President Bush's 2007 Budget

A Brief Overview

**Prepared by
the U. S. Senate
Budget Committee
Majority Staff
Senator Judd Gregg, Chairman**

February 6, 2006

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Dear Colleagues,

The following is a brief overview and analysis of President George W. Bush's Fiscal Year 2007 Budget Request, as prepared by the U.S. Senate Budget Committee. I hope you find it a useful tool in understanding the current dynamics of the budget, the deficit and the economic outlook for the nation.

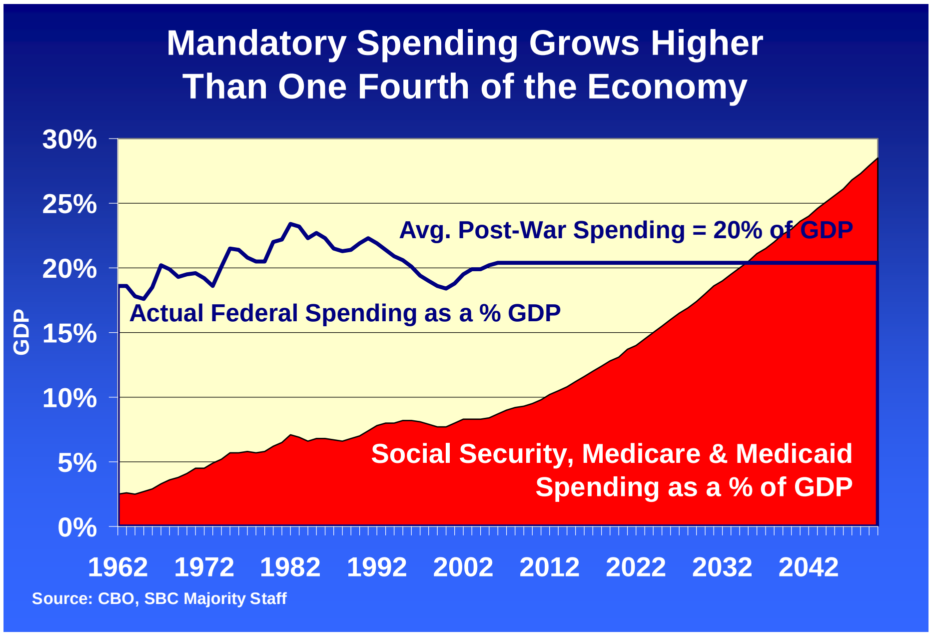
The President's 2007 budget outlines his initiatives for creating and sustaining economic growth, protecting Americans from harm, and investing in national priorities, while maintaining strict discipline over spending and reducing the deficit in half by 2008 – a year earlier than the President previously proposed.

As Chairman of the Senate Budget Committee, I can attest that reducing spending and the deficit, both in the short-term and in the long-term, must be an important priority for the federal government.

Republicans in Congress last year succeeded in reducing mandatory spending and the short-term deficit by nearly $40 billion over five years with the Deficit Reduction Act – the first time in eight years that a deficit reduction package was considered.

However, recent years have presented a number of fiscal challenges. In the years since the September 11th terrorist attacks, the U.S. has been fighting a costly war on terror that is necessary to protect U.S. citizens and interests. In 2005, devastating hurricanes destroyed many miles of the Gulf Coast and displaced hundreds of thousands of families. As a result, Congress has enacted more than $100 billion in hurricane assistance. These unexpected expenditures have driven the short-term deficit higher than previously expected, but have not impeded the President from submitting a budget that cuts the deficit in half a year early.

The larger problem facing our economy is the entitlement spending that continues to grow unchecked year after year – the three largest programs being Social Security, Medicare and Medicaid. These three programs, as a share of the economy, will rise from 8% this year to 18% in 2030 and will consume over one quarter of the economy in less than 50 years.



When the massive Baby Boom generation begins to retire in 2008, this huge number of retirees, combined with the skyrocketing costs of health care, threatens to overwhelm our nation's resources unless we make some difficult choices now to slow the growth of these programs to affordable levels. If left unchecked, Medicare alone is expected to increase by 121% over the next 10 years with the American taxpayer paying out $5.32 trillion in those 10 years.

Put another way, failure to control costs in all three programs will increase tax burdens and have serious economic consequences. The total demand on federal general revenues for these three programs exceeds $50 trillion over the next 75 years based on current law and program operations.

The bottom line is that growth in entitlement programs will exert pressure on the budget that economic growth alone cannot alleviate. The President's budget takes a positive approach to reigning in entitlement spending, especially by slowing the rate of the growth in the Medicare program.

As we move forward in crafting a budget for 2007, I will continue to urge my colleagues to seriously consider the impact of looming long-term deficits on our economy and on the legacy we leave to our children and grandchildren. Now is the time to exercise fiscal responsibility, and I am hopeful that we can build on the success of the Deficit Reduction Act to do just that.

Sincerely,

Judd Gregg

Judd Gregg
Chairman, U.S. Senate Budget Committee

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(1) In this document, all dollar and percentage amounts relating to the President's budget and to OMB Baseline estimates have been taken from the President's 2007 budget document. These figures are based on the President's economic forecast and technical estimating procedures and have not been reestimated by the Congressional Budget Office.

(2) Unless otherwise stated, all years in this report are fiscal years.

(3) In the case of all tables: (a) Details may not add to totals due to rounding; (b) "N/A" means not available or not applicable; and (c) "(*)" means, depending on units used, less than $50 million or less than one-half percent.

EXECUTIVE SUMMARY

U.S. Senate Budget Committee

THE PRESIDENT'S 2007 BUDGET REQUEST

President George W. Bush's 2007 budget request is committed to maintaining strong economic growth and investing in national priorities such as the war on terrorism, health care, economic competitiveness, and energy independence to secure our future.

Cutting the Near-Term Deficit in Half

According to the request, the President's policies maintain the budget on course towards his goal of cutting the deficit in half by 2009[1]. By OMB estimates, the President's 2007 budget meets the "percentage of GDP" goal in 2008 – a year ahead of schedule, and also cuts the nominal deficit by more than half in 2008, compared to the original estimate for 2004.[2]

THE PRESIDENT'S 2007 BUDGET
CUTS THE DEFICIT IN HALF BY 2008 ($ billions)

	2004								
	Estimate in President's 2005 Budget	Actual	Actual 2005	2006	2007	2008	2009	2010	2011
Unified Deficit	-521	-412	-318	-423	-354	-223	-208	-183	-205
% of GDP	4.5%	-3.6%	-2.6%	-3.2%	-2.6%	-1.5%	-1.4%	-1.1%	-1.2%

Spending

The budget proposes total spending of $2.8 trillion (equal to 20.1 percent of GDP) in 2007, an increase of $61 billion, or 2.3 percent, over 2006. Federal spending has averaged 20 percent of GDP over the last 50 years.

[1] As compared, on a percentage of Gross Domestic Product [GDP] basis, to the deficit estimate for 2004 in the President's 2005 budget, which was 4.5% of GDP, or $521 billion.

[2] These deficit estimates omit the effects of any spending associated with continued US military presence in Iraq and Afghanistan <u>beyond</u> 2007 because the Administration states such costs cannot be estimated.

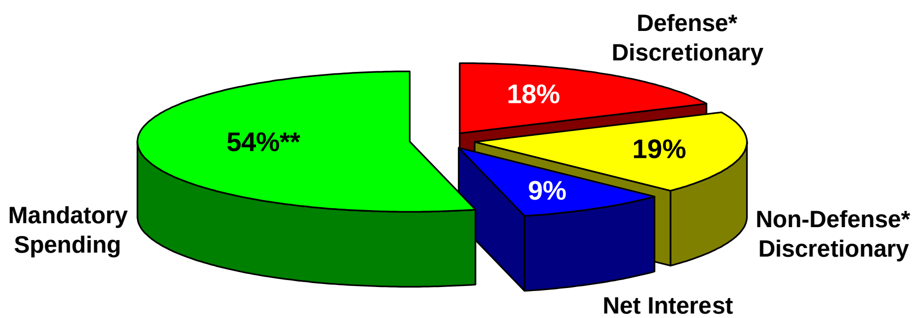
Under the President's proposals, total spending would grow to $3.2 trillion by 2011 (an average annual growth rate of 3.6 percent), which by then would be only 19.1 percent of GDP, as nominal GDP is expected to grow by an average of 5.4 percent annually (*see Appendix table 1*).

The budget separates spending into mandatory programs (programs that are on "auto-pilot and do not require annual congressional action) and discretionary programs (programs requiring annual appropriations action).

With regard to mandatory programs, the President's budget proposes a set of proposals amounting to $65 billion in savings over five years by restraining the rate of growth in certain entitlement programs, of which more than half of the savings would be in Medicare.

With regard to discretionary programs, the President's budget holds overall discretionary growth to slightly below the rate of inflation.

President's 2007 Budget:
$2.8 Trillion in Outlays by Budget Category



* Defense refers to the Department of Defense.
** Medicaid & SCHIP 7%, Medicare 14%, Social Security 21%, Other 12%

Mandatory Spending

The budget proposes total mandatory spending (including net interest) of $1.7 trillion in 2007, an increase of $65 billion, or 3.9 percent, over 2006 (*see Appendix table 2*). Mandatory spending currently accounts for 63 percent of total spending (54 percent mandatory plus 9 percent interest payments on debt – see above chart). By 2011, it will grow to $2.2 trillion (69 percent of total spending) -- an annual average growth rate of 6.0 percent, more than double the rate of inflation. The President's budget baseline already assumed enactment of the $39 billion in mandatory savings from the Deficit Reduction Act (DRA), which the House cleared for the President's signature on February 1, 2006. So the President's proposals for mandatory programs in the 2007 budget are relative to current law, including DRA.

Medicare: Under current law, Medicare spending will total $390 billion in 2007, an increase of $52 billion over 2006, or 15.3 percent. Without legislative changes, Medicare spending will grow to $500 billion in 2011, an average annual growth rate of 8.1 percent.

The President's budget includes reforms to the Medicare program that would reduce the growth in the program by $36 billion over the next five years. Under the President's proposals, Medicare spending in 2011 would be $489 billion, an average annual growth rate of 7.7 percent. As a result, Medicare would grow by 45 percent from 2006 to 2011 instead of by 48 percent as it would under current law.

Social Security: Under current law, baseline Social Security spending will total $581 billion in 2007, an increase of $31 billion over 2006, or 5.7 percent. Without legislative changes, Social Security spending will grow to $723 billion in 2011, an annual average growth rate of 5.6 percent.

The President's budget proposes to create personal retirement accounts in 2010. Under this proposal, Social Security spending in 2011 would total $780 billion, an average annual growth rate of 7.2 percent.

