REPUBLICAN CAUCUS
THE COMMITTEE ON THE BUDGET
B-71 Cannon House Office Building
Washington, DC 20515
Representative Paul D. Ryan, *Ranking Republican*
Phone: (202)-226-7270
Fax: (202)-226-7174
Augustine T. Smythe, *Republican Staff Director*

FISCAL OVERVIEW OF THE PRESIDENT'S BUDGET

4 February 2008

SUMMARY

Although the administration projects an increase in this year's deficit due to the slowing economy, the President's 2009 budget submission still balances the budget by 2012 – as it did last year – through a near freeze on non-Defense and non-Homeland Security discretionary spending and reforms to entitlement programs. Overall spending increases at an average of 3.0 percent per year over the next 5 years, which is well below the projected increase in real gross domestic product [GDP]. The budget reflects the economic growth package agreed to by the President and the House, as well as full 2008 funding for the President's global war on terrorism request.

The President also, once again, calls for making permanent the tax laws enacted in 2001 and 2003. Even with these policies, the administration projects total revenue to grow an average of 6.3 percent per year. Revenue would increase from $2.5 trillion in 2008 to $3.4 trillion in 2013, or from 17.6 percent of GDP to 18.8 percent. The annual average of Federal revenue as a share of GDP over the past 40 years is 18.3 percent.

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

	2008	2009	2010	2011	2012	2013	Annual Percent Change 2008-09	Annual Percent Change 5-year annl.avg
Outlays	2,931	3,107	3,091	3,171	3,222	3,399	6.0	3.0
Revenue	2,521	2,700	2,931	3,076	3,270	3,428	7.1	6.3
Deficit (-)	-410	-407	-160	-95	48	29		
Deficit as % of GDP	*-2.9*	*-2.7*	*-1.0*	*-0.6*	*0.3*	*0.2*		

Source: Office of Management and Budget.

By addressing spending as the cause of deficits, the President achieves a budget surplus in 2012 and extends it into 2013, without raising taxes. For fiscal year 2008, the current fiscal year, the budget submission projects a deficit of $410 billion. This is a substantial nominal increase from the 2007 deficit of $162 billion.

In relation to the economy, the rise in, and size of, the deficit are not as significant. The deficit for 2008 is projected to be 2.9 percent of GDP. While this is high compared to the prior 2 years, it falls about in the middle when compared to the last quarter of a century during which deficits reached as high as 6 percent of GDP (in 1983). Under the President's policies, the Office of Management and Budget [OMB] estimates the deficit will decline slightly to $407 billion, or 2.7

percent of GDP, in fiscal year 2009, and then will fall dramatically until disappearing altogether by 2012.

DISCRETIONARY SPENDING PROPOSALS

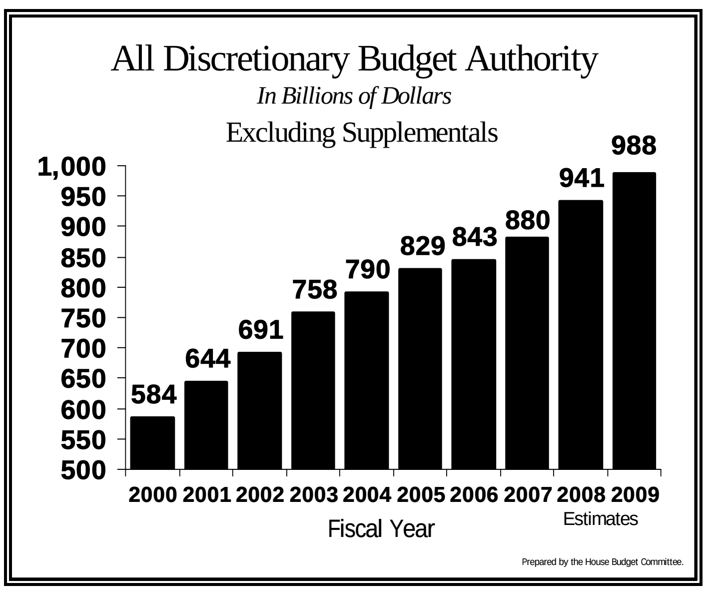
The President requests new discretionary budget authority [BA] totaling $987.6 billion for fiscal year 2009 (excluding war and other emergency funding). This is an increase of 4.9 percent over the $941.4 billion that the administration reflects as the base amount, excluding emergency appropriations, for fiscal year 2008. (The fiscal year 2008 requested level, and the amount passed by Congress, was $933 billion. The administration and the Congressional Budget Office have removed one-time mandatory savings that were scored to fiscal year 2008 appropriations bills, and "rebased" the 2008 discretionary level to be $941 billion.)

