $900 million over current 2007 levels, as well as proposes a programmatic change to allow the release of unused balances of vouchers held by public housing authorities.

- **Federal Bureau of Investigation [FBI].** The FBI is the lead Department of Justice agency in defending Americans against terrorists as well as enforcing U. S. criminal laws. The President's budget sets funding for the FBI at $6.4 billion, an increase of $732 million over the current fiscal year 2007 level.

- **National Institutes of Health [NIH].** The NIH is the principal Federal agency for conducting medical research. The President's fiscal year 2008 budget requests $28.7 billion, an increase of $250 million over the current fiscal year 2007 level.

- **National Aeronautics and Space Administration [NASA].** NASA is the lead agency for conducting civilian space exploration as well as scientific and aeronautics research. The budget submission requests a discretionary funding level of $17.310 billion, an increase of $1.115 billion, or 6.8 percent over the current fiscal year 2007 level.

Other significant discretionary spending provisions are discussed below.

## Natural Resources and Environment

The administration proposes $30.36 billion in budget authority for fiscal year 2008 for natrual resources-related discretionary spending programs. This represents an increase of $638 million (2 percent) over fiscal year 2007. Key components include the following:

- **Department of the Interior.** Discretionary budget authority for the Department is proposed at $10.61 billion for fiscal year 2008, a $278 million increase (3 percent) over fiscal year 2007.

- **Interior National Park Service.** The administration proposes $2.37 billion in discretionary budget authority for fiscal year 2008 for the National Park Service, a $230-million increase (11 percent) over fiscal year 2007. Further, the administration proposes up to $3 billion in new funds over 10 years, under the National Parks Centennial Initiative, which seeks to improve and protect national parks. The proposal includes a new mandatory fund to encourage increased public donations to national parks by matching public contributions for projects and programs up to $100 million a year for 10 years.

- **Interior Bureau of Indian Affairs/Bureau of Indian Education Initiatives [BIA/BIE].** Under the administration's budget request, overall BIA/BIE discretionary appropriations for fiscal year 2008 are down slightly from fiscal year 2007, but the administration announces an "extra" $16 million for a Safe Indian Communities Initiative, which will presumably go to BIA Law Enforcement, for increased police and jail manpower. The administration also announces a $15 million Indian Education Initiative involving BIE school management and student transportation.

- **Interior Office of Special Trustee [OST] for American Indians Initiatives.** Under the administration's budget request, overall OST discretionary appropriations for fiscal year 2008 are up $15 million (8 percent) from fiscal year fiscal year 2007. The administration proposes, however, to shift funding from the consolidation of Indian trust lands (for long-term savings in trust management costs) to the management of Indian trust funds, for continued program improvements, funding of fixed costs, and historical accounting and related litigation activities. The Indian Trust Programs part of OST would increase $36 million (24 percent) from fiscal year 2007, to $186 million. The Indian Land Consolidation part of OST appropriations for fiscal year 2008 is to go down $21 million (68 percent) from fiscal year 2007, to $10 million, to be used for more effectively targeted land acquisitions.

- **Interior Cooperative Conservation Initiative.** The administration proposes $324 million for cooperative conservation programs for the Department of the Interior. Cooperative conservation programs among governments, landowners, corporations, and organizations seek to conserve native fish, migratory birds and other species at risk, and marine environments. These programs help leverage resources, promote innovation, and inspire citizen stewardship.

- **Interior Land and Water Conservation Fund Stateside Program.** The administration does not seek grant funds for fiscal year 2008 for the Stateside Grant Program, which provides matching grants to States for recreation planning, acquisition of lands and waters, and facility development.

- **Army Corps of Engineers.** The administration requests $4.87 billion in discretionary budget authority, an increase of $152 million compared to fiscal year 2007. The administration identifies six priority construction projects, uses a benefit-cost ratio to rank other construction activities, and transfers activities related to existing projects from the construction program to the operation and maintenance program.

- **National Oceanic and Atmospheric Administration [NOAA].** The administration is requesting $3.81 billion in discretionary appropriations for NOAA for fiscal year 2008. This is an increase of $430 million (13 percent), relative to the $3.38 billion for fiscal year 2007. Major changes between the fiscal year 2007 level and the fiscal year 2008 request include increases of $25 million for sustainable use of ocean resources, $38 million for protection and restoration of marine and coastal areas, and $60 million for enhanced ocean science and research, for a total increase of $123 million. As in previous years, the fiscal year 2008 request proposes to terminate most congressional funding added to the President's fiscal year 2006 budget to generate additional budget savings at NOAA. About $20 million in mandatory funding is requested for NOAA Corps healthcare and retirement benefits with no net change from fiscal year 2007.

- **Environmental Protection Agency.** The President's fiscal year 2008 budget proposes a total of $7.20 billion in discretionary budget authority for the Environmental Protection Agency, $294 million less than total discretionary funding of $7.49 billion for the agency in fiscal year 2007. The budget proposes $688 million for the Clean Water State Revolving Fund and $842 million for the Drinking Water State Revolving Fund, both of which are the same as in fiscal year 2007.

- **Environmental Protection Agency: Superfund.** The President's budget proposes $1.25 billion for the Superfund program, $25 million more than the funding level of $1.22 billion in fiscal year 2007. Nearly all of the $1.25 billion proposed for fiscal year 2008 would be supported with general revenue, as has been common in recent years.

## Agriculture Provisions

The discretionary portion of agriculture spending includes funds for food and agriculture inspection services, animal health programs, agricultural research, farm credit, and other program delivery. Farm policy is driven by the Farm Security and Rural Investment Act of 2002 (the 2002 farm bill), which provides producers with continued planting flexibility while protecting them against unique uncertainties such as poor weather conditions and unfavorable market conditions. The U.S. Department of Agriculture [USDA] is the major recipient of funding here.

The administration proposes $5.8 billion in BA for fiscal year 2008 for these programs.

- **Avian Influenza.** The budget provides $82 million for efforts by the U.S. Department of Agriculture [USDA] to prevent, prepare for, and otherwise minimize the effect of a possible avian flu outbreak. The request is about $32 million, about 64 percent more than the expected fiscal year 2007 level. It includes enhanced domestic surveillance, preparedness, research, and international capacity building.

- **Food and Agriculture Defense Initiative.** The President requests $341 million for USDA's continuing efforts to protect the food supply and agricultural resources from accidental and intentional threats. This amount is nearly double the fiscal year 2007 level of $177 million. The increase would be for enhanced surveillance networks, research, and a veterinary vaccine stockpile. USDA also plans to begin development of a new biosecurity laboratory for poultry at an existing poultry research facility in Athens, GA.

- **Research.** The administration proposes roughly level funding for the agricultural research activities of the Agricultural Research Service [ARS] and the Cooperative Research, Education, and Extension Service [CSREES]. These agencies would receive $2.36 billion for fiscal year 2008, compared with $2.39 billion in 2007. As in past year, however, the administration proposes to eliminate earmarks amounting to, by its count, about $280 million in ARS (half in ongoing programs, half in building and facilities), and $157 million in CSREES, and to redirect funding to other areas. Also as in recent years, the administration proposes to reduce formula funding for State universities and replace it with competitive grants, and expand the competitive grants of the National Research Initiative.

- **Other User Fees.** The administration proposes new user fees for several USDA agencies, similar to proposals in recent years. These fees include food safety inspection fees of $4 million and licensing fees of $92 million; animal welfare fees of $9 million; grain inspection, packers and stockyards licensing fees of $22 million; and crop insurance company participation fees to cover information technology improvements of $15 million.