Medicaid: Under current law, Medicaid (and State Children's Health Insurance Program – SCHIP) spending will total $205 billion in 2007 law, an increase of $7 billion or 3.3 percent over 2006. Medicaid spending is expected to grow to $270 billion by 2011, an annual average growth rate of 6.4 percent.

The President's budget includes several reforms to increase and decrease spending in the Medicaid and SCHIP programs that would save a net $1.3 billion over the period. Under the President's proposal, Medicaid and SCHIP spending in 2011 would total $270 billion in 2011, an annual average growth rate of 6.4 percent.

Across the entire budget, the President proposes dozens of mandatory program increases and decreases that, on net, would reduce the deficit by $1.7 billion in 2007, but would increase the deficit by $21.2 billion over the next five years (*see Appendix table 3*).

Discretionary Spending

The budget proposes total discretionary spending authority of $871 billion for 2007, an increase of $27 billion, or 3.2 percent, over 2006 (excluding emergency funding for both years). Almost all of this increase would be for the U.S. military.[3] Total discretionary spending authority would grow to $941 billion by 2011, an annual average growth rate of only 2.2 percent. By comparison, over the past five years the average annual increase in total discretionary appropriations (including supplementals) has been 6.3 percent.

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[3] The 2007 budget totals for outlays and deficits do include the President's anticipated emergency supplemental requests for budget authority (and the associated outlays) of $70 billion for 2006 and $50 billion for 2007 (but zero in subsequent years) for military operations in Iraq and Afghanistan.

- Department of Defense request totals $439 billion for 2007, an increase of $29 billion, or 6.9 percent, over 2006 (this comparison excludes both the 2006 emergency defense funding that has been enacted ($50 billion) and the anticipated supplemental defense spending for 2006 ($70 billion) and 2007 ($50 billion) that has yet to be requested and enacted.

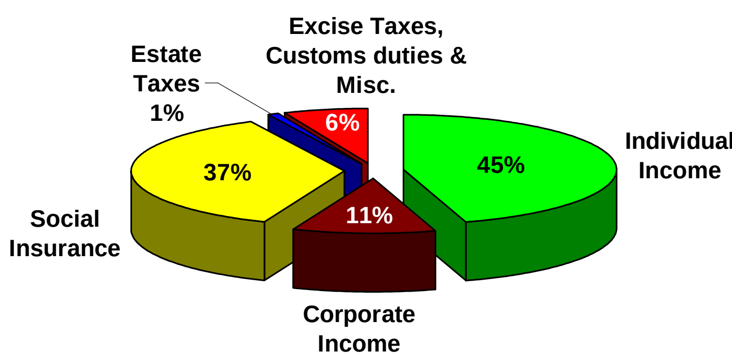
- The request for Homeland Security (non-defense) activities totals $33 billion, an increase of $1 billion, or 3.3 percent, over 2006.

- Other discretionary programs would total $398 billion, a decrease of $2 billion, or 0.5 percent, below 2006. Under the President's budget, appropriations for non-defense programs (i.e. overall discretionary spending except spending in the defense budget function 050) remain at a virtual freeze through 2011.

Revenues

The budget projects total revenues of $2.4 trillion in 2007, an increase of $130 billion or 5.7 percent, over 2006, and equal to 17.6 percent of GDP. Federal revenue has averaged 17.9 percent of GDP over the last six decades.

President's 2007 Budget: $2.4 Trillion of Receipts by Source



Under the President's proposals, total revenues will continue growing to $3.0 trillion by 2011, rising as a share of GDP to 17.9 percent.

The President proposes a number of new tax policy changes that would reduce federal revenues by $101 billion over five years, compared to a baseline revenue forecast that has been adjusted to <u>include</u> permanent extension of certain tax cuts enacted in 2001 and 2003.

- Relative to the adjusted baseline, major tax proposals that would reduce revenues over the 2007-2011 period include (but are not limited to):
  - Health care ($52 billion)

- Research tax credit ($33 billion)
- One-year AMT patch ($20 billion)
- Trade promotion ($6 billion)
- Charitable giving ($3 billion)
- Opportunity zones ($2 billion)
- Savings incentives (these proposals would begin to reduce revenues starting in 2011, but because of timing shifts would increase revenues by $22 billion over 2007 - 2011)

If the baseline revenue forecast is not adjusted to include extension of the 2001 and 2003 tax cuts, then the President's tax proposals would reduce revenues by $28.6 billion in 2007 and $280 billion over five years. This set of policies includes $101 billion as described above, plus, relative to current law, $179 billion to permanently extend the dividends and capital gains tax rate structure, small business expensing, death tax repeal, marginal rate reductions, marriage penalty relief, child tax credit and other components of the 2001 and 2003 tax relief.

Debt & Interest

The budget reflects debt held by the public growing from $5.0 trillion in 2006 (38.5 percent of GDP) to $6.3 trillion in 2011 (37 percent of GDP). Over the last decade, debt held by the public has been as high as 49.5 percent of GDP in 1993 and as low as 33.1 percent of GDP in 2001.

The budget projects net interest costs of $247 billion in 2007 (8.9 percent of total spending), growing to $322 billion by 2011 (9.9 percent of total spending).

The President's 2007 budget includes increased spending on homeland security and the war on terrorism. Other spending priorities include a focus on strengthening American competitiveness in technology and the physical sciences as well as fostering energy independence through a new energy initiative. A more detailed description of specific changes to existing programs or proposals for new policies or programs follows.

The President's budget proposes terminating or reducing nearly 150 federal programs. In order to effectively review and evaluate federal programs, the Administration developed a Program Assessment Rating Tool (PART). The purpose of this tool is to review federal programs' strengths and weaknesses in order to inform funding and programmatic decisions. The PART looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. The public can access 800 federal program assessments, based on PART reviews on www.ExpectMore.gov.

DISCRETIONARY PROGRAMS

Defense

Department of Defense discretionary budget authority totals $439 billion, an increase of $28.5 billion or 6.9 percent over the 2006 enacted level (these figures do not include supplemental funding; the Administration has proposed $70 billion in 2006 supplemental funding and $50 billion for 2007). Discretionary Budget Authority for the National Defense Function, which includes Department of Energy Atomic Defense Activities and Other Defense Activities in addition to the Department of Defense, would total $460 billion for 2007.

Department of Defense Discretionary by Major Category

- Military Personnel: $110.9 billion, a 3.8-percent increase over 2006.
- Operations and Maintenance: $152.3 billion, a 6.8-percent increase.
- Procurement: $84.2 billion, a 10.5-percent increase.
- Research, Development, Test, and Evaluation: $73.2 billion, a 3.1-percent increase.
- Military Construction: $12.6 billion, a 57-percent increase [*note*: includes $5.6 billion to implement the 2005 base closure round].
- Family Housing: $4.1 billion, a 2.6-percent increase.

Pay and Benefits. The President's budget requests a 2.2-percent increase in base pay. Since 2001, military base pay has increased approximately 28 percent. The request continues to sustain a policy of no out-of-pocket costs for housing. The budget also proposes new or increased Tricare health care fees for retirees under age 65 because their cost shares have not been adjusted for 11 years. The proposal is intended to save $735 million in 2007 and $11 billion over 5 years.

Missile Defense. To improve Missile Defense capabilities, the budget provides $10.4 billion in 2007 to produce and field additional ground- and sea-based interceptors, and acquire two additional forward-deployed mobile radars.

Tactical Aircraft Programs. The President's budget requests $2.2 billion for 2007 in advance procurement funds (additional amounts would have to be requested and enacted for subsequent years to sustain the program) to purchase 60 F/A-22 fighter aircraft in the years 2008-2010. The budget proposes to save $1.8 billion over the next five years by canceling the Joint Strike Fighter Alternate Engine Program. The Joint Strike Fighter itself receives $4 billion for development.

Ship Programs. The budget proposes $11.2 billion for shipbuilding and conversion and would fund seven new warships in 2007, including $2.6 billion to begin construction of two DD(X) next generation destroyers, and $957 million for two Littoral Combat Ships, which are intended to be a smaller, lower-cost surface combatant.

Army Programs. The President's 2007 request includes $6.6 billion for the Army's modularity program, which is reconfiguring the service's ground combat structure into quickly deployable two-battalion brigades. This is the first year that the modularity program has been funded in the regular budget; in 2005 and 2006, it received supplemental funding. The budget also requests $3.7 billion for the Army's Future Combat Systems, a system of ground vehicles and associated sensors and communications gear. This program is intended to transform the Army into a lighter, more agile combat force.

Other Initiatives. To defend United States territory, especially against terrorists with catastrophic weapons, the budget invests $1.7 billion in 2007 to develop countermeasures against advanced biological and other weapons, and to track, locate and defuse nuclear weapons. The request would also convert 20,000 military positions in non-military essential specialties to civilian positions. This will free up more troops for high-priority military missions. *See under Health Care heading for additional anti-terrorism proposals*.

Veterans

The President's budget requests $35.7 billion in discretionary budget authority for the Department of Veterans Affairs for 2007, an increase of $3.6 billion or 8 percent over the 2006 level (excluding emergencies). The increase is driven by increased utilization of healthcare services and a rate of medical inflation far above standard inflation. The President proposes to more equitably allocate VA medical resources by instituting a new $250 medical-care enrollment fee and increase pharmacy co-payments by $8 to $15 per month for lower-priority veterans in categories 7 and 8. The President included these two proposals in last year's budget as mandatory changes that could be included in Congress' reconciliation bill, but the Congress did not enact the proposals. This year, the budget proposes that these policies be enacted as offsets to discretionary appropriations, thereby allowing additional spending of $0.8 billion in 2007.

Homeland Security

Government-wide Homeland Security discretionary BA (excluding $16.7 billion Homeland Security-designated spending in DOD) totals $33.1 billion, an increase of $1 billion or 3.1 percent over 2006. This total does not include $2.5 billion in mandatory funding and $6.0 billion in discretionary fee-funded activities. Adjusting for these programs results in $41.6 billion in non-DOD Homeland Security programs across the federal government. The President's budget proposes discretionary BA for the Department of Homeland Security at $30.9 billion, an increase of 1.3 percent over 2006.

Transportation Security Administration. The President proposes $6.2 billion for the Transportation Security Administration, an increase of $353 million or 6.0 percent over 2006. The President's plan calls for replacing the current two-tiered aviation security passenger fee with a single flat fee of $5 for a single one-way ticket, which, along with air-carrier-security fees, will finance 70 percent core aviation security screening costs performed by TSA. This is somewhat similar to last year's Administration proposal, which was not enacted by Congress.