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

	2008	2009	Annual Dollar Change	Annual Percent Change
Regular Budget Authority:				
Security Funding	549.6	594.5	44.9	8.2
Non Security Funding	391.7	393.0	1.3	0.3
Subtotal - Regular Appropriations	941.4	987.6	46.2	4.9
Emergency Supplemental Budget Authority:				
Enacted FY2008 Supplemental	104.4			
Anticipated Remaining FY2008 Supplemental	108.1			
	212.5			
Requested 2009 Emergency Supplemental		75.8		
		75.8		
Total	1,153.9	1,063.4		

Source: Office of Management and Budget
Figures may not add due to rounding, and do not include amounts for Bioshield.

The budget targets funding increases on the President's priorities – namely the Department of Defense, Homeland Security, and International Affairs. Within the 4.9-percent growth in overall discretionary spending over 2008 are a 7.5-percent increase in Defense spending, a 10.7-percent increase in Homeland Security, and a 16.5-percent boost for International Affairs. The non-security discretionary level grows at a much smaller rate of 0.3 percent, continuing the President's practice of holding non-security spending growth well below inflation.

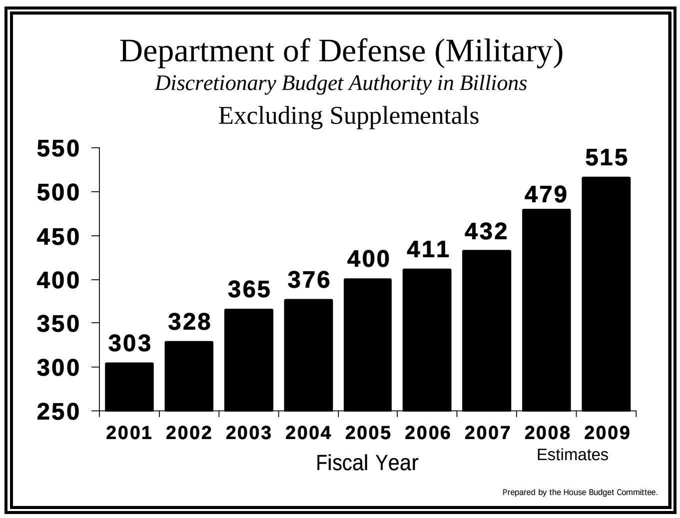


In addition to the base discretionary amount, the President reiterates his 2008 request for emergency supplemental appropriations for the global war on terrorism. The President requested these funds with the submission of the 2008 budget. Congress provided less than half of the President's recommendation for the war, and $108.1 billion of his request for 2008 remains outstanding. In 2009, the President proposes $75.8 billion in emergency spending – $70 billion for the war and $5.8 billion for the Gulf Coast to continue recovery from the effects of Hurricanes Katrina and Rita. The $70-billion war request should be viewed as a placeholder to meet troop needs for a portion of fiscal year 2009.

Over the 5 years covered by the budget submission, the administration assumes an annual average growth rate of 1.8 percent for total discretionary BA. This is well below either the projected rate of inflation (2.1 percent for 2009) or real GDP growth (2.9 percent over 5 years). Also included in the budget are proposals to reduce or terminate 151 programs, saving $18 billion in 2009.

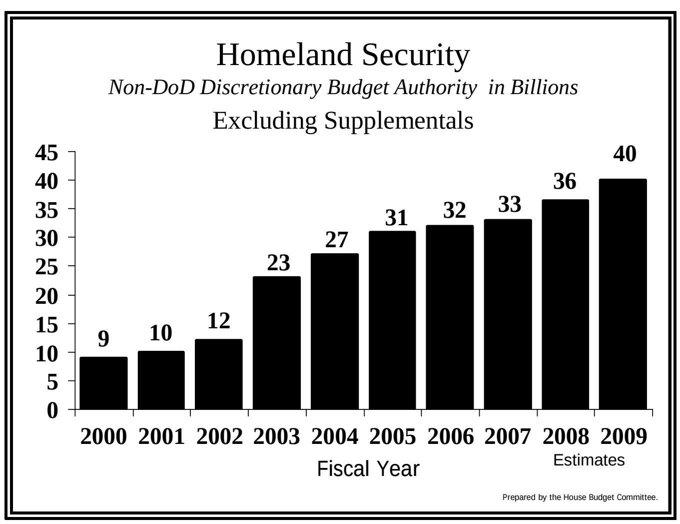
A further look at the individual categories follows below:

Defense Appropriations: The administration recommends $515.4 billion in non-emergency budget authority for fiscal year 2009 for the military functions of the Department of Defense [DoD], an increase of 7.5 percent over the $479.5 currently enacted for fiscal year 2008. The proposal continues the growth trend in recent years for this category, though at a faster rate than the 6.8-percent average annual growth of 2001-08 (see chart). These funds are for base DoD spending; war funding is in addition to this request.