Agriculture-related natural resources proposals include the following:

- **Agriculture Forest Service.** The administration proposes $4.13 billion in discretionary budget authority, a reduction of 2 percent ($64 million) compared to fiscal year 2007.

- **Agriculture Wildland Fire Management.** Funding levels for fiscal year 2008 are proposed to be $2.79 billion, including a proposed new line of $220 million for Forest Service professional wildland firefighters, for an increase of $111 million (4 percent) over fiscal year 2007. Funds are split between the Department of the Interior ($838 million) and the Forest Service ($1.96 billion).

- **Agriculture Conservation Operations.** The administration proposes $802 million in new budget authority for fiscal year 2008, which is an increase from the fiscal year 2007 amount ($791 million).

- **Agriculture Watershed Programs.** The administration proposes no funding for Watershed Surveys and Planning ($6 million in fiscal year 2007), Watershed and Flood Prevention Operations ($391 million in fiscal year 2007), and $6 million for Watershed Rehabilitation ($32 million in fiscal year 2007). Much of the Watershed Operations funding in fiscal year 2007, $311 million of the $391 million, was for emergencies, which are funded in supplemental appropriations, so this decrease could be considered to be much less if emergency funding is not included.

- **Agriculture Resource Conservation and Development Program [RC&D].** The administration proposes to decrease funding from $51 million in fiscal year 2007 to $15 million in fiscal year 2008. It proposes to consolidate RC&D program coordinators and alter their work responsibilities, decreasing the total number from 375 to about 50.

## Commerce Programs

The President requests $6.6 billion in discretionary budget authority for the Commerce Department for fiscal year 2008, an increase of $1 billion over fiscal year 2007 level (18 percent).

The Department includes the International Trade Administration, Bureau of Economic Analysis, Patent and Trademark Office, National Institute of Standards and Technology, National Telecommunications and Information Administration, and the Bureau of the Census.

Generally associated with Federal programs and activities designed to encourage economic growth and to regulate commercial activity are independent agencies such as the following:

- **Securities and Exchange Commission [SEC].** The administration proposes $906 million in SEC-related spending authority, an increase of $28 million (3 percent) over the fiscal year 2007 level. The SEC charges fees to various businesses to offset its costs, but also runs at a net profit.

- **Commodity Futures Trading Commission [CFTC].** The President estimates $116 million will be needed for the activities of the CFTC, an increase of $18 million (18-percent) over the fiscal year 2007 level.

- **Federal Trade Commission [FTC].** The budget for the FTC is set at $241 million, an increase of $16 million (7 percent) over the fiscal year 2007 level.

- **Federal Communications Commission [FCC].** The FCC is funded at $420 million, an increase of $41 million (11 percent) over the fiscal year 2007 level.

- **Small Business Administration [SBA].** The administration proposes $618 million for the SBA, an increase of $73 million (13-percent) over the fiscal year 2007 level.

## Transportation

The Department of Transportation has programs that spend out of the Airport and Airway Trust Fund and the Highway Trust Fund, in which budget authority is defined as mandatory "contract authority." The resulting outlays, however, are characterized as discretionary, and scored against the Appropriations Committee. That committee constrains the outlays through appropriations act language known as "obligation limitations." For this reason, budgetary resources [BR] (budget authority and obligation limitations) or outlays are often used to provide a better comparison.

The President proposes $67.0 billion in discretionary BR in fiscal year 2008 for the Department of Transportation. The budget requests $40.3 billion in BR for highway programs. The number matches the amount recommended in SAFETEA-LU, but does not include an additional $631 in revenue aligned budget authority [RABA] spending, which is triggered by gas tax receipts in excess of those estimated in SAFETEA-LU. Funding levels for other key transportation programs are shown in the table on the next page.

The budget also includes a placeholder for the FAA modernization plan based on the cost of service for commercial air carriers while maintaining a fuel tax for general aviation calibrated to cover the cost of servicing general aviation. Finally, the budget also includes a proposal to implement the President's plan to reform fuel economy standards to reduce annual gasoline use by 20 percent in 10 years.

**The President's Budget: Selected Transportation Programs**
(outlays in millions)

| | 2007 | 2008 | Increase* | Percent Increase* |
|---|---|---|---|---|
| Highway Programs (Federal Highway Admin.) | 36,372 | 40,324 | 3,952 | 10.9 |
| National Highway Safety Administration | 806 | 833 | 27 | 3.3 |
| Federal Motor Carrier Safety Administration | 490 | 528 | 38 | 7.8 |
| Federal Transit Administration | 8,620 | 9,422 | 802 | 9.3 |
| Federal Aviation Administration | 14,231 | 14,077 | -154 | -1.1 |
| Federal Railroad Administration (incl. Amtrak) | 1,323 | 1,081 | -242 | -18.3 |
| Other | 795 | 731 | -64 | -8.1 |
| **Total** | **62,637** | **66,996** | **4,359** | **7.0** |

Source: Office of Management and Budget.
* Increases are shown from levels enacted in the Continuing Resolution that expires on 15 February 2007.

## Community and Regional Development

Community and Regional Development spending includes programs that provide Federal funding for economic and community development in both urban and rural areas. These programs include: Community Development Block Grants [CDBGs]; the non-power activities of the Tennessee Valley Authority; the non-roads activities of the Appalachian Regional Commission; the Economic Development Administration [EDA] and partial funding for the Bureau of Indian Affairs. Funding for disaster relief and insurance – including activities of the Federal Emergency Management Agency [FEMA], now part of the Department of Homeland Security also appears in this category.

In the fiscal year 2008 budget, the President has requested $10.7 billion in non-emergency discretionary budget authority for these programs. This represents a decline of some $2.1 billion from the current law fiscal year 2007 level.

In particular, the 2008 budget request proposes to fund HUD's Community Development Block Grant [CDBG] program at an overall level of $3.0 billion, including funding CDBG formula programs at approximately $3.0 billion. As in previous requests, the President's once again would merge the Community Development Block Grant program with other, similar, economic development grant programs

## Education

The President's budget provides $56 billion in discretionary funds for the Department of Education. This amount is nearly equal to the fiscal year 2007 amount.

- **K-12 Increases.** The budget provides $2.5 billion in programmatic increases for K-12 (including No Child Left Behind) activities. School Improvement Grants ($500 million), Promise Scholarships ($300 million), the Academic Competitiveness Initiative ($365 million), and the Teacher Incentive Fund ($199 million) are among the leaders in increases.

- **Program Terminations.** The proposal also terminates 44 programs, freeing up $2.2 billion for high-priority activities. Most of these same programs were proposed for termination last year; but due to the nature of the continuing resolution, they were never terminated. The Individuals with Disabilities Education Act is level funded.

# ENTITLEMENTS

Roughly 2/3 of the entire budget consists of mandatory spending that occurs automatically without congressional review or appropriations. Under the President's budget, total mandatory spending would grow at about 5.6 percent per year over the next 5 years, rising from $1.527 trillion in fiscal year 2008 to $1.923 trillion in fiscal year 2012. But this rate of increase – slower than projected "baseline" growth – achieves net savings of  billion over 5 years, making a major contribution to his balanced budget plan.

The discussions below summarize the major entitlement policy reforms in the President's plan.