Coast Guard. The budget provides $7.1 billion in discretionary BA for the Coast Guard, a $405-million or 6.0-percent increase over the 2006 level. The Coast Guard is requesting $934 million for continued acquisition of the Integrated Deepwater System, the next generation of cutters, smaller boats, and aircraft.

Emergency Preparedness and Response/FEMA. The budget provides $3.1 billion for the Federal Emergency Management Agency, $362 million or 13 percent more than the 2006 level. Included is a $189-million increase for the Disaster Relief Fund, $100 million more for Disaster Mitigation Grants, and a $45-million initiative to improve FEMA's operational capability.

Customs and Border Protection. The President proposes $6.6 billion for the Office of Customs and Border Protection, an increase of $682 million, or 11.5 percent, above 2006. The budget provides for an increase of 1,500 Border Patrol agents, continued construction of the San Diego fence, and improved technology along the border.

Immigration and Customs Enforcement. The budget proposes a total of $4.4 billion for Immigration and Customs Enforcement, $814 million or 22 percent above the previous year. This increase will provide 1,300 new immigration enforcement personnel and 6,700 new detention beds as part of the Administration's plan to improve border security and enforcement of immigration laws through the Secure Border Initiative.

International Affairs

The President proposes $35.1 billion in discretionary appropriations for International Affairs activities. This is $3.6 billion or 11.4 percent over the amount enacted for 2006 level (not including the supplemental requested for 2006 expected from the President this month).

- The request includes $10.1 billion for the State Department, which is an increase of $550 million, or 6.2 percent, over the 2006 level.

- The President proposes $23.7 billion for foreign aid for 2007, an increase of $2.9 billion or 13.7 percent over the 2006 level.

- The request includes $1.3 billion for US food assistance and child nutrition programs, an increase of $80 million, or 6.5 percent, over the 2006 level.

The request for International Affairs reflects the following Presidential priorities:

- The President proposes new spending of $770 million to help Iraq build a democratic government and provide necessary services to its citizens. The president also proposes $1.1 billion for Afghanistan, $1.1 billion for Sudan, and $738 million for Pakistan.

- For 2007, the President proposes to roughly double the funding for the Millennium Challenge Corporation to $3 billion.

- The President requests a total of $4 billion for the President's Emergency Plan for AIDS Relief (PEPFAR).

- The United States' contribution to the Global Fund to fight AIDS, tuberculosis, and malaria in fiscal year 2007 is proposed to be $300 million.

Health Care

Pandemic Influenza. The 2007 budget includes a placeholder of $2.3 billion for the 2007 installment of the $7.1 billion emergency supplemental request transmitted to implement the National Strategy for Pandemic Influenza, building on the $3.8 billion enacted for 2006 in the 2006 Defense Appropriations bill.

Additionally, the budget includes $352 million for pandemic influenza preparation and prevention activities through the Centers for Disease Control and Prevention (CDC), the National Institutes of Health (NIH), the Food and Drug Administration (FDA) and the Office of the Secretary

Terrorism Preparedness. The President's 2007 budget requests $4.4 billion for HHS terrorism preparedness activities, an increase of $178 million, for activities such as grants to states for planning and response, including hospital surge capacity upgrades, CDC's

Biosurveillance Initiative, Office of the Secretary's Mass Casualty Initiative, and NIH's biodefense efforts, including the development of biodefense countermeasures through Project Bioshield.

Chronically Ill Grant Program. The President proposes $500 million in 2007 for a new program to encourage states to build on their high risk pools or test other approaches such as risk-adjusted subsidies or plans designed to manage chronic illnesses such as diabetes.

Community Health Centers. The President's budget increases funding to Community Health Centers by $181 million to $2 billion to complete the President's commitment to create or expand 1,200 health center sites to begin to establish a health center site in every high poverty county that can support one. By the end of 2007, over 4,000 sites would be serving almost 15.8 million patients.

Health Information Technology. The 2007 budget provides a total of $169 million, an increase of $58 million, for the expansion of health information technology (IT). Of the $169 million, $116 million is allocated to the Office of the National Coordinator for Health IT, $50 million to the Agency for Healthcare Research and Quality, and $3 million for the Office of the Assistant Secretary for Planning and Evaluation.

Investments for Competitiveness

DOE Office of Science. The President proposes $4.1 billion for the Department of Energy's (DOE) Office of Science, a $505 million, or 14.1 percent increase over 2006 funding. This represents an increase in the national investment into basic science research necessary to ensure American competitiveness and preeminence in science and energy security in the years ahead.

National Aeronautics and Space Administration. The President proposes $16.8 billion for National Aeronautics and Space administration, a $521.2 million, or 3.2 percent, increase over 2006 (not including $350 million in emergency supplemental funding enacted for 2006). NASA continues its focus on completion of the International Space Station (ISS) by 2010 to meets its commitment to its international partners.

National Science Foundation. The President proposes $6 billion for the National Science Foundation a $439 million, or 7.9 percent increase over 2006 as a strategic investment for K-12, undergraduate, graduate, and postdoctoral education to broaden participation in science and engineering.

National Institute of Standards and Technology (NIST). The budget proposes $540 million for NIST labs and construction in 2007, a 25 percent increase over 2006 (after adjusting for $140 million in appropriated, but unrequested earmarks in the total enacted appropriations of $572 million for 2006), to fund the President's 10-year American Competitiveness Initiative. Funding would target additional scientific research for nanotechnology, hydrogen storage, distribution and fuel-cell fabrication; quantum information science; and materials science research.

Education

In his American Competitiveness Initiative, the President proposes to improve instruction in math and science by providing:

- $125 million to fund competitive grants to expand the use of proven practices in math instruction in the elementary grades to help prepare students for rigorous high school mathematics.

- $125 million to fund competitive grants to partnerships that improve mathematics instruction for middle-school students whose achievement is significantly below grade level. Grant recipients must use scientifically-based research interventions that involve systematic instruction and provide professional development for teachers that targets content knowledge and training on effective practices.

- $90 million to fund new competitive grants to help teachers in high-poverty high schools receive the training needed to teach Advanced Placement (AP) and International Baccalaureate (IB) courses in mathematics, science, and foreign languages. Grantees would be required to match $2 in non-federal dollars for each federal dollar. Funds could be used for incentives for teachers to become qualified and rewards for teachers whose students pass the AP/IB tests in those subjects.

- $25 million to establish an Adjunct Teacher Corps by providing grants to partnerships that create opportunities for professionals with subject-matter expertise to teach secondary-school courses in core academic subjects, particularly in mathematics and science.

Perkins Loans. The President's budget proposes to accelerate the recall of the federal portion of the Perkins Loan Revolving funds, resulting in savings of $664 million in 2007 and roughly $3.4 billion over 2007-2011, with a corresponding increase in outlays of $3.4 billion after 2011. (Current law already requires the recall of the federal portion of revolving funds beginning in 2012.) Although Perkins loan repayments and federal fund recalls are typically classified as mandatory spending, this year's budget proposes that the Labor-HHS-Education appropriations bill for 2007 will enact the accelerated recall to generate the savings to offset other discretionary spending in that bill.

Pell Grants. The President's budget requests $12.7 billion to support a maximum 2007 Pell Grant of $4,050 (unchanged from 2006). This amount assumes that $0.3 billion will also be available from appropriations enacted for 2006 (under the new budget scoring rule adopted in 2006) to support 2007 program costs of $13 billion. This program level represents an increase of $240 million (1.9 percent) over 2006 to fund awards for an estimated 59,000 additional recipients. Under the scoring rule, the amount scored for the program to maintain the same maximum grant is reduced by any surplus carried over from a previous year's over-appropriation or increased to account for a funding shortfall from the previous year.

Energy

In his Advanced Energy Initiative, the President proposes to increase funding for research into more reliable energy sources such as wind, solar, nuclear, coal, hydrogen, and biomass. Areas of interest include:

- Nuclear Energy. The President proposes $633 million for nuclear energy research and development programs, an increase of $97 million or 18 percent, over 2006. Included in this total is $250 million for the Global Nuclear Energy Partnership (GNEP), $54 million for Nuclear Power 2010, $31 million for Generation IV research and development, and $19 million for the Nuclear Hydrogen Initiative.

- Renewable Energy. The President proposes $150 million for its Bio-Fuels Initiative to promote development of bio-based fuels and products, a $59 million, or 65 percent, increase over 2006. The President also proposes $148 million for its Solar America Initiative to accelerate research into solar technology, a $65 million, or 79 percent, increase over 2006.

- Yucca Mountain. The President proposes $545 million for the federal nuclear waste repository at Yucca Mountain, Nevada, an increase of $50 million or 10 percent, over 2006.

Agriculture

The President proposes $322 million for its Food and Agriculture Defense Initiative to protect America's food supply, an increase of $69 million, or 27 percent, over 2006. In addition, the President proposes $1.0 billion for Wildland Fire Suppression at the Departments of Interior and Agriculture, an $82 million or 9 percent increase, over 2006.

CDBG

Community Development Block Grants (CDGB) would total $3.0 billion in 2007, a decrease of $1.1 billion or 38 percent compared to the 2006 enacted level. This decrease is proposed because of the results of a 2004 OMB review which found that many CDGB programs had unclear objectives, did not coordinate effectively, were duplicative, and were unable to demonstrate measurable and sustained economic gains for communities. The Administration proposes a modified version of its 2006 proposal (which Congress did not enact), that would consolidate 17 Federal community and economic development programs into two programs (CDBG in HUD and EDA in the Commerce Department). The initiative includes a reformed CDBG formula grant program, two incentive-based funds and improved coordination.

Unemployment Insurance

The President requests $40 million in appropriations in 2007 for program integrity efforts in the unemployment compensation program. This funding would be used by the states for in-person interviews with unemployment insurance beneficiaries in One-Stop centers to aid their work search efforts, review compliance with eligibility requirements, and reduce fraudulently obtained benefits through identity theft. The President proposed this initiative for 2006, but the Congress did not enact it. If enacted in 2007 and sustained over the next five years, these efforts would save $1.7 billion.

MANDATORY PROGRAMS

Medicare

Last year, the President's budget did not include any legislative proposals regarding Medicare. Nonetheless, Congress included $6.4 billion in reductions in the growth of Medicare spending in the Deficit Reduction Act.

Without legislative changes, Medicare spending will total $389 billion in 2007, an increase of $52 billion over 2006, or 15.3 percent. Medicare spending will grow to $500 billion in 2011, an average annual growth rate of 8.1 percent, which would be 48 percent greater than in 2006.

The President's 2007 budget includes proposals to reduce the growth in Medicare spending by $35.9 billion over five years. Under the President's proposals, Medicare spending in 2011 would be $489 billion, an average annual growth rate of 7.7 percent, which would be 45 percent higher than it is this year (2006).

