

OVERVIEW OF THE PRESIDENT'S 2008 BUDGET

Highlights of the President's Budget

- Reduces the deficit every year and balances the budget by 2012;
- Increases funding to combat terrorism and protect the homeland;
- Keeps the economy strong with low taxes;
- Promotes key domestic priorities, such as No Child Left Behind, enhanced energy security, and improved access to affordable health care;
- Spends taxpayer dollars wisely, holding the growth in non-security discretionary spending to one percent; and
- Slows the unsustainable growth of entitlement spending with sensible reforms.

The President's Budget reduces the deficit every year and reaches a balanced budget within five years, while continuing to invest in the Nation's safety and prosperity. Critical to continued deficit reduction is a strong economy. To keep the economy vibrant, the Budget makes tax relief permanent, and proposes other pro-growth policies to improve education, health care, and energy security.

National Security

The 2008 Budget supports our troops fighting terrorism abroad, strengthens our military for the future, enhances our international diplomacy, and protects our homeland from attack.

The Budget invests substantial resources to maintain high levels of military readiness and to continue the transformation of our military to meet the new threats of the 21st Century. It also fully funds the Global War on Terror in Iraq and Afghanistan through 2008, provides additional funds for 2009, and fully funds the implementation of the President's new strategy in Iraq. The Budget supports the U.S. strategic goal of an Iraq and Afghanistan that are democratic, can govern, defend and sustain themselves, and that will be allies in the war on terror.

Enhanced diplomatic efforts will work to support our national security goals with additional resources dedicated to strengthen democratic institutions, promote economic opportunity, and improve self-sufficiency while also building the capacity of our allies to contribute to this effort, through key anti-terrorism and security assistance initiatives.

The Budget also invests in homeland security and terrorism prevention through increased funding for nuclear detection, more secure borders, high-tech screening capabilities, and forging a closer partnership with State and local law enforcement.

Economic Growth

The 2008 Budget advances initiatives designed to continue our strong economic growth and prosperity. As we enter 2007, the economic fundamentals are strong: more than seven million jobs have been created since August 2003; unemployment is low; paychecks are rising; and inflation and interest rates are low. Over the past six years, our resilient economy has successfully weathered many difficult challenges, including the recession in 2001, corporate scandals, the September 11th

terrorist attacks, the devastation of Hurricane Katrina, surges in energy prices, and weakness in the housing sector.

The economy's ability to persevere and overcome these challenges is a testament to the strong work ethic and ingenuity of the American people, and to the effectiveness of the President's pro-growth economic policies, including tax relief.

The 2008 Budget continues to support a strong economy, innovation, and investment by making permanent the President's tax relief, which would otherwise expire in 2010. With the full implementation of tax relief in 2003, the economy strengthened and Federal revenues surged. For the past two years, revenues have grown at double-digit rates, and are now above the 40-year historical average as a share of the economy.

Proposals contained in this Budget will also strengthen our ability to compete in the global economy. They will advance the American Competitiveness Initiative to increase Federal investment in critical basic research, ensure the United States continues to lead the world in innovation, and provide American children with a stronger foundation in math and science. They will also promote the continued opening of new export markets for American farmers, manufacturers, and service providers.

Prioritizing Education, Health Care, and Energy

The 2008 Budget addresses three key issues that are on the minds of many Americans: the quality and cost of their children's education, access to affordable health care, and our Nation's dependence on foreign sources of energy from unstable parts of the world.



Regarding our schools, No Child Left Behind (NCLB) is already working to ensure all students perform at or above grade level in reading and math by 2014. NCLB is raising student achievement for millions of children in schools nationwide. The 2008 Budget provides significant new resources and other reforms that will result in continued progress. It also directs more funding to high schools to better prepare our students for college or the workplace, and offers new school choice options so children in low-performing schools have a chance to attend a school where they can learn and succeed. To help low-income

families afford college, the 2008 Budget increases the Pell Grant maximum award from the current level of \$4,050 to \$4,600 in 2008, and to \$5,400 over the next five years. It also increases the Academic Competitiveness Grants maximum awards for freshmen and sophomores.

The 2008 Budget also improves Americans' access to affordable health care through a number of proposals. It proposes a significant change in the tax treatment of health care, which will level the playing field for Americans who purchase health care individually rather than through their employers. This will reduce the number of uninsured Americans by making health insurance more affordable and helping to restrain the rate of health care inflation. The Budget also improves access to health care by allowing small businesses and civic and community groups to band together to leverage their bargaining power, and it helps reduce frivolous lawsuits that increase patients' costs.