**The President's Budget: Growth Rates of Selected Major Entitlement Programs, Including Initiatives and Reforms**
(dollars in billions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2008-12 | avg.annl. % growth |
|---|---|---|---|---|---|---|---|---|
| Social Security | 581.9 | 607.7 | 639.7 | 677.6 | 716.6 | 789.8 | 3,431.5 | 6.3 |
| Medicare | 367.5 | 386.5 | 409.2 | 434.2 | 475.4 | 481.6 | 2186.9 | 5.6 |
| Medicaid | 191.9 | 201.9 | 216.4 | 232.7 | 250.4 | 270.2 | 1,171.6 | 7.1 |
| Food Stamps and Other Nutrition | 50.3 | 51.8 | 53.2 | 54.6 | 56.2 | 57.6 | 273.4 | 2.8 |
| Agriculture | 14.4 | 13.8 | 13.4 | 13.8 | 14.2 | 14.5 | 69.6 | 0.2 |
| Supplemental Security Income | 33.4 | 39.0 | 40.6 | 42.2 | 48.5 | 42.5 | 212.8 | 4.9 |
| Family and Other Support | 24.8 | 24.3 | 24.4 | 24.2 | 24.3 | 24.3 | 121.5 | -0.4 |
| Earned Income Tax Credit | 36.5 | 37.2 | 38.4 | 43.5 | 44.5 | 43.2 | 206.7 | 3.4 |
| Unemployment Insurance | 31.8 | 34.1 | 35.5 | 37.6 | 39.6 | 41.2 | 188.1 | 5.3 |
| Fed. Retirement and Disability | 104.6 | 109.0 | 113.2 | 117.2 | 121.1 | 124.4 | 584.8 | 3.5 |
| Other Mandatory Programs | 28.3 | 21.5 | 28.9 | 34.4 | 38.4 | 33.1 | 156.3 | 3.1 |

Source: Office of Management and Budget.

**The President's Budget: Major Entitlement Initiatives**
(dollars in millions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2008-12 | 2008-17 |
|---|---|---|---|---|---|---|---|---|
| Soc. Security Personal Accounts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 29,348 | 29,348 | 637,441 |
| Increase Pell Grants | 0.0 | 532 | 2,375 | 3,256 | 4,133 | 5,039 | 15,335 | 43,058 |
| Medicaid/SCHIP | 0.0 | 710 | 1,095 | 620 | 890 | 845 | 4,160 | 9,680 |
| Farm Bill | 0.0 | 500 | 500 | 500 | 500 | 500 | 2,500 | 5,000 |
| TANF | 0.0 | 0.0 | 240 | 296 | 309 | 326 | 1,171 | 2,768 |

Source: Office of Management and Budget.

**The President's Budget: Major Entitlement Reforms**
(dollars in millions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2008-12 | 2008-17 |
|---|---|---|---|---|---|---|---|---|
| Medicare | 0.0 | −4.696 | −9,113 | −13,077 | −17,463 | -21,695 | −66,044 | −252,432 |
| Reduce Lender Subsidy Payments for Student Aid | 0.0 | −688 | −2,165 | −2,558 | −2,792 | -2,986 | −11,189 | −29,494 |
| Medicaid/SCHIP Reforms | 0.0 | −1,925 | −2,170 | −2,385 | −2,680 | -2,850 | −12,010 | −29,090 |
| Reform PBGC | 0.0 | 0.0 | -1,390 | −1,387 | −1,400 | -1,295 | −5,472 | −10,569 |
| Recall Perkins Loan Funds | 0.0 | -419 | -498 | -713 | -814 | -779 | -3,223 | -6,358 |
| ANWR | 0.0 | 0.0 | −3,502 | −2 | −503 | -3 | −4,010 | −4,025 |
| UI Integrity | 0.0 | 0.0 | −484 | −494 | −351 | -355 | −1,684 | −3,619 |

Source: Office of Management and Budget.

## SOCIAL SECURITY

The Social Security Program – or Old Age, Survivors, and Disability Insurance [OASDI] – is the Government's largest entitlement program. Under provisions of the Congressional Budget Act and the Budget Enforcement Act, Social Security trust funds and the Postal Service are designated as off budget. The President's annual budget submission includes them to show the full range of government activities.

For fiscal year 2008, the President's budget supports $607.7 billion in mandatory outlays for Social Security. This is an increase of $25.8 billion, or 4.4 percent, over last year. The figures are consistent with spending demands projected to meet economic and demographic changes and scheduled benefit changes embraced in current law. Over 5 years, the budget supports $3.4 trillion in mandatory outlays.

- **Social Security Personal Accounts.** The budget includes the administration's proposal for Social Security personal accounts, which are intended to help restore solvency to the Social Security system. Under current projections, the program will begin outspending designated revenue (from payroll taxes) in 2017. At this point, the program will have to start drawing down bonds in the trust fund to meet its annual obligations. The entire trust fund is expected to be exhausted by 2040. Overall, the program has an unfunded liability of $4.6 trillion over the next 75 years and $13.4 trillion when calculated over an infinite time frame.

  The administration's proposal does not increase payroll taxes. It would allow workers to invest a portion of their payroll taxes into personal accounts for their use upon retirement. This increases spending due to increased government borrowing in the short-term. Government spending, however, will substantially decrease when retirees start using the assets accumulated in their personal accounts rather than funds held in the Social Security trust fund. In other words, the cost occurs only during the transition period between the time when funds are deposited into the personal accounts and when funds are withdrawn.

To begin phasing in personal accounts in 2012 will cost the government $29.3 billion, and $637.4 billion through 2017. These are transition costs that result from temporarily financing benefits for retirees with government borrowing rather than with the contributions of workers, as is done under the current program. The costs will be recouped in later years as workers draw on their personal accounts as a replacement for part of the government costs, and the program regains solvency.

The use of personal accounts would be voluntary and managed similarly to the Federal employee defined contributions retirement program known as the Thrift Savings Plan [TSP]. Participation would not require workers to make additional payroll tax contributions. A limited number of investment options, such a broad equity indexed funds, corporate bond funds, and Treasury bonds, would be available and distributions are assumed to be subject to taxation in the same manner as Social Security benefits are now. The administrative costs are an estimated 30 basis points, or 0.30 percent, of assets held and charged against the personal accounts.

- **Progressive Indexing.** The President's budget endorses the idea of progressive indexing, which would limit the growth of benefits for higher income workers by indexing their annual adjustments to the rate of inflation. Lower income workers would continue to have their benefits indexed to wage growth as is done under current law for all Social Security benefits. No score for this proposal is included.

## MEDICARE

In 2008, Medicare will provide Federal health coverage to 44.6 million individuals who are either 65 or older, disabled, or suffer from end-state renal disease [ESRD]. The program consists of: the Part A Hospital Insurance [HI] Program; the Part B Supplementary Medical Insurance [SMI] Program; the Part C Medicare Advantage Program; and the and Part D Prescription Drug Benefit. On 8 December 2003, Congress and the President enacted the Medicare Prescription Drug, Improvement, and Modernization Act [MMA]. MMA changed Medicare Part C from the Medicare+Choice Program to the Medicare Advantage Program and added the Part D Prescription Drug Benefit to the Medicare Program.

For fiscal year 2008, the President's budget provides $454 billion in mandatory outlays for the Medicare entitlement. This is an increase of 6.5 percent over last year. The President's budget includes proposals to reduce Medicare spending by $66 billion over the next 5 years, slowing the growth rate from 6.5 percent to 5.6 percent. Under these proposals, $482 billion would be spent on Medicare in 2012.