The major provisions include:

Medicare Proposal Funding Summary
(billions of dollars)

	2007	2007-2011
Baseline Outlays	389.5	2,179.8
Proposes changes from current law		
Part B Premium Subsidies	*	-1.9
Fiscal Control	-	-
Competition	-	-1.4
Program Integrity	-0.3	-7.7
Productivity and Efficiency	-1.9	-26.2
Payments for Post-Acute Care Services	-0.4	-2.4
Premium Interactions	*0.1*	*3.8*
Total Proposed Changes	-2.5	-35.9

Y Part B Premium Subsidies. The President's budget proposes to eliminate the indexing of the income thresholds ($80,000 for singles/$160,000 for couples) for assessing the reduced subsidy eligibilities provided for in the Medicare Modernization Act and modified by the Deficit Reduction Act.

- Fiscal Control. The budget proposes to strengthen the Medicare Modernization Act's solvency provision and requires a 0.4% across-the-board reduction in Medicare spending if Congress fails to limit general fund contributions to Medicare spending to 45% of total outlays. The 45% threshold is not expected to be exceeded until 2017.

- Competition. The budget proposes to establish a national competitive bidding program for clinical laboratory services.

- Program Integrity. The budget proposes to establish a data clearinghouse to enhance current Medicare Secondary Payer (MSP) payment coordination and extend MSP status for beneficiaries with End-Stage Renal Disease from 30 months to five years for large employers. The budget also proposes to eliminate the Medicare bad debt payment to providers for unpaid beneficiary cost-sharing.

- Productivity and Efficiency. The budget proposes to make adjustments to provider payments to reflect increasing productivity and encourage further quality and efficiency gains. The budget also proposes changes to align rental payments and purchase requirements for durable medical equipment. Details include (with savings shown in parentheses):

  - Hospital market basket (MB) update for 2007 would be reduced by .45% and in 2008 and 2009 by 0.4% (-$8.1 billion).
  - Durable Medical Equipment payments would be modified for short-term wheelchairs and oxygen rentals would be limited to 13 months prior to purchase (-$7.0 billion).
  - Skilled Nursing Facilities would receive a 0% update in 2007 and MB minus 0.4% in 2008 and 2009 (-$5.1 billion).
  - Home Health providers would receive a 0% update in 2007 and MB minus 0.4% in 2008 and 2009 (-$3.5 billion).
  - Inpatient Rehabilitation Facilities would receive a 0% update in 2007 and MB minus 0.4% in 2008 and 2009 (-$1.6 billion).
  - Hospice providers would receive a MB minus 0.4% for 2007-2009 (-$550 million).
  - Ambulance fee schedule update would be reduced by .4% in 2008 and 2009 (-$290 million).

  - Payments for Post-Acute Care Services. The budget proposes to adjust payments to inpatient rehabilitation facilities for hip and knee replacements to more closely align them with other facilities.

Medicaid and SCHIP

Last year, the President proposed a number of reform proposals to Medicaid. This effort led to the passage of the Deficit Reduction Act that will reduce the growth of Medicaid by $4.6 billion over five years.

Without legislative changes, Medicaid and SCHIP spending will total $205 billion in 2007, an increase of $7 billion or 3.3 percent over 2006. Medicaid spending is expected to grow to $270.1 billion by 2011, an annual average growth rate of 6.4 percent.

The President's 2007 budget includes modest changes to the Medicaid and SCHIP programs that would reduce the growth of those programs by $1.3 billion over the period. Under the President's proposal, Medicaid and SCHIP spending in 2011 would total $270 billion, an annual average growth rate of 6.4 percent.

The major provisions include almost $3.5 billion in new spending to expand and improve health care coverage for children primarily through the Cover the Kids and the Vaccines for Children Initiatives. The President also proposes to generate savings in Medicaid by almost $5 billion through reforms to give states the authority they need to recoup costs and to ensure that federal Medicaid payments are accurate and reflect the cost of care provided.

Social Security

The President's budget assumes the creation of personal retirement accounts in 2010. As a result, Social Security spending increases by $24 billion in 2010 and $57 billion in 2011 over the current baseline.

Pensions Benefit Guaranty Corporation

The President's budget assumes premium increases sufficient to retire the estimated $23 billion deficit in the Pension Benefit Guaranty Corporation (PBGC) Fund over the next 10 years. In addition, the budget proposes reforms to maintain the fund's solvency by strengthening funding rules, modifying the current premium structure to increase the share of the premium tied to a pension plan's risk of termination, requiring increased premiums be paid by companies with under-funded benefit plans and allowing employers greater flexibility to contribute funding above their current liabilities, resulting in a net savings from premium receipts of $16.7 billion over the 2007-2011 period.

This amount assumes the premium increases adopted in the DRA of 2005 ($4.1 billion as estimated by CBO) are included in the baseline over the same period. The budget also assumes a net loss of $946 million in revenues over the first five years of enactment of the Administration's proposals to strengthen the employer-based pension system.

Agriculture and Rural Development

- Commodity Programs. The budget includes proposals that would reduce spending in commodity programs by $5.0 billion over the next five years, including:
  - $2.8 billion by reducing crop payments by 5 percent.
  - $0.8 billion from tightening payment limits.
  - $0.6 billion through crop insurance modifications.
  - $0.3 billion by imposing an assessment on dairy producers.
  - $0.3 billion from changes to the dairy price support program.

- $0.2 billion by initiating a sugar marketing assessment.

Y County Payments. In 2000, Congress enacted legislation to provide six years of payments to counties in the Pacific Northwest and elsewhere that had experienced significant declines in timber receipts from Federal lands. Payments under this law (the Secure Rural Schools and Community Self-Determination Act) are scheduled to expire at the end of 2006. The President proposes a 5-year extension of these payments, but would phase them out over time. The President's proposal would pay affected counties $0.8 billion over 2007-2011, but proposes to entirely offset this cost by authorizing the sale of certain land parcels in the National Forest System.

ANWR

The President proposes opening a portion of the Arctic National Wildlife Refuge to oil and gas exploration, which would yield $4.0 billion in receipts to the U.S. Treasury over the next five years. This year's ANWR estimate for receipts is $2.7 billion more than the President estimated in last year's budget ($1.3 billion), due to increased estimates of recoverable oil and gas and a higher forecast of energy prices.

REVENUES

U.S. Senate Budget Committee

Federal revenues are taxes and other collections from the public that result from the sovereign power of the government. This section provides an overview of President Bush=s revenue proposals for the period 2007-2011. Revenues in the President's budget are expected to grow by $749 billion, or 33 percent, between 2006 and 2011.

The President=s proposal to prevent tax increases (by making permanent tax cuts enacted in 2001 and 2003 that would otherwise expire under current law) would result in $179 billion of continued tax relief over five years; this proposal is included in OMB=s adjusted baseline. Over the five-year 2007-2011 period, President Bush=s 2007 budget recommends additional net tax relief (other than making permanent certain 2001 and 2003 tax cuts) totaling $101 billion over five years.

OMB adjusted baseline revenues are projected to be 17.8 percent of GDP in 2007 and 18.1 percent of GDP in 2011. If President Bush=s revenue proposals are adopted, the level of taxes collected are projected to be 17.9 percent of GDP in 2011, slightly above the long-term average of about 17.8 percent of GDP.

FEDERAL REVENUES
($ Billions)

	2006	2007	2008	2009	2010	2011	2007-11
Current Law Baseline	2,301	2,444	2,605	2,766	2,914	3,183	16,215
Adjustment for expiring tax relief	--	-1	-8	-37	-14	-120	-179
OMB Adjusted Baseline	2,301	2,444	2,597	2,729	2,901	3,064	16,036
President=s Budget	2,285	2,416	2,590	2,714	2,878	3,035	15,918
Budget compared to Adjusted Baseline	-16	-28	-7	-15	-23	-29	-101
Budget compared to Unadjusted Baseline	-16	-29	-15	-52	-36	-149	-280
(Percent of GDP)							
President=s Budget	17.5	17.6	17.8	17.7	17.9	17.9	
OMB Adjusted Baseline	17.7	17.8	17.9	17.8	18.0	18.1	

Major Proposals

1. Extend Expiring Tax Relief. The President proposes to make permanent the tax cuts included in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and most of the provisions in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), which will prevent taxes from rising by $179 billion over the next five years.

- Y Expiring after 2007: On December 31, 2007, the provision of JGTRRA allowing small businesses to expense up to $100,000 of the cost of purchasing qualified property is scheduled to expire. The President's budget proposes to make this provision permanent in order to prevent a tax increase on small businesses and to continue to encourage investment and job growth.

- Y Expiring after 2008: On December 31, 2008, the provisions of JGTRRA reducing to 15 percent the tax rate on dividends paid by corporations and on capital gains for individuals are scheduled to expire. The President=s budget proposes to make these provisions permanent in order to prevent a tax increase that would depress economic growth and investment.

- Y Expiring after 2010: On December 31, 2010, the provisions of EGTRRA reducing marginal rates across the board (including creation of a new 10-percent bracket), raising the child tax credit to $1,000, reducing the marriage penalty, creating education and pension savings incentives, and repealing the estate tax are scheduled to expire. The President's budget proposes to make these provisions permanent in order to prevent a huge tax increase on American working families.

2. Encourage Saving. The President is again proposing a major new initiative to encourage Americans to save and to simplify the complicated rules governing employer-provided and individual savings vehicles. The entire savings initiative would increase revenues by $21.7 billion over the next five years.

- Y Retirement Savings Accounts (RSAs)/Lifetime Savings Accounts (LSAs). The budget proposes to consolidate the three types of IRAs available under current law into a single account and permit individuals, regardless of age or income, to make non-deductible contributions of up to $5,000 per year to an RSA. RSAs are dedicated solely to retirement savings, and distributions after age 58 would be tax-free. The proposal would allow non-deductible contributions of up to $5,000 per year to an LSA. Individuals would be permitted to withdraw funds from an LSA at any time for any purpose without penalty. Contributions may be made to RSAs and LSAs beginning in 2007. The RSA and LSA savings proposals would increase revenues by $26.3 billion over 2007-2011.

- Y Employer Retirement Savings Accounts (ERSAs). The proposal would consolidate the various tax-preferred, employer-based defined contribution savings accounts (such as 401(k), 403(b), 457 and thrift plans) into one account that can be offered by any employer beginning in 2007. The President is proposing to simplify the pension system by consolidating all of these plans into one with one set of rules. ERSAs will follow the existing rules for 401(k) plans, but these rules will be greatly simplified in order to encourage participation. Employees will be permitted to contribute up to $15,000 per year in pre-tax dollars to an ERSA beginning in 2007. Employees aged 50 or older would be permitted to make “catch up” contributions of an additional $5,000 per year. This proposal will provide $3.6 billion in tax relief over 2007-2011.