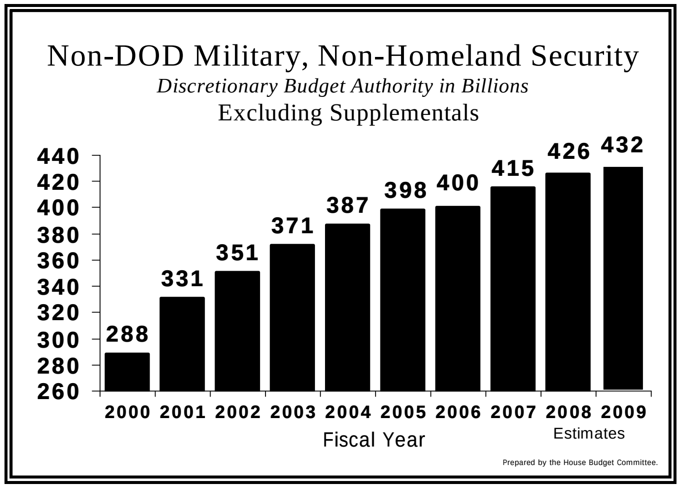
Homeland Security Appropriations: The administration treats Homeland Security funding as a distinct budget category. It comprises a portion of funding for the Department of Homeland Security [DHS], as well as other components. (such as homeland security funding provided through the Federal Bureau of Investigation).

The President recommends $40.1 billion in fiscal year 2009 for non-defense Homeland Security – an increase of $3.9 billion, or 10.7 percent, over the $36.2 billion in fiscal year 2008.



Before September 11, 2001, Homeland Security spending was approximately $9 billion per year. Since then, it has grown at an average annual rate of 18.1 percent (see chart). The President would boost Homeland Security funding in 2009 by 10.7 percent, more than four times the rate of inflation.

DHS funding would increase from $34.9 billion in 2008 to $37.6 billion in 2009 under the President's request – an increase of $2.7 billion, or 7.7 percent measured year-over-year.

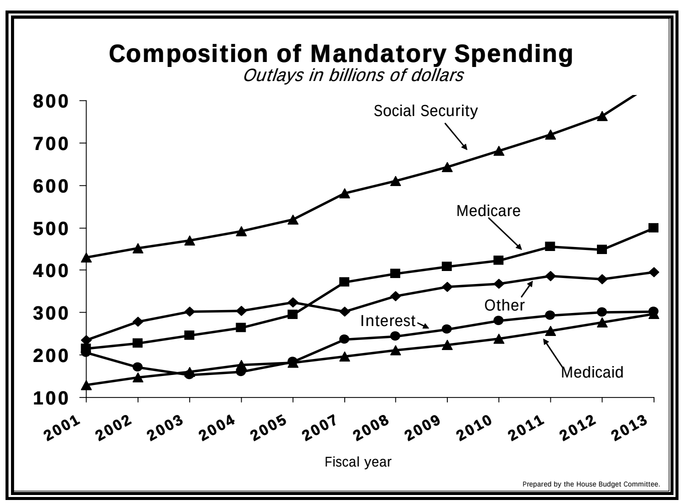


All Other Appropriations: The administration recommends $432.1 billion in fiscal year 2009 for appropriated spending other than Defense and Homeland Security – an increase of $6.4 billion, or 0.3 percent, above the level for fiscal year 2008 (see chart). For years after 2009, the budget assumes a near freeze on this portion of discretionary spending from the 2009 level. It is mainly through this spending restraint, combined with the mandatory proposals described below, that the President achieves balance in 2012 and 2013.

ENTITLEMENT INITIATIVES AND REFORM
(Mandatory Spending)

The administration proposes reforms in entitlement programs that will moderate mandatory spending growth and achieve savings, from currently projected spending, totaling $16 billion in fiscal year 2009, $208 billion for fiscal years 2009-13, and $619 billion for 2009-18. The 5-year savings result primarily from the President's Medicare proposals, which would save $178 billion over the period. These proposals would reduce Medicare's unfunded liabilities by $10 trillion over the next 75 years – about one-third of Medicare's current $34 trillion in unfunded obligations.