According to the Medicare Trustees, the unfunded liability of the Medicare program totals $32 trillion over the next 75 years. If enacted, the President's budget proposals would reduce the unfunded liability by an estimated $8 trillion.

## Reforms

Overall savings of $4.3 billion in the first year $66 billion over 5 years are proposed for the Medicare program. Key proposals follow:

- **Provider Payment Updates.** The budget proposes to achieve 1-year savings of $2.56 billion and 5-year savings of about $39.54 billion. The proposal reduces the update factor for inpatient hospitals, outpatient hospitals, hospices, and ambulance services by .65 percent annually starting in 2008. Skilled nursing and inpatient rehabilitation facilities would receive a zero percent update in 2008 and a 0.65-percent reduction to the update annually thereafter. Home health agencies would receive a zero-percent update in 2008 through 2012 and a 0.65-percent reduction to the update annually thereafter. The payment update for ambulatory surgical centers would be reduced by 0.65-percent starting in 2010.

- **Clinical Laboratories.** The budget would expand competitive bidding for clinical laboratory services, saving $110 million in the first year $2.38 billion over 5 years.

- **Hospital IME Payments.** The President calls for 1-year savings of $381 million and 5-year savings of $4.37 billion are proposed by eliminating duplicate IME payments to hospitals for MA beneficiaries.

- **Never Events.** One-year savings of $30 million and 5-year savings of $190 million are proposed by prohibiting Medicare payment for “never” events (preventable adverse events such as surgery on wrong body part). Hospitals would also be required to report occurrences of never events or receive a reduced annual update.

- **Post-Acute Care.** The budget proposes modifying Medicare payments for post-acute care for conditions commonly treated in post acute care setting for savings of $470 million over 1 year and $2.9 billion over 5 years.

- **Wheelchair Payments.** Savings of $70 million over 1 year and $530 million over 5 years are proposed by establishing a 13-month rental period for power wheelchairs to ensure Medicare no longer pays for the purchase of equipment that could be rented.

- **Oxygen Rentals.** The budget seeks savings of $110 million in the first year and $2.38 billion over 5 years by reducing the rental period for most oxygen equipment from 36 months to 13 months.

- **Medicare Secondary Payer.** The budget proposes to better align payments for working beneficiaries by extending MSP status for beneficiaries with ESRD from 30 months to 5 years resulting in a 1-year savings of $160 million and 5-year savings of $1.08 billion.

- **Data Clearinghouse.** The President recommends 1-year savings of $50 million and 5-year savings of $640 million by requiring group health plans to report Medicare as Secondary Payer data and create a Federal clearinghouse for data sharing with other Federal health insurance programs.

- **Bad Debt.** The budget proposes to eliminate, over a 4-year period, Medicare bad debt payments, with 1-year savings of $180 million and 5-year savings of $7.15 billion.

- **Means Testing.** Beginning 1 January 2007, Part B premiums are based on income. Most beneficiaries will pay the standard monthly premium of $93.50, but some will pay a higher premium based on their income. Those with annual incomes above $80,000 (single) or $160,000 (married couple) will pay between $105.80 and $161.40. The President's budget requires that annual indexing of income thresholds for reduced Part B premium subsidies be eliminated beginning 1 January 2008. In addition, Part D premium subsidies would be reduced based on the same income thresholds that apply to reduced Part B premium subsidies, including no annual indexing. The Part B and D means testing initiatives result in a savings of $900 million over 1 year and $10.37 billion over 5 years.

### Other Initiatives

- **45-Percent General Revenue Warning.** Though no savings are achieved in the budget window, the budget proposes an across-the-board Medicare sequester if the 45-percent "excess general funding" warning is issued. The provision was included in the Medicare Modernization Act and provides that the Board of Trustees of the Medicare program test whether the difference between program outlays and dedicated financing sources exceeds 45 percent of Medicare outlays. If "excess general funding" determinations are present in two consecutive Trustees Reports, then a Medicare funding warning is triggered. The President is then required to propose Medicare policies to control this excess Federal funding for Congressional consideration. The budget provides for a four-tenths of 1 percent 0.4 percent reduction to all Medicare payments to slow the growth. The reduction would grow by four-tenths of 1 percent every year that the 45 percent threshold is exceeded.

- **Physician Payments (Doc Fix).** The President's budget maintains the scheduled 5-percent cut in 2008 physician payments as called for by the Sustainable Growth Rate [SGR] mechanism.

- **Hospital Reporting of Never Events.** Hospitals would be required to report occurrences of never events or receive a reduced annual update.

- **Value-Based Purchasing.** Budget neutral incentives would be established for high-quality hospitals. Minimum benchmarks would be created for low-quality hospitals.

## MEDICAID

Medicaid is a means-tested entitlement program financed jointly by the Federal Government and the States, with the Federal Government paying on average 57 percent of the costs. Medicaid provides health coverage and services to nearly 50 million low-income children, pregnant women, elderly persons, and disabled individuals.

For fiscal year 2008, the President's budget provides $204 billion in mandatory outlays for the Federal share of Medicaid. This is an increase of $12 billion, or 6.3 percent, over last year. The President's budget proposes $1.9 billion in Medicaid savings in 2008 and $13 billion in savings over five years. The President's proposal slows the average annual growth rate in Medicaid over the next 5 years from 7.3 percent to 7.1 percent per year.

### Reforms

The budget proposes Medicaid legislative proposals that save $1.9 billion over 1 year and $13 billion over 5 years. Key proposals follow.

- **Streamline Administrative Match Rates.** The budget proposes saving $945 million over 1 year and $5.3 billion over 5 years by aligning all administrative reimbursement rates in Medicaid at 50 percent.

- **Implement Cost Allocation.** The budget calls for saving $280 million over 1 year and $1.7 billion over 5 years by recouping Medicaid administrative costs included in the Temporary Assistance for Needy Families [TANF] block grant.

- **State Reporting.** This would result in net zero savings the first year, and $330 million in over 5 years by requiring States to report on Medicaid performance measures and link performance to Federal Medicaid grant awards.

- **Targeted Case Management.** The budget proposes saving $200 million over 1 year and $1.1 billion over 5 years by aligning reimbursement for Targeted Case Management [TCM] services with the standard administrative matching rate of 50 percent.

- **Rationalize Pharmacy Reimbursement.** The budget proposes saving $160 million over 1 year and $1.2 billion over 5 years by reducing the Federal upper limit to 150 percent of the average manufacturer price of the lowest price drug in the group.

- **Optional Managed Formulary.** The budget proposes saving $160 million over 1 year and $870 million over 5 years by allowing States to use private sector management techniques to leverage greater discounts through negotiations with drug manufacturers.

- **Prescription Pads.** The President recommends saving $35 million over 1 year and $210 million over 5 years by requiring States where providers use hand-written prescriptions to use tamper-resistant pads.

- **Asset Verification.** The budget proposes saving $65 million over 1 year and $640 million over 5 years by verifying an applicant's assets to appropriate HHS programs.

- **Third-Party Liability.** The budget proposes saving $10 million over 1 year and $85 million over 5 years by allowing States to avoid costs for prenatal and preventive pediatric claims where a third party is responsible; collect for medical child support where health insurance is derived from a non-custodial parent's obligation to provide coverage; and recover Medicaid expenditures from beneficiary liability settlements.

- **Home Equity Definition.** The budget proposes saving $70 million over 1 year and $430 million over 5 years by extending the renewal period for 1915(b) "freedom of choice" waivers from 2 years to 3 years.