- Establish Individual Development Accounts (IDAs). The proposal would give a tax credit to eligible institutions that sponsor IDAs to defray the cost of running the program, contributing to matching accounts and providing financial education. IDAs would allow low-income individuals to save in special accounts that would be matched on a dollar-for-dollar basis up to $500 per year. Contributions would not be deductible and earnings would be taxable. The credit could be claimed beginning in 2008, and is limited to the first 900,000 IDA accounts. This proposal will provide $1.0 billion in tax relief over 2007-2011.

3. Invest in Health Care. The President proposes five measures to invest in health care, totaling $51.7 billion in tax relief (and $7.5 billion in related outlays) over the next five years. The three main proposals are:

- Expand health savings accounts (HSAs). The maximum annual HSA contribution would be increased to the out-of-pocket limit for a participant’s high-deductible plan. (For 2006, the statutory maximum limit is $5,250 for individual plans or $10,500 for family coverage). The proposal would also provide a refundable credit to offset employment taxes on HSA contributions made by the individual. This proposal provides $29.0 billion in tax relief over 2007-2011 (and $1.2 billion in related outlays).

- Deduction for high-deductible insurance. The Proposal provides an above-the-line tax deduction beginning in 2007 for the premiums paid on high-deductible health insurance policies purchased by individuals who participate in Health Savings Accounts, regardless of whether the person itemizes deductions. A person would not qualify for the deduction unless he or she was not covered by other health insurance. In addition, individuals covered under high-deductible plans would be allowed a refundable credit of the smaller of 1) 15.3 percent of the premium, or 2) 15.3 percent of the individual’s wages subject to employment taxes. This proposal provides $17.5 billion in tax relief over 2007-2011 (and $1.5 billion in related outlays).

- Refundable tax credit for the purchase of health insurance. The Proposal provides a refundable credit for the cost of high-deductible health insurance for individuals under 65 who are not covered by an employer plan or a public program. The maximum subsidy would be 90 percent for low-income individuals and would phase down with income, with a maximum credit amount of $1,000. The total maximum credit amount would be $3,000 per family. The credit would be phased out between $25,000 and $40,000 of income for policies covering only one person, and between $25,000 and $60,000 for policies covering more than one person. This proposal provides $5.1 billion in tax relief over 2007-2011 (and $4.8 billion in related outlays).

4. Encourage Entrepreneurship and Investment. In addition to extending the small business expensing provisions enacted as part of JGTRRA, the President proposes to increase the amount of qualified property that a taxpayer may deduct to $200,000 (from $100,000) per year and to increase the phase-out threshold, effective in 2007. The new limits would be indexed for inflation after 2007. This proposal provides $12.4 billion in tax relief over the 2007-2011 period.

5. Strengthen Pensions. The President proposes three measures to strengthen the employer-based pension system, which will provide $0.9 billion in tax relief over 2007-2011.

Y Ensure Fair Treatment of Older Workers Under Cash Balance Plans. Protect participants in cash balance conversions by requiring that the benefits earned by a worker participating in a cash balance plan during the first five years after a conversion be at least as valuable as the benefits that would have been earned under the traditional defined benefit plan. Clarify that a cash balance plan satisfies the age-discrimination rules if the plan provides pay credits for older workers that are not less than the pay credits for younger workers.

Y Strengthen funding for single-employer pension plans. Replace multiple sets of rules that currently govern single-employer defined benefit plans with a single set of rules. Minimum contribution requirements would be based on funding targets that vary depending on the financial health of the plan sponsor. In addition, employers would have the opportunity to make additional deductible contributions in years when the plan's assets are above the funding target.

Y Reflect market interest rates in lump sum payments. The Secretary of Treasury would issue new interest rate assumptions based on high quality corporate bonds to calculate lump-sum distribution payments.

Additional Proposals

The President proposes seven measures to provide incentives for charitable giving totaling $3.2 billion of tax relief over the next five years.

The President proposes to establish 20 opportunity zones that would provide $2.0 billion of tax relief over the next five years.

The President proposes $6.1 billion in tax relief related to trade promotion. He proposes to implement free trade agreements with Thailand, Colombia, Ecuador, Panama, the United Arab Emirates, and the Southern African Customs Union, and to extend the Generalized System of Preferences through 2011.

The President proposed a one-year patch (for tax year 2006) for the alternative minimum tax, which would extend the higher AMT exemption levels through 2006 and allow an individual to reduce 2006 tax liability by the full amount of nonrefundable personal credits. This proposal provides $13.7 billion in tax relief in 2006 and $20.5 billion in tax relief in 2007.

The President proposes to permanently extend the research and experimentation tax credit, which expired December 31, 2005. This proposal provides $33.4 billion in tax relief over 2007-2011 (and $2.1 billion in 2006).

The President proposes to extend other provisions scheduled to expire after 2005. The combination of these extensions would provide $0.4 billion in tax relief over five years. Specifically:

- Modified Work Opportunity tax credit and Welfare-to-Work tax credit (1 year)
- District of Columbia First-Time Homebuyer Credit (1 year)
- Authority to issue Qualified Zone Academy Bonds (1 year)
- Provisions permitting disclosure of tax return information relating to terrorist activity (1 year)
- Excise tax on coal at current rates (until Black Lung Disability Trust Fund debt is repaid)

Proposed Revenue Raisers

The President proposes three measures to simplify the tax laws for families which would increase revenues $0.1 billion (and reduce spending by $2.0 billion).

The President proposes six measures to close loopholes and improve tax compliance, totaling $1.0 billion in increased revenue over 2007-2011. He proposes to disallow transactions intended to exploit the foreign tax credit, require companies to satisfy the active business test when recognizing a section 355 gain, impose penalties on charities that fail to enforce conservation easements, eliminate the special exclusion on the sale of certain brownfield properties, tighten the rules that limit the deductibility of interest paid to related parties (Section 163(j)), and clarify and simplify qualified tuition programs.

The President proposes a number of measures to improve tax administration by the Internal Revenue Service, including curbing the use of frivolous submissions to delay tax administration and consolidating the judicial review of collection cases in the US Tax Court. The President proposes to reduce the tax gap (resulting in a $1.5 billion increase in revenues over five years) by implementing information reporting measures and requiring other improved collection procedures.

The President proposes to modify two tax provisions of the Energy Policy Act of 2005: repeal the reduced recovery period for natural gas distribution lines and modify amortization for certain oil and gas exploration expenditures. These proposals would increase revenues by $1.0 billion over five years.

The 2007 Budget proposes to strengthen the financial integrity of unemployment insurance. The President proposes to increase incentives available for the recovery of state unemployment benefit overpayments and delinquent employer taxes. He also proposes to extend the 0.2 percent unemployment surtax (currently scheduled to expire after 2007) through December 31, 2012. These proposals would increase revenues by $5.5 billion over 2007-2011.

Finally, the President's 2007 budget requests $0.5 million to create a new Dynamic Analysis Division within the Treasury Department's Office of Tax Policy. The new division would build modeling capacity for more complete economic analysis of broad tax policy proposals, including the impact of tax reform policies on economic growth.

PRESIDENT'S TAX PROPOSALS IN 2007 BUDGET

($ Billions)

	2006	2007	2008	2009	2010	2011	2007-11
Tax relief included in adjusted baseline:							
Extend certain EGTRRA and JGTRRA provisions permanently	*	-0.5	-7.7	-37.0	-13.6	-119.7	-178.6
Additional tax relief proposals:							
Simplify and encourage savings	--	4.8	9.7	6.6	3.0	-2.5	21.7
Increase expensing for small business	--	-2.5	-3.5	-2.6	-2.0	-1.6	-12.4
Invest in health care a/	--	-4.8	-9.0	-11.2	-12.8	-13.9	-51.7
Incentives for charitable giving	--	-0.2	-0.7	-0.8	-0.8	-0.8	-3.2
Out-of-pocket expense education deduction	-*	-0.2	-0.2	-0.2	-0.2	-0.2	-0.9
Establish Opportunity Zones	--	-0.2	-0.4	-0.4	-0.5	-0.5	-2.0
Strengthen employer-based pension system	*	0.6	2.3	-0.1	-2.3	-1.5	-0.9
AMT patch for 2006	-13.7	-20.5	--	--	--	--	-20.5
Extend R&E tax credit permanently	-2.1	-4.6	-5.9	-6.9	-7.7	-8.3	-33.4
Extend other expiring provisions b/	-0.1	-0.2	-0.1	-*	-*	-*	-0.4
Promote trade c/	--	-0.6	-1.1	-1.3	-1.5	-1.6	-6.1
Permanent ext of brownfields remediation costs	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.8
Subtotal, tax relief including baseline Adjustments	**-15.9**	**-29.1**	**-16.8**	**-54.1**	**-38.4**	**-150.9**	**-289.2**
Subtotal, tax relief excluding baseline adjustment	***-16.0***	***-28.6***	***-9.0***	***-17.0***	***-24.8***	***-31.2***	***-110.6***
Proposed revenue raisers:							
Reduce the tax gap	--	0.3	0.4	0.3	0.3	0.3	1.5
Strengthen unemployment insurance	--	--	1.1	1.5	1.4	1.4	5.5
Modify Energy Policy Act of 2005	--	0.1	0.2	0.3	0.3	0.2	1.0
Subtotal, revenue raisers	**--**	**0.5**	**1.9**	**2.4**	**2.2**	**2.2**	**9.1**
Total Revenue Proposals, including proposals assumed in the baseline	**-15.9**	**-28.6**	**-14.9**	**-51.7**	**-36.2**	**-148.7**	**-280.1**
Total Revenue Proposals, excluding proposals assumed in the baseline	***-16.0***	***-28.1***	***-7.2***	***-14.7***	***-22.6***	***-28.9***	***-101.5***

*Less than $50 million
a/ Does not include outlay effect of $7.5 billion over the period 2007-2011.
b/ Includes welfare-to-work, work opportunity, DC homebuyer, and qualified zone academy bonds.
c/ Free trade agreements with Thailand, Columbia, Ecuador, Panama, the United Arab Emirates and the Southern Africa Customs Union, and extension of the Generalized System of Preferences (GSP) through 2011.

Details may not add to totals due to rounding.

FY 07

ECONOMICS

U.S. Senate Budget Committee

Recent Developments

The economy has now expanded for 17 consecutive quarters. Real Gross Domestic Product (GDP) increased by 3.5 percent in 2005, four-tenths of a percentage point faster than the past 20-year average. The economy is now roughly 14% larger than it was at the end of 2000. Investment expenditures have played a major part in the economic recovery. Gross private domestic investment accounted for a third of increase in economic growth since 2002 and is higher than its average contribution to economic growth in the late 1990s.