With these changes, mandatory spending will reach $1,551 billion in fiscal year 2008, and $1,636 billion in fiscal year 2009. Despite assertions that the President is "cutting" spending, total mandatory spending in his budget grows by $85 billion in 2009 alone. With these reforms, mandatory spending continues to increase each following year at an average annual rate of 5.6 percent, reaching $2,034 billion in fiscal year 2013. The OMB baseline increase during that period is 5.9 percent.



The President’s Budget: Mandatory Proposals
(dollars in billions)

	2008	2009	2010	2011	201121	2013	2009-13	2009-18
Total Mandatory Proposals	-.008	−16.226	−36.540	−45.045	−51.241	-59.167	−208.220	−619.446
Net of All Initiatives	*-.008*	*-17.127*	*-34.846*	*-44.982*	*-51.202*	*-29.813*	*-177.970*	*31.665*

Source: Office of Management and Budget.

Reforms

Medicare proposals account for the largest 5-year savings. The President achieves Medicare savings of $12.4 billion for fiscal year 2009, $178.2 billion for fiscal years 2009-13, and $556.4 billion for 2009-18. Despite these reforms, Medicare outlays continue to grow at an annual average of 7.6 percent over the 10-year period. Medicaid and the State Children’s Health Insurance Program continue growing at an average rate of 7.1 percent per year over the 5-year period even with reforms totaling $17.4 billion. A proposal to recall Federal Perkins Loans revolving funds results in a savings of $1.1 billion in 2009, $4.2 billion over 5 years, and $7.2 billion over the 10-year period.

A number of the proposals are repeated from past years, as they have not been acted upon by the Congress. These include: increasing Pension Benefit Guarantee [PBGC] premiums, recovering unemployment insurance benefit overpayments, implementing spectrum licensing fees, and authorizing leases in part of the Arctic National Wildlife Refuge [ANWR]. Many of these proposals are similar to recommendations proposed by the President last year that were not adopted by the Congress.

The President’s Budget: Mandatory Spending Reforms
(dollars in billions)

	2008	2009	2010	2011	2012	2013	2009-13	2009-18
Medicare	0.0	−12.437	−26.875	−39.798	−45.741	-53.384	−178.235	−556.373
Medicaid/SCHIP Reforms	0.140	−1.767	−2.924	−3.758	−4.305	-4.671	−17.425	−46.748
Reform PBGC	0.0	-.380	-2.217	−2.093	−2.127	-2.056	−8.873	−18.514
Recall Perkins Loan Funds	0.0	-1.116	-.698	-.735	-.821	-.792	-4.162	-7.220
ANWR	0.0	0.0	−3.502	−.002	−.503	-.003	−4.010	−4.025
UI Integrity	0.0	0.0	−.470	−.504	−.356	–.362	−1.692	−3.632

Source: Office of Management and Budget.

Initiatives

As it did last year, the President’s budget reflects his reform to allow workers the option of establishing Social Security personal accounts, and fully reflects the budget impact of these proposals. The initiative allows workers to invest some of their payroll taxes into personal accounts for their use upon retirement. The proposal has an up-front transition cost, but when those workers begin to draw on their personal accounts as a supplement to Social Security, the pressure on taxpayer-financed benefits will be eased. This cost begins in fiscal year 2013, and outlays associated with the provision increase spending by 647.2 billion between 2013 and 2018.

REVENUE PROPOSALS

Due to the overall slowdown in the economy, and with the revenue impact of economic growth proposals, revenue projections for 2008 are lower than they were in 2007. Nevertheless, projections of average revenue growth over the 5-year period 2009-13 are 6.3 percent annually. The budget proposes a number of tax and trade policy changes that affect revenue (and, to a lesser extent, outlays as well). Taking these policies into account, OMB projects receipts will increase by $907 billion – from $2.5 trillion (17.6 percent of GDP) in fiscal year 2008 to $3.4 trillion (18.8 percent of GDP) in fiscal year 2013. The 5-year projection assumes that provisions of the tax laws enacted in 2001 and 2003 will continue and will not expire at the end of 2010.

The President's tax and trade proposals have budget effects of $141 billion in 2008. Of this, the economic growth package is estimated to return $125 billion in revenue to taxpayers. Over the 5-year period 2009-13, the President's proposals have a revenue impact estimated at $228 billion.