## STATE CHILDREN'S HEALTH INSURANCE PROGRAM

The State Children's Health Insurance Program [SCHIP] provides health insurance coverage for low-income children. Each State funds a percentage of its SCHIP program costs, with the Federal Government financing the remainder.

For fiscal year 2008, the President's budget provides $5.4 billion in mandatory outlays for the Federal share of SCHIP. This is a decrease of $223 million, or 3.9 percent, from last year. Over 5 years the budget provides SCHIP outlays of $27.3 billion. The budget proposes initiatives with net costs of $710 million in the first year and $4.160 billion over 5 years.

The administration proposes to reauthorize SCHIP for 5 years, focusing on the program's original objective to provide health insurance for uninsured, low-income children at or below 200 percent of poverty.

## OTHER KEY HEALTH PROPOSALS

- **Tax Proposals.** Under the President's Standard Deduction for Health Insurance [SDHI] proposal, families with health insurance will not pay income or payroll taxes on the first $15,000 in compensation and singles will not pay income or payroll taxes on the first $7,500. At the same time, health insurance would be considered taxable income – a change for those who now have health insurance through their jobs. The President's proposal will result in lower taxes for about 80 percent of employer-provided policies. The Treasury Department estimates that the proposal would decrease the number of uninsured by 3 to 5 million people. The proposal provides $135.5 billion in tax relief over 2008-2012 (including related outlays). The President also proposes to expand health savings accounts.

- **Health Choices Initiative.** This proposal in the President's budget would give States incentives to provide health insurance alternatives to poor and hard-to-insure citizens. To be eligible for Federal assistance, States would need to define what an "affordable" heath plan is, establish "basic" benefit requirements and provide subsidies for lower-income populations.

## ENERGY

In energy-related mandatory spending programs, key proposals include the following:

- **Strategic Petroleum Reserve Transfer**. The President's budget proposes transferring royalty oil to the Strategic Petroleum Reserve. During the State of the Union address, the President requested that Congress double the capacity of the Strategic Petroleum Reserve. Maintaining ample reserves allows the Secretary of Energy to respond to severe disruptions to petroleum supplies such as the disruption in the wake of Hurricane Katrina.

- **Oil and Gas R&D Reform.** The President's budget again proposes repealing provisions in the Energy Policy Act of 2005 for a new mandatory $50-million per year (2007-17) oil and gas R&D program funded with Federal revenues from oil and gas leases. The proposal increases offsetting receipts (a credit against direct spending) by $50 million in fiscal year 2008 and $250 million over the 5-year period.

## RESOURCES

The administration once again anticipates receipts from private bids on the right to explore and develop within the Arctic National Wildlife Refuge [ANWR]. Receipts are estimated at $8 billion, with both the State of Alaska and the Federal receiving $4 billion over the 2008-2012 period.

## FARM BILL REAUTHORIZATION

The administration proposes to increase overall farm bill spending by $5 billion over 10 years from the current 10-year baseline of $618 billion (including commodities, conservation, nutrition, and other programs). For the commodity programs of the CCC, the administration's proposals would result in a $4.5 billion decrease over 10 years from the $74.6 billion baseline. Reductions would come from reducing prices paid for the marketing loan program and imposing tighter payment limits on large farms. The administration's plan would pay higher direct payments (not tied to current production), particularly for cotton farms. Counter-cyclical payments, which currently make greater payments when market prices are low, would be reoriented to a revenue (price times yield) base. The administration's proposal would increase conservation programs by nearly $8 billion.

## COMMODITY CREDIT CORPORATION [CCC]

The Commodity Credit Corporation [CCC] is a government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. The largest programs include the direct and counter-cyclical payments program and the marketing loan program, which both authorized under the 2002 farm bill. During fiscal year 2006, total outlays for CCC were $20.2 billion. Spending forecasts for fiscal years 2007 and 2008 are down from fiscal year 2006 because increased commodity prices have reduced the need for counter-cyclical payments.

Expected CCC outlays for fiscal year 2007 are $13.4 billion and $11.7 billion for fiscal year 2008.

The CCC also sells commodities to other government agencies and foreign governments, makes donations to domestic, foreign, and international relief agencies, and helps to develop overseas markets for agricultural commodities. Agricultural commodities that are supported through CCC operations include wheat, corn, oilseeds, cotton, rice, milk and milk products, barley, oats, grain sorghum, mohair, honey, peanuts, and sugar.

## SPECTRUM

In Federal Communications Commission-related mandatory spending programs, key proposals include the following:

- **Spectrum License Fee Authority**. The proposal requires that fees be assessed for the use of unauctioned spectrum. The policy will result in an increase of $50 million in receipts in 2008 and $1.2 billion in receipts over the 2008-12 period.

- **Extend Spectrum Auction Authority.** FCC's auction authority is set to expire on 30 September 2011. The President's budget proposes extending FCC auction authority through fiscal year 2012. This would increase receipts by $200 million in fiscal year 2012.

- **Prospective Ancillary Terrestrial Component Spectrum Auctions.** The President proposes legislation that will allow for the use of auctions to assign the land-based component of a hybrid terrestrial-satellite communications network. The proposal increases receipts by $150 million in 2008 and $750 million over the 2008-12 period.

- **Domestic Satellite Spectrum Auctions.** The President proposes legislation that clarifies the FCC's authority to license certain spectrum licenses used predominantly for domestic satellite services. The proposal increases receipts by $252 million in 2008 and $632 million over the 2008-12 period.

## EDUCATION

The Federal student loan system is comprised of two separate student loan programs – the Federal Family Education Loan [FFEL] program and the Direct Loan [DL] program. In the FFEL program, private lenders partner with the government to disburse the capital. Student borrowers then deal with their private lender as the loan moves through its life cycle. Lenders can be banks, stand-alone student loan companies or non-profit agencies. Guaranty agencies work with the lenders and the borrowers to ensure that the borrowers stay out of default and administer the Federal guarantee to the lenders if the borrower does default on the loan. Conversely, in the DL program, the capital is disbursed directly from the Federal Treasury, via the Department of Education, to the schools on behalf of the student. Student borrowers then deal with the Department of Education and its contractors for customer service. While student loan administrative funds are discretionary in both the FFEL and DL programs, the actual funds provided for loans and loan guarantees are mandatory in both programs.

Key mandatory spending proposals in education include the following:

- **Pell Grants Increased.** The President's budget provides $2.2 billion in fiscal year 2008 and $15.3 billion over 5 years to increase the maximum Pell Grant to $4,600 in 2008 and up to $5,400 by 2012. This would represent the largest increase since 1974.

- **Higher Education Reform.** The President's budget reforms higher education financing to focus funds on increasing Pell Grants and Academic Competitiveness grants. The proposed savings total $17.5 billion over 5 years and include: recalling Federal Perkins loan revolving funds ($3.2 billion); increasing lender risk-sharing ($1.6 billion); adjusting finders fees on default collections to market rate ($2.3 billion); reducing interest subsidies to lenders by ½ percent ($12.4 billion); modifying guarantee agency account maintenance fees ($1.6 billion); and increasing consolidation fee to lenders by ½ percent ($850 million).

## SUPPLEMENTAL SECURITY INCOME

Supplemental Security Income [SSI] is a Federal income supplement program funded by general tax revenues (not Social Security taxes). It is designed to help aged, blind, and disabled people, who have little or no income; and provides cash to meet basic needs for food, clothing, and shelter. For fiscal year 2008, the President's budget provides $39.0 billion in mandatory outlays for SSI. This is an increase of $5.5 billion, or 16.5 percent over 2007. For the next 5 years, the President's budget provides $212.8 billion in mandatory outlays for this program. By fiscal year 2012, SSI is expected to grow to $42.5 billion.