Consistent with this experience, job growth has been strong. On February 3, 2006 the Bureau of Labor Statistics (BLS) announced that the economy created 193,000 new jobs in January, registering the 29th straight monthly gain in employment. Since August 2003, the economy has created nearly 4.8 million new jobs, more than Japan and Europe combined.

The unemployment rate also declined 0.2 percentage points in January to 4.7 percent, the lowest level since August 2001. The unemployment rate is now significantly lower than its average in the 1980s and 1990s. Income growth is also increasing. Real personal deposable income increased four-tenths of a percent in December, rising for the fourth consecutive month. Real incomes are now up 4.0 percent since last summer.

The Economic Forecast

The Administration and Blue Chip (consensus of private economists) both forecast *real GDP* growth of 3.4 percent for 2006, which would register above its 20-year historical average of 3.1 percent. CBO forecasts that the economy will grow at a slightly faster rate of 3.6 percent. All three forecasts expect growth to return to a more moderate trend in the medium term.

CBO, OMB and Blue Chip all forecast that the *unemployment rate* declines by at least another one-tenth of a percentage point this year. Blue Chip is the most optimistic, forecasting that unemployment will decline to 4.9 percent in 2006 and remaining at that level throughout the next three years. Over the medium-term, the CBO projection of unemployment settles at its past ten-year average of 5.1 percent. OMB's projection remains slightly lower on average over the 2006-2011 period settling just below CBO and just above the private sector.

Inflation is anticipated to decelerate from 2005 through 2006 and 2007. Both OMB and Blue Chip estimate inflation declines at least four-tenths of a percentage point this year. CBO forecasts a slightly faster deceleration to 2.8 percent. In the medium term, the Administration and Blue Chip's projection of inflation reverts back to its past ten-year average of 2.5 percent. CBO forecasts that inflation will fall an additional seven-tenths of a percentage point in 2007 before rising to its steady state rate of growth of 2.3 percent. CBO's forecast is more optimistic than both OMB and Blue Chip's by at least two-tenths of a percentage point from 2007 through 2010.

All three forecasts indicate a moderate increase in short- and long-term *interest rates* consistent with a growing economy. CBO and Blue Chip both forecast that short-term interest rates increase by more than a percentage point this year as the Federal Reserve continues to withdraw the liquidity it injected into the economy during the recession. CBO and Blue Chip's projections assume three month rates settle in at 4.5 percent in 2006 and 2007 before leveling off at 4.4 percent. The Administration's forecast of short-term rates lags behind both CBO and the private sector by 0.3 percentage point this year and one-tenth of a percentage point through 2011.

Since the Federal Reserve initiated its tightening cycle in June 2004, the rate on 10-year Treasury notes has remained relatively stable averaging 4.3 percent over the last 20 months, suggesting financial markets remain confident that inflation remains in check. And although all three projections show the rate on 10-year notes increasing gradually, none rise above their level in 2000 of 6.0 percent.

Income shares receive far less attention than other portions of the forecast but are important because they underpin revenue projections. Income shares depict the breakdown of national income between wages and salaries, benefits, corporate profits, proprietors' income, rental income, and net interest. Income shares are expressed as a percentage of GDP.

If all types of national income were taxed at the same rate, the division between income categories would make little budgetary difference. But not all income is taxed the same. Wages and salaries and corporate profits are taxed at a higher effective tax rate than other sources of national income -- as such, the more they grow relative to the other income categories, the higher the projected revenue stream. Corporate profits and wages and salaries are termed the "highly-taxed shares."

Both CBO and OMB expect the highly-taxed shares to fall from their peak in 2005 and steadily decline throughout the remainder of the projection. Corporate profits as a share of GDP jumped in 2005 as a result of the expiration of bonus depreciation, which permitted firms to deduct a larger-than-usual percentage of their capital expense from their profits in 2004. Steadily declining corporate profits as a share of GDP largely accounts for the overall downward trend in taxable income after 2006 under both projections. The drop also reflects the contribution that firms are expected to make to their defined benefit pension plans.

Wages and salaries are projected to rise gradually in both forecasts through 2011, albeit not enough to offset the decline in the corporate profit share. Although in CBO and OMB's projections of the wages and salaries share both rise, they differ in level and magnitude. CBO's projection of the wages and salaries share is on average seven-tenths of a percentage point lower than OMB's. In addition, CBO's projection of wages and salaries only grows three-tenths of a percentage point to 45.9 percent of GDP in 2011, whereas OMB's projection rises six-tenths of a percentage point to 46.7 percent of GDP.

Though OMB's economic assumptions are in line with CBO and the private sector, OMB estimates a 2006 *baseline budget deficit* of $367 billion versus CBO's estimate of $337 billion. In the aggregate and in the components, these two deficit forecasts are nearly identical. Only $11 billion of the discrepancy is attributable to different assumptions about how much tax revenue will be generated by a given level of economic output; not much difference on a base of $2.4 trillion in revenue. Economic and technical differences in mandatory programs accounts for the remaining $19 billion of the difference.

Sensitivity to Economic Changes

There is uncertainty in any economic forecast. According to an analysis by OMB, a reduction in the real GDP growth rate of 1.0 percentage point would increase the 2006-2011 deficits by $662.3 billion. CBO conducted the same "rule of thumb" analysis and found similar results. However, it is important to note that the rule of thumb works in the other direction as well. Higher real growth would reduce the projected deficits by corresponding amounts.

ECONOMIC PROJECTIONS COMPARISON	2006	2007	2008	2009	2010	2011	Average
Administration	13,210	13,949	14,713	15,493	16,310	17,177	
CBO	13,263	13,960	14,696	15,455	16,208	16,954	
Blue Chip	12,237	13,939	14,703	15,505	16,372	17,280	
% Change (Year to Year):							
Real GDP Growth							
Administration	3.4	3.3	3.3	3.1	3.1	3.1	3.2
CBO	3.6	3.4	3.4	3.3	3.0	2.8	3.3
Blue Chip	3.4	3.1	3.2	3.1	3.3	3.2	3.2
GDP Price Index							
Administration	2.4	2.2	2.1	2.1	2.1	2.1	2.2
CBO	2.4	1.8	1.8	1.8	1.8	1.8	1.9
Blue Chip	2.4	2.1	2.3	2.2	2.3	2.2	2.3
Consumer Price Index							
Administration	3.0	2.4	2.4	2.4	2.4	2.5	2.5
CBO	2.8	2.1	2.2	2.2	2.2	2.5	2.3
Blue Chip	2.9	2.4	2.4	2.5	2.4	2.5	2.5
Annual Rate:							
Unemployment							
Administration	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CBO	5.0	5.0	5.1	5.2	5.2	5.2	5.1
Blue Chip	4.9	4.9	4.9	4.9	5.0	4.9	4.9
Three-Month T-Bill							
Administration	4.2	4.2	4.3	4.3	4.3	4.3	4.3
CBO	4.5	4.5	4.4	4.4	4.4	4.4	4.4
Blue Chip	4.5	4.5	4.4	4.3	4.4	4.4	4.4
Ten-Year T-Note							
Administration	5.0	5.3	5.5	5.6	5.6	5.6	5.4
CBO	5.1	5.2	5.2	5.2	5.2	5.2	5.2
Blue Chip	4.9	5.0	5.3	5.3	5.4	5.4	5.2
Share of GDP:							
Corporate Profits							
Administration	11.4	10.7	10.3	9.6	9.2	8.7	10.0
CBO	10.9	10.3	9.8	9.5	9.3	9.2	9.8
Wage and Salaries							
Administration	46.1	46.3	46.5	46.7	46.7	46.7	46.5
CBO	45.6	45.7	45.9	46.0	45.9	45.9	45.8

Source: President's FY 2007 Budget

BUDGET REFORM PROPOSALS

Last year, the President sent to the Congress an updated version of legislation entitled "The Spending Control Act of 2004." This year, the President's 2007 budget outlines essentially the same set of proposals (to be followed later in the year with legislation) with minor modifications.

In addition to requesting that the following proposals be made permanent in a re-enacted Budget Enforcement Act (BEA), which expired at the end of 2002, the President (in the meantime) requests that the Congress include these proposals as a part of its 2007 budget resolution:

- Discretionary caps that include separate categories for defense, nondefense, BioShield, highway, and mass transit.
- Updates to the discretionary caps and adjustments for program integrity activities.
- Continue scoring rules to address shortfalls in the Pell Grant program.
- A pay-as-you-go (PAYGO) requirement for mandatory spending only.
- An explicit standard for emergency designations and a requirement that the President and the Congress concur in those designations.
- Changes in the baseline to include expiring tax provisions and exclude discretionary funding for emergencies.
- A point of order against legislation that worsens the long-term unfunded obligation of major entitlement programs.

The President's budget also resubmits reforms that cannot be adopted in a budget resolution and instead would require enactment into law:

Line-Item Veto. The President has proposed that Congress provide him with a line item veto that would withstand constitutional challenge. The President seeks authority to defer new spending whenever the president determines the spending is not an essential government priority. All savings from the line-item veto would be used for deficit reduction, and could not be used to augment other spending. As for the past five years, the budget does not propose line-item veto legislation language to implement this concept.

Joint Budget Resolution. A joint resolution would set overall levels discretionary and mandatory spending, receipts, and debt in a simple document that would have the force of law. The President suggests the resolution could be enforced by sequesters requiring automatic across-the-board cuts to offset excess spending.

Biennial Budgeting and Appropriations. Under the President's proposal, funding decisions would be made in odd-numbered years with even-numbered years devoted to authorizing legislation.

Government Shutdown Prevention. Under the President's proposal, if an appropriation bill is not signed by October 1 of a new fiscal year, funding would automatically be provided at the lower of the President's Budget request or the prior-year level.

Results Commission/Sunset Commission. The President proposes to establish an expedited procedure for Congress to consider and the President to implement recommendations of commissions established to study duplication and overlapping jurisdiction of government entities. Programs would be reviewed or would be automatically terminate according to a schedule unless Congress took action to reauthorize them.