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

	2008	2009	2010	2011	2012	2013	Total 2009-13
Make Permanent 2001, 2003 Tax Relief[a]	-0.4	-2.1	-13.1	-158.8	-221.2	-240	-635.1
Economic Growth Package	-125.0	-20.0	10.0	8.0	6.0	4.0	8.0
Incentives and Tax Relief	-0.5	-24.9	-29.4	-23.9	-18.4	-9.9	-106.5
Extend Expiring Provisions	-14.9	-70.1	3.5	-10.8	-12.0	-13.0	-102.5
Other	-0.1	-0.5	-8.2	-9.4	-9.5	-10.2	-37.8
Improve Compliance	0.0	0.3	1.3	2.2	3.0	3.7	10.5
Total Receipts Effect (with permanence of 2001, 2003 provisions as additional relief)	**-140.9**	**-117.2**	**-35.9**	**-192.6**	**-252.1**	**-265.5**	**-863.3**
Total Receipts Effect (with permanence of 2001, 2003 provisions assumed in baseline)	**-140.5**	**-115.1**	**-22.8**	**-33.8**	**-30.9**	**-25.5**	**-228.2**
Total Outlay Effect[b] (correct sign)	---	---	3.1	2.2	17.4	16.7	39.3

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

The overall revenue proposals, summarized in the table above, can be categorized as follows:

- **Economic Growth Package.** The budget reflects in the impact of the bipartisan economic growth package agreed to by House leaders and the President and passed by the House on 29 January 2008. According to the administration figures, the proposal returns to taxpayers $125 billion in revenue in 2008, and $20 billion in 2009.

- **Making Permanent the 2001 and 2003 Tax Legislation:** A top administration priority is making permanent the broad tax relief provided in 2001 – generally scheduled to expire after 31 December 2010 – and most of the growth package enacted in 2003. These policies include lower marginal tax rates compared with those in place through 2000; the 10-percent tax bracket; a doubling of the child tax credit; marriage penalty relief; repeal of the estate tax; a lower capital gains rate, and other investment incentives; and higher expensing for small businesses. If these tax laws are allowed to expire as scheduled, taxes will increase by $635 billion over 5 years and $2.1 trillion over 10 years.

- **Tax Relief Initiatives:** The administration also proposes the enactment of tax initiatives in several areas, including personal savings, small business, health care, charitable giving, economic development, strengthening housing, benefits for families, and education deductions. These provisions reduce projected revenue, relative to the baseline, by $475 million in 2008, and $107 billion over 5 years.

- **Extending Expiring Tax Provisions:** The administration makes permanent or extends temporarily a number of tax provisions that have expired or are scheduled to expire during the current or budget year. These include a 1-year extension of current alternative minimum tax [AMT] policies for individuals, and a permanent extension of the research and experimentation tax credit. The extenders proposed by the administration have revenue effects of $14.9 billion in 2008, $70.1 billion in 2009, and $102.5 billion between 2009 and 2013.

- **Investing in Health:** Recognizing that health care is becoming increasingly more expensive, the President has again included tax proposals designed to make health care more affordable, accessible, and flexible. These include the expansion of health savings accounts and the creation of health insurance deductions. The health proposals' revenue effect is $23.4 billion in 2009 and $98.4 billion over 5 years.

- **Improving Compliance:** The administration has included a number of proposals in its budget intended not only to raise revenue but also to close loopholes, curtail tax avoidance, and generally improve overall tax compliance. These provisions increase revenues by $305 million in 2009, $10.5 billion over 5 years, and $35.9 billion over 10 years.

- **Trade Policies:** The administration also has an ambitious agenda for expanding American exporters' access to foreign markets. The implementation of these free trade agreements will reduce revenues by $1.7 billion in 2009, and $11.5 billion over 5 years.

BUDGET PROCESS REFORMS

The President's budget includes a number of budget process reforms that are designed to make the budget more transparent and orderly.

- **Earmark Transparency.** The budget highlights congressional earmarks, noting especially that one of the major problems with these provisions is their lack of transparency. The administration notes that earmarks often appear in bill report language – not in legislative text – and often are inserted during the final stages of legislating, avoiding public scrutiny. OMB is continuing to provide detailed data on earmarks at http://earmarks.omb.gov). The President also has threatened to veto fiscal year 2009 appropriations bills that fail to meet his goal of cutting the cost and number of earmarks in half.

- **Line-Item Veto.** To further address the problem of earmarks and wasteful spending, the budget proposes a Legislative Line Item Veto, a fast-track process to ensure a vote without amendment on the President's proposals to eliminate wasteful spending. The House passed such a measure in 2006.

- **Other Proposals.** As in the past, the Budget includes proposals to modify the budget process by moving to a biennial appropriations and budget process, making the budget resolution a law, and creating sunset and performance commissions.