- **Expanded SSI Eligibility.** The President proposes to temporarily extend the length of eligibility for SSI benefits for non-citizen refugees, asylees and parolees from 7 years to 8 years after entry into the United States, costing $23 million in 2008 and $67 million over the next 5 years.

- **SSI Program Integrity.** The President's budget proposes to improve the integrity of Social Security payments by providing additional funding for SSA to process greater numbers of continuing disability reviews and redeterminations, among other initiatives. This proposal will save $14 million in fiscal year 2008 and $2.7 billion over the next 5 years.

## UNEMPLOYMENT COMPENSATION

The Federal-State Unemployment Insurance Program provides unemployment benefits to eligible workers who are unemployed through no fault of their own (as determined under State law), and meet other eligibility requirements of State law.

For fiscal year 2008, the President’s budget provides $34.1 billion in mandatory outlays for Unemployment Insurance. This is an increase of $2.3 billion, or 7.3 percent over last year. For the next 5 years, the President’s budget provides $188.1 billion in mandatory outlays for this program. By fiscal year 2012, unemployment compensation is expected to grow to $41.2 billion.

The budget proposes to reduce improper payments in State unemployment insurance programs. This proposal, which was also included in last year’s budget, has no savings in fiscal year 2008 but saves $1.7 billion over the next 5 years. The proposal has several components: 1) imposing a penalty on overpayments resulting from fraud; 2) enlisting private collection agencies in the recovery of overpayments due to fraud; 3) penalizing employers when their repeated inaction leads to overpayments; 4) garnishing income tax refunds to collect overpayments; 5) allowing States to use a portion of recovered funds on fraud and error reduction; and 6) providing more accurate information in State and national hire directories to stop payments to those who have gone back to work.

## EARNED INCOME TAX CREDIT

The Earned Income Tax Credit [EITC] is the largest cash transfer program for low-income parents in the United States. The refundable tax credit supplements wages and offsets taxes paid by low-income workers. The EITC is administered through the Federal income tax system.

To receive the credit, low-income workers must file a tax return, even if they are otherwise exempt from doing so. For fiscal year 2008, the President’s budget provides $37.2 billion in mandatory outlays for the refundable portion of the Earned Income Tax Credit. This is an increase of $775 million, or 2.1 percent, over the fiscal year 2007 level. For the next 5 years, the President’s budget provides $206.7 in mandatory outlays for this program. By fiscal year 2012, expenditures for the EITC are expected to grow to $43.2 billion.

The budget calls for clarifying the uniform definition of a “child” under the EITC. This proposal will increase revenue by $127 million in fiscal year 2008 and $772 million over the next 5 years.

## FOOD STAMPS

The Food Stamp Program enables low-income families to buy food with coupons and Electronic Benefits Transfer [EBT] cards. Food stamp recipients spend their benefits to buy eligible food in authorized retail food stores. For fiscal year 2008, the President’s budget provides $36.8 billion in mandatory outlays for food stamps. This is an increase of $1.3 billion, or 3.5 percent, over 2007. For the next 5 years, the President’s budget provides $193.2 in mandatory outlays for this program. By fiscal year 2012, outlays for Food Stamps are expected to grow to $40.4 billion. The President’s budget also proposes to reauthorize the Food Stamp program, which is scheduled to expire in 2007.

- **Exclusion for Retirement and Educational Savings Accounts.** The President’s food stamp reauthorization proposal includes a new initiative to exclude contributions to retirement savings accounts and education savings accounts from the from income for purposes of determining a household's food stamp eligibility and benefit levels. This proposal costs $44 million in fiscal year 2008 and $556 million over the next 5 years. A similar proposal was included in last year's budget request. That proposal did not include the exclusion for education savings accounts.

- **Limitation on Categorical Eligibility For Food Stamps For Persons Receiving Assistance Under TANF.** The budget proposes to limit categorical eligibility for recipients of Temporary Assistance to Needy Families [TANF] funds to only those persons receiving actual cash assistance from TANF. Under current law, households in which all members receive any TANF services, including non-cash assistance such as receipt of an informational pamphlet published with TANF funds, can be deemed categorically eligible for food stamps. The proposal saves $63 million in 2008 and $611 million over the next 5 years. This proposal was also included in last year's budget request.

- **Commodity Supplemental Food Program.** The budget also shows an increase in food stamp spending related to the President's proposal to eliminate a discretionary program, the Commodity Supplemental Food Program. The cost to the food stamp program of that proposal is $44 million in 2008 and $232 million over the next 5 years. This proposal was also included in last year's budget request.

## FAMILY SUPPORT

Family Support includes a number of Federal programs providing income assistance to low-income families with children, including Child Support Enforcement and the Temporary Assistance to Needy Families [TANF] program. TANF provides assistance and work opportunities to needy families by granting States the Federal funds and wide flexibility to develop and implement their own welfare programs. TANF was created by the Welfare Reform Law of 1996, and replaced the Aid to Families with Dependent Children [AFDC] and the Job Opportunities and Basic Skills Training [JOBS] programs.

For fiscal year 2008, the President's budget provides $24.3 billion in mandatory outlays for Family Support. This is a reduction of $496 million, or 2 percent, from 2007. For the next 5 years, the President's budget provides $120.5 billion in mandatory outlays for this category. In fiscal year 2012, family support programs will cost $24.3 billion.

- **TANF Proposal.** The President's budget extends $319 million in annual TANF supplemental grants beyond their current fiscal year 2008 expiration date. This will cost $0 in fiscal year 2008 and $1.2 billion over the next 5 years.

- **Child Support Enforcement.** The President's budget proposes to require health plan administrators to notify State Child Support Enforcement agencies when a child loses health insurance coverage, permits seizure of accounts in multistate financial institutions, requires intercept of gambling proceeds for unpaid child support, and provides for garnishment of certain benefits. This proposal saves $5 million in 2008 and $19 million over the next 5 years. Last year's budget request also included this proposal.

## CHILD NUTRITION

Federal child nutrition programs include mandatory spending on programs such as the National School Lunch and Breakfast programs, the Special Milk Program, the Summer Food Program, and the Child and Adult Care Food Program. For fiscal year 2008, the President's budget provides $13.8 billion in mandatory outlays for Child Nutrition. This is an increase of $187 million, or 1.4 percent, over 2007. For the next 5 years, child nutrition programs will cost a total of $75.4 billion. By fiscal year 2012, the cost of child nutrition programs is expected to grow to $16.4 billion.

## FOSTER CARE

Federal Foster Care and Adoption Assistance Programs provide Federal maintenance payments to families of children in foster care who meet Federal income eligibility guidelines, as well as provide assistance to families seeking to adopt children from within the foster care system. Additional spending on child welfare programs such as the Safe and Stable Families program appears here, which fund programs by States to protect the interests of abused and neglected children. For fiscal year 2008, the President's budget provides $6.8 billion in mandatory outlays for these programs. This is an increase of $301 million, or 4.6 percent, over 2007. For the next 5 years, the President's budget provides $36.4 billion in mandatory outlays for foster care programs. By fiscal year 2012, foster care programs are expected to grow to $7.7 billion.