SUMMARY TABLES

U.S. Senate Budget Committee

TABLE 1: PRESIDENT'S BUDGET FOR FY 2007
($ in billions)

	2005 Actual	2006 Estimate	2007 Request	2008	2009	2010	2011	2007-2011 Total
Total Spending	2,472.205	2,708.677	2,770.097	2,813.592	2,921.760	3,060.875	3,239.769	14,806.093
% change/*average annual growth*		9.6%	2.3%	1.6%	3.8%	4.8%	5.8%	*3.6%*
Total Revenues	2,153.859	2,285.491	2,415.852	2,590.258	2,714.207	2,878.167	3,034.861	13,633.345
% change/*average annual growth*		6.1%	5.7%	7.2%	4.8%	6.0%	5.4%	*5.8%*
Total Deficit (-)	-318.346	-423.186	-354.245	-223.334	-207.553	-182.708	-204.908	-1,172.748
On-budget deficit	-493.611	-602.141	-543.419	-435.996	-437.215	-407.512	-415.383	-2,239.525
Off-budget surplus	175.265	178.955	189.174	212.662	229.662	224.804	210.475	1,066.777
Gross Federal Debt	7,905.316	8,611.473	9,295.438	9,865.335	10,436.944	10,982.658	11,536.685	
Debt Held by the Public	4,592.229	5,018.922	5,391.487	5,633.408	5,859.443	6,060.831	6,285.915	
Gross Domestic Product	12,290.4	13,030.2	13,760.9	14,520.6	15,295.8	16,101.9	16,955.0	
(as a % of Gross Domestic Product)								
Total Spending	20.1%	20.8%	20.1%	19.4%	19.1%	19.0%	19.1%	
Total Revenues	17.5%	17.5%	17.6%	17.8%	17.7%	17.9%	17.9%	
Total Deficit	-2.6%	-3.2%	-2.6%	-1.5%	-1.4%	-1.1%	-1.2%	
On-budget deficit	-4.0%	-4.6%	-3.9%	-3.0%	-2.9%	-2.5%	-2.4%	
Off-budget surplus	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%	1.2%	
Gross Federal Debt	64.3%	66.1%	67.5%	67.9%	68.2%	68.2%	68.0%	
Debt Held by the Public	37.4%	38.5%	39.2%	38.8%	38.3%	37.6%	37.1%	

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 2: PRESIDENT'S BUDGET BY MAJOR SPENDING CATEGORY
($ in billions)

	2005 Actual	2006 Estimate	2007 Request	2008	2009	2010	2011	2007-2011	% change 2006-2007	Average Annual Growth 2006 - 2011
Discretionary Outlays	968.451	1,032.079	1,028.897	979.556	975.211	982.841	993.738	4,960.243	-0.3%	-0.8%
Department of Defense	*473.426*	*510.335*	*503.046*	*471.310*	*471.123*	*484.182*	*499.001*	*2,428.662*	*-1.4%*	*-0.4%*
Homeland Security	*29.609*	*32.056*	*33.801*	*35.420*	*36.486*	*37.709*	*39.993*	*183.409*	*5.4%*	*4.5%*
Other	*465.416*	*489.688*	*492.050*	*472.826*	*467.602*	*460.950*	*454.744*	*2,348.172*	*0.5%*	*-1.5%*
Mandatory Outlays	1,319.768	1,456.545	1,493.885	1,561.634	1,655.133	1,771.090	1,924.462	8,406.204	2.6%	5.7%
Social Security current program	*518.712*	*550.187*	*581.181*	*611.583*	*645.086*	*682.746*	*722.204*	*3,242.800*	*5.6%*	*5.6%*
Social Security personal accounts	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*24.182*	*57.429*	*81.611*	-	-
Medicare	*294.334*	*337.885*	*387.049*	*399.277*	*421.388*	*447.257*	*488.917*	*2,143.888*	*14.6%*	*7.7%*
Medicaid and SCHIP	*186.849*	*198.109*	*205.235*	*218.359*	*233.282*	*250.171*	*269.561*	*1,176.608*	*3.6%*	*6.4%*
Other	*319.873*	*370.364*	*320.420*	*332.415*	*355.377*	*366.734*	*386.351*	*1,761.297*	*-13.5%*	*0.8%*
Net Interest	183.986	220.053	247.315	272.402	291.416	306.944	321.569	1,439.646	12.4%	7.9%
Subtotal mandatory and net interest	*1,503.754*	*1,676.598*	*1,741.200*	*1,834.036*	*1,946.549*	*2,078.034*	*2,246.031*	*9,845.850*	3.9%	6.0%
Total Outlays	2,472.205	2,708.677	2,770.097	2,813.592	2,921.760	3,060.875	3,239.769	14,806.093	2.3%	3.6%
Total Revenues	2,153.859	2,285.491	2,415.852	2,590.258	2,714.207	2,878.167	3,034.861	13,633.345	5.7%	5.8%
Deficit	318.346	423.186	354.245	223.334	207.553	182.708	204.908	1,172.748		

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 3: IMPACT OF PRESIDENT'S BUDGET POLICY ON THE DEFICIT
($ in billions)

	2006	2007	2008	2009	2010	2011	2007-2011
OMB Adjusted Baseline Deficit a/	-367.080	-256.724	-200.631	-195.828	-149.045	-146.044	-948.272
Budget Proposals:							
Discretionary b/							
Defense	30.058	62.687	33.569	25.857	27.786	26.922	176.821
Homeland Security	0.000	-0.240	0.472	1.050	1.593	2.321	5.196
Other	3.726	4.047	-11.523	-24.967	-36.684	-52.243	-121.370
Subtotal, Discretionary	33.784	66.494	22.518	1.940	-7.305	-23.000	60.647
Mandatory b/							
Social Security	0.000	-0.190	-0.322	-0.405	23.627	56.699	79.409
Medicare	0.000	-2.453	-5.485	-7.949	-9.343	-10.663	-35.893
Medicaid and SCHIP	0.000	0.546	-0.144	-0.477	-0.691	-0.567	-1.333
Other mandatory proposals c/	5.115	1.422	-7.477	-3.666	-4.144	-3.849	-17.714
Subtotal, Mandatory d/	5.115	-0.675	-13.428	-12.497	9.449	41.620	24.469
Revenues e/							
Tax incentives to simplify and encourage saving	0.000	4.796	9.731	6.642	3.026	-2.509	21.686
Increase expensing for small business	0.000	-2.522	-3.527	-2.625	-2.037	-1.645	-12.356
Health care tax incentives (revenue effect only)	0.000	-4.752	-9.000	-11.239	-12.820	-13.861	-51.672
One-year AMT patch	-13.664	-20.495	0.000	0.000	0.000	0.000	-20.495
Extend expiring provisions (primarily R&E tax credit)	-2.181	-4.771	-6.043	-6.932	-7.696	-8.363	-33.805
Promote trade	0.000	-0.648	-1.073	-1.259	-1.464	-1.618	-6.062
Incentives for charitable giving	0.000	-0.210	-0.720	-0.750	-0.770	-0.795	-3.245
Other revenue proposals	-0.112	0.502	3.480	1.479	-0.826	-0.148	4.487
Subtotal, Revenues	-15.957	-28.100	-7.152	-14.684	-22.587	-28.939	-101.462
Net interest	1.250	3.602	6.461	7.598	8.932	11.305	37.898
Subtotal, budget proposals f/	56.106	97.521	22.703	11.725	33.663	58.864	224.476
Budget Deficit	-423.186	-354.245	-223.334	-207.553	-182.708	-204.908	-1,172.748

a/ The baseline includes the Deficit Reduction Act, which was cleared for the President on February 1. The baseline also includes adjustments for the permanent extension of certain of the President's 2001 and 2003 tax cuts.

b/ A positive value in outlays indicates a decrease in outlays and the deficit; a negative value indicates a decrease in outlays and a decrease in the deficit.

c/ Includes the outlay effects of proposals for health care tax incentives and the outlay effects of simplification of tax law for families.

d/ Differs from OMB summary table S-6 because OMB figures are net of interest impacts for FHA, PBGC, and FEHB proposals, which are captured as part of the "Net interest" line item above.

e/ A negative value for revenues reflects a decrease in revenues; a positive value reflects a revenue increase.

f/ A positive value indicates an increase in the deficit.

TABLE 4: COMPARISON OF DISCRETIONARY RESOURCES IN THE PRESIDENT'S FY 2007 BUDGET

(Budget authority and obligation limitations, $ in billions)

	2006 Enacted	2007 Policy	2006-2007 Difference	2006-2007 % Change
TOTAL Discretionary Budget Authority a/	**843.329**	**870.678**	**27.349**	**3.2%**
Less Department of Defense	410.825	439.302	28.477	6.9%
Less Homeland Security (non-DoD)	32.062	33.109	1.047	3.3%
TOTAL, Other Domestic Discretionary Budget Resources	**400.442**	**398.267**	**-2.175**	**-0.5%**
Highway obligation limitations	36.846	40.419	3.573	9.7%
Transit obligation limitations	6.910	7.263	0.353	5.1%
TOTAL, Domestic Discretionary Including Obligation Limitations	**444.198**	**445.949**	**1.751**	**0.4%**
Emergency spending				
Enacted supplemental spending				
Global war on terror	50.000			
Response to hurricanes	4.631			
Pandemic flu	3.790			
Amounts assumed in budget for President's future requests for emergency supplemental spending				
Global War on Terror	70.000	50.000		
Hurricane Response	18.000			
Pandemic Flu Preparedness		2.300		
Total emergency spending	146.421	52.300		

a/ Excludes supplemental appropriations

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 5: PRESIDENT'S FY 2007 BUDGET
SUMMARY TOTALS
($ in billions)

Function		2005 Actual	2006 Estimate	2007 Request	2008	2009	2010	2011	2006-2007 % change
050: Defense	BA	505.8	561.8	513.0	485.2	505.3	515.3	526.1	-8.7%
	OT	495.3	535.9	527.4	494.4	494.3	507.4	522.7	-1.6%
150: International Affairs	BA	32.9	27.7	33.7	36.8	36.7	36.5	36.9	22.0%
	OT	34.6	34.8	33.3	33.5	34.0	34.4	34.9	-4.2%
250: Science & Technology	BA	24.4	24.9	26.3	27.5	28.5	29.7	31.0	5.3%
	OT	23.7	24.0	25.4	26.6	27.8	28.7	29.3	6.0%
270: Energy	BA	1.3	1.6	1.2	1.7	1.2	1.1	1.2	-22.9%
	OT	0.4	2.6	1.0	1.9	1.3	1.3	1.2	-62.9%
300: Natural Resources	BA	33.0	33.0	28.8	27.9	28.4	28.4	28.7	-12.9%
	OT	28.0	32.7	31.0	29.5	29.3	29.1	29.0	-5.1%
350: Agriculture	BA	29.2	24.7	27.1	23.5	21.7	20.8	20.5	9.7%
	OT	26.6	26.8	25.7	23.5	21.9	20.7	20.4	-4.1%
370: Commerce & Housing	BA	14.2	10.3	14.0	13.4	9.9	13.4	8.2	35.1%
	OT	7.6	9.1	11.2	8.1	7.4	8.5	4.6	23.0%
400: Transportation	BA	76.2	75.4	78.4	79.6	72.0	80.6	81.2	4.1%
	OT	67.9	71.6	76.3	76.8	78.0	78.4	79.2	6.5%
450: Community Development	BA	84.5	22.3	11.6	11.9	11.9	11.9	12.0	-48.2%
	OT	26.3	52.0	28.2	21.1	20.7	16.2	14.1	-45.9%
500: Education & Training	BA	99.9	114.2	86.3	85.7	86.0	85.8	86.2	-24.4%
	OT	97.5	109.7	87.6	86.8	85.8	85.6	85.5	-20.1%
550: Health	BA	251.8	294.5	280.0	293.0	312.1	328.7	351.0	-4.9%
	OT	250.6	268.8	280.9	293.6	308.6	326.0	347.3	4.5%
570: Medicare	BA	303.4	360.5	391.7	404.1	426.7	451.7	493.7	8.6%
	OT	298.6	343.0	392.0	404.3	426.4	452.1	493.7	14.3%
600: Income Security	BA	349.0	352.3	365.9	378.5	388.4	398.2	415.6	3.9%
	OT	345.8	360.6	367.2	375.6	383.1	392.1	407.2	1.8%