The Budget includes a number of proposals to increase our energy security while improving our environment. The President is extending the commitments he made in signing the Energy Policy Act of 2005 and the 2006 State of the Union address to increase our energy security, improve air

quality, and address greenhouse gas emissions. Specifically, the President is proposing to increase the current standards for alternative fuels use and for fuel economy in order to cut, by 2017, our domestic gasoline consumption by 20 percent and substantially reduce vehicle air pollution and CO₂ emissions compared to projections.

The Budget also continues the Advanced Energy Initiative to improve the reliability of energy supplies to American families and businesses. This initiative includes incentives to increase the use of alternative fuels for transportation and power generation. It also supports conservation efforts and advanced nuclear power, increases oil and natural gas supplies at home, and expands refinery capacity. To insure against major supply disruptions that could harm our economy, the Budget proposes to double the protection provided by the Strategic Petroleum Reserve by expanding the reserve to 1.5 billion barrels by 2027.

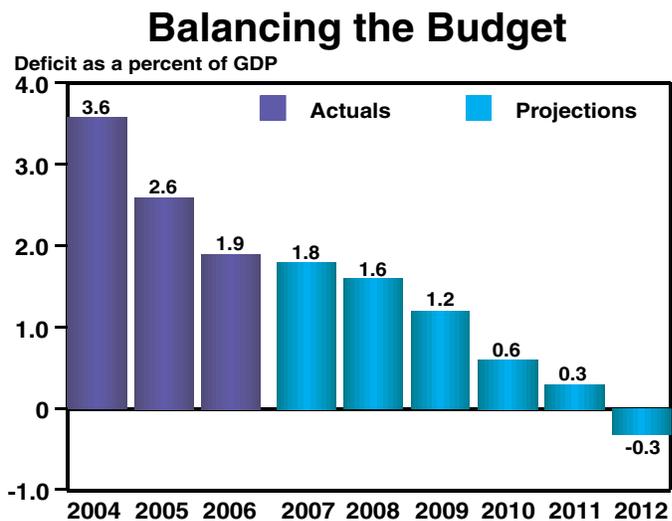
Budget Discipline

A strong economy and significant revenue growth, combined with better spending restraint, resulted in cutting the deficit in half in 2006—three years ahead of the goal set forth by the President in 2004. Building on this success, the President has now set a new goal to achieve a balanced budget by 2012. A strong economy has been essential to our deficit reduction achievements, and to reach a balanced budget, steady economic growth is important. But it is also important to couple growth with spending discipline.

The 2008 Budget proposes to hold the rate of growth for non-security discretionary spending to one percent, well below the rate of inflation. That requires tough choices among many competing priorities.

In the Budget, each program was closely reviewed to determine if it is among the Nation's top priorities and if the program is effective and producing the intended results. Failure to meet these criteria resulted in the proposed termination or reduction of 141 programs for a savings of \$12.0 billion, a step that will help channel resources to more effective programs. We have also increased resources for program integrity efforts to reduce waste, fraud, and abuse—including improper payments to ineligible recipients.

The President's 2008 Budget also outlines a comprehensive series of budget reforms that will improve transparency and accountability in Government spending, including earmark reform. Earmarks are provisions included in legislation that are often not subject to adequate legislative or public scrutiny and that often lead to wasteful Federal spending. They have grown dramatically, nearly tripling in the last decade. The President has called for full disclosure of all earmarks, prohibiting earmarks from being slipped into so-called report language instead of actual legislation, and cutting the number and amount of earmarks by half. The President has also called on the Congress to enact a legislative line-item veto. This would help the Executive and Legislative Branches work together to strike unwarranted earmarks and other wasteful and unnecessary spending from the budget.



Our Budget shows how we can work with the Congress to achieve a balanced budget by 2012. But, that accomplishment will be short-lived without addressing our longer-term budgetary challenge—the unsustainable growth in Medicare, Medicaid, and Social Security. By 2040, spending on these and other mandatory programs will crowd out all discretionary spending—for defense, homeland security, or education—unless we take steps to reform these programs.

The 2008 Budget takes an important step toward sensible reform of mandatory spending—saving \$96 billion over five years. Although this only represents one percent of mandatory spending, it lays the foundation for more comprehensive reforms that are needed to insure that these crucial programs continue providing health and retirement security for future generations.

Current Trends are not Sustainable