The budget proposes legislation to provide States with an option to receive foster care funding in the form of a block grant. States would be given greater flexibility in the use of funds to mitigate family breakup before it occurs, or to better meet the needs of abused or neglected children entering the foster care system. The proposal, which was included in last year's budget request, would cost $8 million in 2008, and $6 million over the next 5 years.

## PENSION BENEFIT GUARANTY CORPORATION

The Pension Benefit Guaranty Corporation is a Federal corporation created by the Employee Retirement Income Security Act of 1974. It currently protects the pensions of 44.1 million American workers and retirees in 30,330 private single-employer and multiemployer defined benefit pension plans. The PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

For fiscal year 2008, the budget reflects the current status of PBGC's trust fund, which will pay out $1.1 billion more to the public than it will collect in receipts and interest payments.

The President's budget proposes to build on last year's major reforms to the PBGC as well as changes that were incorporated into the Deficit Reduction Act of 2005. The proposal includes reforms that the President previously offered but were not incorporated into either DRA or the Pension Protection Act of 2006, such as authorizing the PBGC Board of Directors to adjust the variable rate premiums paid by underfunded pension plans and extending the variable rate premium to a plain's non-vested as well as its vested liabilities. This proposal would save $0 in 2008 and $5.5 billion over the next 5 years.

## FEDERAL CIVILIAN RETIREMENT

Civil Service Retirement System [CSRS] and Federal Employees Retirement System [FERS] benefits are paid to Federal employees who have met the time and service requirements to earn annual annuity payments upon retirement. For fiscal year 2008, the President's budget provides $64.1 billion in mandatory outlays for this program. This is an increase of $2.7 billion, or 4.4 percent, over 2007. For the next 5 years, the President's budget provides $343.1 billion in mandatory outlays for this program. By fiscal year 2012, CSRS is expected to grow to $73.0 billion.

## MILITARY RETIREMENT

Federal military retirement benefits are paid to career military personnel who have met the time and service requirements to earn annual annuity payments upon retirement. For fiscal year 2008, the President's budget provides $45.7 billion in mandatory outlays for the Federal civilian retirement programs. This is an increase of $2.0 billion, or 4.6 percent, over 2007. For the next 5 years, the President's budget provides $246.4 billion in mandatory outlays for this program. By fiscal year 2012, military retirement is expected to grow to $52.4 billion.

## VETERANS' BENEFITS

The President's budget proposes $44.8 billion in fiscal year 2008 for mandatory veterans program spending. These include benefits such as veterans' pensions and disability payments. The category does not include veterans health care spending, which is discretionary (annually appropriated).

This figure includes a proposal by the President, as he has made in the past, to increase fees and co-pays for veterans with greater means and with no compensable service-connected disabilities. The savings generated from the proposal will be counted as mandatory savings rather than discretionary savings and equal $138 million in 2009 and $526 million over 5 years.

# TAX POLICY

As noted, the President's budget projects that Federal tax revenue will grow at an average of 5.4 percent per year over the next 5 years. This rate compares with double-digit revenue growth in the past 2 years, and an 8.1-percent increase in tax revenue in the first quarter of fiscal year 2007 (October-December 2006). The projection assumes that provisions of the tax relief laws enacted in 2001 and 2003 will continue throughout the projection period, and will not expire as scheduled after 31 December 2010.

The budget proposes a number of tax and trade policy changes that affect revenue (and, to a lesser extent, outlays as well). Taking these policies into account, OMB projects that receipts will increase from $2.540 trillion (18.5 percent of GDP) in fiscal year 2007 to $3.307 trillion (18.6 percent of GDP) in fiscal year 2012. Over the past 40 years, the average level of Federal revenue has been 18.2 percent of GDP.

The administration's tax and trade policies have budget effects of $9.6 billion in fiscal year 2007, $51.5 billion in fiscal year 2008, and $225.1 billion over 5 years; the President's new deduction for health insurance will increase outlays by $14.3 billion over 5 years. The administration would partially offset these budget effects by enacting a number of revenue-raising provisions that would increase revenue by $1.6 billion in fiscal year 2008 and by $16.7 billion over 5 years. The President also has a number of proposals that will close loopholes, curtail tax avoidance, and improve tax compliance. included

The overall set of revenue proposals, summarized in the table below, can be categorized as follows:

- **Making Permanent the 2001 and 2003 Tax Legislation.** A top administration priority is making permanent the broad tax relief provided in 2001 – generally scheduled to expire after 31 December 2010 – and most of the growth package enacted in 2003. If these tax laws were allowed to expire as scheduled, the result would be a tax increase of $690 million in fiscal year 2008 and $373.9 billion over 5 years. As noted, the extension of these laws is assumed in the budget's baseline, not as a new tax reduction.

- **Tax Relief Initiatives.** The administration also proposes the additional tax initiatives in several areas, including personal savings, small business, health care, charitable giving, economic development, benefits for families, and education deductions. These provisions have revenue effects totaling $1.3 billion in 2008, and $132.0 billion over 5 years.

- **Investing in Health.** The administration includes a number of tax-related provisions aimed at making health care more affordable, accessible, and flexible. These provisions include the expansion of Health Savings Accounts, and the health insurance deduction introduced in the State of the Union address. Taken together, the impact is $319 million in 2008, and $124.9 billion over 5 years.