TABLE 5 CONTINUED

Function		2005 Actual	2006 Estimate	2007 Request	2008	2009	2010	2011	2006-2007 % change
650: Social Security	BA	531.7	557.9	588.5	618.8	652.6	714.8	787.6	5.5%
	OT	523.3	554.7	585.9	616.3	649.7	711.5	784.2	5.6%
700: Veterans Benefits	BA	69.2	70.4	77.8	79.2	81.8	84.1	87.2	10.6%
	OT	70.2	70.4	73.9	79.0	81.5	83.8	90.6	5.0%
750: Administration of Justice	BA	40.6	40.8	42.2	42.1	42.7	43.0	44.1	3.7%
	OT	40.0	41.3	44.3	42.4	42.6	42.8	43.8	7.3%
800: General Government	BA	16.9	19.9	20.3	23.3	19.5	19.6	19.3	1.9%
	OT	17.0	19.1	20.2	22.8	18.8	18.9	18.6	5.7%
900: Net Interest	BA	184.0	220.1	247.3	272.4	291.4	306.9	321.6	12.4%
	OT	184.0	220.1	247.3	272.4	291.4	306.9	321.6	12.4%
920: Allowances	BA	0.0	18.0	-0.4	-0.4	-0.4	-0.4	-0.4	-102.2%
	OT	0.0	3.7	5.5	3.1	2.6	1.4	-0.2	46.6%
950: Undistributed Offsetting	BA	-65.2	-72.4	-94.3	-98.1	-83.6	-85.0	-87.9	30.3%
Receipts	OT	-65.2	-72.4	-94.3	-98.1	-83.6	-85.0	-87.9	30.3%
Total	BA	2,582.9	2,757.8	2,739.4	2,806.0	2,932.9	3,085.2	3,263.8	-0.7%
	OT	2,472.2	2,708.7	2,770.1	2,813.6	2,921.8	3,060.9	3,239.8	2.3%
On-budget	BA	2,169.5	2,323.1	2,283.3	2,336.2	2,442.8	2,547.7	2,669.5	-1.7%
	OT	2,070.0	2,277.7	2,317.0	2,347.1	2,435.2	2,527.2	2,648.7	1.7%
Off-budget	BA	413.4	434.7	456.1	469.9	490.0	537.5	594.3	4.9%
	OT	402.2	431.0	453.1	466.5	486.6	533.7	591.1	5.1%
Revenues		2,153.9	2,285.5	2,415.9	2,590.3	2,714.2	2,878.2	3,034.9	5.7%
On-budget		1,576.4	1,675.5	1,773.5	1,911.1	1,998.0	2,119.7	2,233.3	5.8%
Off-budget		577.5	610.0	642.3	679.1	716.2	758.5	801.6	5.3%
Deficit (-)		-318.3	-423.2	-354.2	-223.3	-207.6	-182.7	-204.9	
On-budget		-493.6	-602.1	-543.4	-436.0	-437.2	-407.5	-415.4	
Off-budget		175.3	179.0	189.2	212.7	229.7	224.8	210.5	

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 6: PRESIDENT'S FY 2007 BUDGET (EXCLUDING EMERGENCIES)
DISCRETIONARY SUMMARY
($ in billions)

Function		2005 Actual a/	2006 Enacted	2007 Request	2008	2009	2010	2011	2006-2007 % change
050: Defense	BA	499.8	432.4	459.7					6.3%
	OT	493.6	466.5	454.8					-2.5%
150: International Affairs	BA	34.7	31.4	35.1					12.0%
	OT	39.0	39.1	35.5					-9.3%
250: Science & Technology	BA	24.3	24.5	26.1					6.8%
	OT	23.6	23.6	25.2					6.8%
270: Energy	BA	3.8	3.8	3.8					-0.8%
	OT	3.8	3.9	3.9					-1.7%
300: Natural Resources	BA	31.9	30.2	27.9					-7.8%
	OT	30.3	31.3	30.2					-3.6%
350: Agriculture	BA	5.9	5.9	5.6					-4.5%
	OT	6.0	5.9	5.7					-3.3%
370: Commerce & Housing	BA	2.6	1.8	2.5					40.7%
	OT	2.2	2.0	2.7					32.5%
400: Transportation	BA	25.5	24.8	22.8					-7.8%
	OT	66.1	69.4	72.9					5.0%
450: Community Development	BA	82.4	13.2	11.7					-11.1%
	OT	24.9	27.1	25.5					-5.9%
500: Education & Training	BA	80.2	78.8	74.8					-5.1%
	OT	79.1	79.9	77.0					-3.5%
550: Health	BA	52.0	50.9	50.8					-0.2%
	OT	50.5	51.6	52.9					2.6%

TABLE 6 CONTINUED

Function		2005 Actual a/	2006 Enacted	2007 Request	2008	2009	2010	2011	2006-2007 % change
570: Medicare	BA	4.0	4.9	5.0					1.1%
	OT	4.3	5.1	5.0					-3.0%
600: Income Security	BA	45.7	47.0	47.8					1.6%
	OT	54.3	54.6	55.3					1.3%
650: Social Security	BA	4.4	4.6	4.8					5.1%
	OT	4.6	4.6	4.8					4.5%
700: Veterans Benefits	BA	32.3	33.2	35.8					7.9%
	OT	30.5	32.5	34.7					6.8%
750: Administration of Justice	BA	39.4	39.5	39.7					0.7%
	OT	39.3	39.7	42.4					6.7%
800: General Government	BA	15.9	16.7	17.1					2.5%
	OT	16.5	16.6	17.6					5.9%
920: Allowances	BA	0.0	0.0	-0.4					-
	OT	0.0	0.0	-0.4					-
Non-defense (050) subtotal	*BA*	*485.1*	*411.0*	*410.9*					0.0%
	OT	*474.9*	*487.0*	*490.9*					0.8%
Total	BA	984.9	843.3	870.7	895.4	916.6	928.4	940.5	3.2%
	OT	968.5	953.4	945.7	945.1	961.2	976.1	990.2	-0.8%
On-budget	BA	980.5	838.8	865.9					3.2%
	OT	963.9	948.9	940.9					-0.8%
Off-budget	BA	4.4	4.6	4.8					5.1%
	OT	4.6	4.6	4.8					4.5%

a/ Figures for 2005 reflect actuals including emergency spending.

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 7: TAX REVENUES BY SOURCE IN THE PRESIDENT'S 2007 BUDGET
($ in billions)

	2005 Actual	2006	2007	2008	2009	2010	2011
Individual Income Taxes	927.2	997.6	1,096.4	1,208.5	1,268.4	1,370.1	1,466.9
Corporate Income Taxes	278.3	277.1	260.6	268.5	277.1	282.0	292.0
Social Insurance Taxes	794.1	841.1	884.1	932.1	980.7	1,037.4	1,096.7
(On-budget)	216.6	231.1	241.8	253.0	264.5	278.9	295.1
(Off-budget)	577.5	610.0	642.3	679.1	716.2	758.5	801.6
Excise Taxes	73.1	73.5	74.6	75.9	77.5	78.9	83.1
Estate and Gift Taxes	24.8	27.5	23.7	24.4	26.0	20.1	1.6
Customs Duties	23.4	25.9	28.1	31.4	31.7	34.0	36.2
Miscellaneous Receipts	33.0	42.8	48.4	49.4	52.7	55.7	58.4
Total Receipts	2,153.9	2,285.5	2,415.9	2,590.3	2,714.2	2,878.2	3,034.9
(On-budget)	1,576.4	1,675.5	1,773.5	1,911.1	1,998.0	2,119.7	2,233.3
(Off-budget)	577.5	610.0	642.3	679.1	716.2	758.5	801.6

TABLE 8: DISCRETIONARY BUDGET AUTHORITY BY ENACTED APPROPRIATIONS BILL

($ in billions)

Appropriations Subcommittee	2006 Enacted	2007 Request	
Agriculture and Rural Development	18.456	17.166	
% change		-7.0%	
Defense	399.246	423.239	
% change		6.0%	
Energy and Water Development	30.144	29.430	
% change		-2.4%	
Foreign Operations	20.701	23.719	
% change		14.6%	
Homeland Security	30.526	30.932	
% change		1.3%	
Interior and Environment	25.922	25.167	
% change		-2.9%	
Labor, Health and Human Services, and Education	141.832	137.840	
% change		-2.8%	
Legislative Branch	3.765	4.225	
% change		12.2%	
Military Quality of Life and Veterans Affairs	45.211	52.538	
% change		16.2%	
Science, State, Justice, and Commerce	58.693	59.739	
% change		1.8%	
Transportation, Treasury, and Housing and Urban Development	68.833	67.071	
% change		-2.6%	
Allowances	0.000	-0.388	a/
TOTAL DISCRETIONARY (excluding emergencies & supplementals)	**843.329**	**870.678**	
		3.2%	
Memorandum:			
Enacted supplemental spending			
Global war on terror	50.000		
Response to hurricanes	4.631		
Pandemic flu	3.790		
Requested supplemental spending			
Global War on Terror	70.000	50.000	
Hurricane Response	18.000		
Pandemic Flu Preparedness		2.300	
Total emergency spending	146.421	52.300	

a/ As a matter of comity between branches, OMB does not review the budget requests of the Legislative Branch and the Judiciary and reflects in the President's budget those two requests exactly as submitted by the other branches. Nevertheless, OMB then assumes a nonexistent "Allowances" subcommittee in the event that appropriations enacted for the other two branches for 2005 are likely (based on historical experience) to be less than the requested levels by $388 million.

Source: Senate Budget Committee Republican Staff; Office of Management and Budget