**The President's Budget: Receipts Proposals - Detail**
(dollars in billions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Total 2008-12 |
|---|---|---|---|---|---|---|---|
| **Make Permanent 2001, 2003 Tax Relief (assumed in the baseline)** | | | | | | | |
| Dividends Tax Rate Structure | 0.344 | 0.683 | 0.695 | -3.595 | -13.789 | 1.491 | -14.515 |
| Capital Gains Tax Rate Structure | — | — | — | -3.405 | -17.477 | -7.269 | -28.151 |
| Expensing for Small Business | — | — | — | -3.728 | -4.947 | -3.376 | -12.051 |
| Individual Tax Rate Reductions | — | — | — | — | -71.892 | -113.251 | -185.143 |
| Child Tax Credit | — | — | — | — | -5.265 | -21.128 | -26.393 |
| Marriage Penalty Relief | — | — | — | — | -5.380 | -7.971 | -13.351 |
| Education Incentives | — | — | — | — | -0.739 | -1.336 | -2.075 |
| Repeal of Estate and GST Taxes | -0.156 | -1.373 | -2.290 | -3.067 | -26.845 | -57.652 | -91.227 |
| Other Incentives for Families and Children | — | — | — | 0.006 | -0.179 | -0.866 | -1.039 |
| ***Subtotal - Extend Tax Relief*** | ***0.188*** | ***-0.690*** | ***-1.595*** | ***-13.789*** | ***-146.513*** | ***-211.358*** | ***-373.945*** |
| **Tax Incentives** | | | | | | | |
| Simplify and Encourage Saving | — | 1.447 | 3.425 | 2.891 | 0.934 | -1.464 | 7.233 |
| Increase Expensing for Small Business | — | -1.597 | -2.180 | -1.541 | -1.135 | -0.847 | -7.300 |
| Invest in Health Care | — | -0.319 | -32.029 | -39.680 | -31.785 | -21.075 | -124.888 |
| Provide Incentives for Charitable Giving | — | -0.330 | -0.618 | -0.647 | -0.617 | -0.633 | -2.845 |
| Strengthen Education | --- | -0.081 | -0.343 | -0.359 | -0.374 | -0.388 | -1.545 |
| Protect the Environment | 0.061 | -0.245 | -0.403 | -0.357 | -0.351 | -0.344 | -1.700 |
| Restructure Assistance to New York City | — | -0.200 | -0.200 | -0.200 | -0.200 | -0.200 | -1.00 |
| ***Subtotal - Tax Incentives*** | ***0.061*** | ***-1.325*** | ***-32.348*** | ***-39.893*** | ***-33.528*** | ***-24.951*** | ***-132.045*** |
| **Extend Expiring Provisions** | | | | | | | |
| Minimum Tax Relief for Individuals | -9.123 | -47.922 | 11.431 | — | — | — | -36.491 |
| R&E Tax Credit | ---- | -3.221 | -7.071 | -9.145 | -10.601 | -11.799 | -41.837 |
| Other Extenders | -0.063 | -0.123 | -0.271 | -0.240 | -0.137 | -0.066 | -0.837 |
| ***Subtotal - Extend Expiring Provisions*** | ***-9.186*** | ***-51.266*** | ***4.089*** | ***-9.385*** | ***-10.738*** | ***-11.865*** | ***-79.165*** |
| **Other** | | | | | | | |
| Improve Tax Administration | -0.466 | -0.212 | -6.284 | -6.485 | -6.776 | -7.092 | -26.849 |
| Promote Trade | — | -0.241 | -0.502 | -0.760 | -0.994 | -1.240 | -3.737 |
| ***Subtotal - Other*** | ***-0.466*** | ***-0.453*** | ***-6.786*** | ***-7.245*** | ***-7.770*** | ***-8.332*** | ***-30.586*** |
| **Revenue Offsets** | | | | | | | |
| Simplify, Close Loopholes, Improve Compliance | 0.017 | 0.473 | 1.194 | 1.907 | 2.546 | 2.938 | 9.058 |
| Unemployment Insurance Integrity | — | 1.073 | 1.571 | 1.609 | 1.601 | 1.569 | 7.423 |
| Modify Energy Provisions | — | 0.022 | 0.050 | 0.025 | 0.094 | 0.064 | 0.255 |
| ***Subtotal - Revenue Offsets*** | ***0.017*** | ***1.568*** | ***2.815*** | ***3.541*** | ***4.241*** | ***4.571*** | ***16.736*** |
| **Total Budget Proposals** | **-9.386** | **-52.166** | **-33.825** | **-66.771** | **-194.308** | **-251.935** | **-599.005** |
| **Total Budget proposals excluding extenders** | **-9.574** | **-51.476** | **-32.230** | **-52.982** | **-47.795** | **-40.577** | **-225.060** |

Source: Office of Management and Budget.

- **Extending Expiring Tax Provisions.** The administration makes permanent or extends temporarily a number of tax provisions that expired during the current year or are scheduled to expire during the budget year. These include a 1-year extension of current alternative minimum tax [AMT] policies for individuals, and the research and experimentation tax credit. The extenders proposed by the administration have revenue effects of $9.2 billion in 2007, $51.3 billion in 2008, and $79.2 billion between 2008 and 2012.

- **Revenue Offsets.** The administration has included a number of revenue offsets in its budget, intended not only to raise revenue but also to close loopholes, curtail tax avoidance, and improve tax compliance. These provisions increase revenue by $1.6 billion in 2008, and $16.7 billion over 5 years.

- **Trade Policies.** The administration also has an ambitious agenda for expanding American exporters' access to foreign markets. To this end, the administration hopes to conclude negotiations during 2007 on several free trade agreements, and to extend, through the end of calendar year 2012, the Generalized System of Preferences. These agreements have revenue effects of $241 million in 2008, and $3.7 billion over 5 years.

# ECONOMIC ASSUMPTIONS

The administration's economic assumptions – on which the budget is based – fall roughly in line with those of the Congressional Budget Office [CBO] and the Blue Chip consensus of private forecasters. In all three estimates, the projection for growth in gross domestic product [GDP] is slightly subdued compared with last year's outlook; and all three show slightly lower unemployment rates.

Here is a summary:

**Comparison of Economic Assumptions**
(Calendar Years)

| | Projections | | | | | | Average |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2007-12 |
| | *Percent Change* | | | | | | |
| **Real Gross Domestic Product** | | | | | | | |
| Administration Budget | 2.7 | 3.0 | 3.1 | 3.0 | 3.0 | 2.9 | 2.9 |
| CBO January | 2.3 | 3.0 | 3.1 | 3.0 | 2.7 | 2.7 | 2.7 |
| Blue Chip Consensus (January) | 2.4 | 3.0 | 3.1 | 3.0 | 2.9 | 3.0 | 2.9 |
| **GDP Price Index** | | | | | | | |
| Administration February Budget | 2.5 | 2.4 | 2.2 | 2.1 | 2.0 | 2.0 | 2.1 |
| CBO January | 1.9 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Blue Chip Consensus (January) | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| **Consumer Price Index** | | | | | | | |
| Administration February Budget | 2.1 | 2.6 | 2.5 | 2.4 | 2.3 | 2.3 | 2.4 |
| CBO January | 1.9 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Blue Chip Consensus (January) | 2.0 | 2.3 | 2.3 | 2.3 | 2.3 | 2.4 | 2.3 |
| | *Annual Average, Percent* | | | | | | |
| **Unemployment Rate** | | | | | | | |
| Administration February Budget | 4.6 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 |
| CBO January | 4.7 | 4.9 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Blue Chip Consensus (January) | 4.8 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| **3-Month Treasury Bill Rate** | | | | | | | |
| Administration February Budget | 4.7 | 4.6 | 4.4 | 4.2 | 4.1 | 4.1 | 4.2 |
| CBO January | 4.8 | 4.5 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 |
| Blue Chip Consensus (January) | 4.9 | 4.8 | 4.7 | 4.5 | 4.5 | 4.6 | 4.6 |
| **10-Year Treasury Note Rate** | | | | | | | |
| Administration February Budget | 5.0 | 5.1 | 5.2 | 5.3 | 5.3 | 5.3 | 5.2 |
| CBO January | 4.8 | 5.0 | 5.1 | 5.2 | 5.2 | 5.2 | 5.1 |
| Blue Chip Consensus (January) | 4.8 | 5.0 | 5.2 | 5.2 | 5.2 | 5.3 | 5.2 |

Sources: Office of Management and Budget, Congressional Budget Office, Blue Chip Economic Indicators (January 2006 for 2007 and 2007; October 2005 for 2008-11).

- **Real Gross Domestic Product.** Like CBO and the Blue Chip, the administration projects a fall-off in GDP growth from the 3.4-percent rate in 2006. The administration projects

2.7-percent real (inflation-adjusted) growth in 2007, improving to 3.0 percent in 2008, and remaining at or near that level through 2017. The figures are nearly identical with those of the Blue Chip. CBO, on the other hand, shows a drop in GDP from 3.0 percent in 2010 to 2.7 percent in 2011, and a continued gradual decline after that.

- **Inflation.** The administration projects inflation – as measured by the urban c consumer price index – at 2.6 percent in 2008, then ranging at or slightly below 2.5 percent through 2017. Over the 10 years, the administration projects inflation averaging 2.4 percent, fractionally higher than CBO and the Blue Chip.

- **Unemployment Rate.** The administration projects that the unemployment rate will rise slightly in 2008 but remain below 5.0 percent through 2017, as does the Blue Chip consensus. CBO projects the unemployment rate to rise to 5 percent by 2009 and remain at that level through 2017.

- **Interest Rates.** All three projections show long-term interest rates rising slightly, with 10-Year Treasury Notes holding at just above 5 percent throughout the period.