FISCAL YEAR 2007

MID-SESSION REVIEW

BUDGET OF THE U.S. GOVERNMENT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

July 11, 2006

The Honorable J. Dennis Hastert
Speaker of the House
of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Section 1106 of Title 31, United States Code, calls for the President to transmit to the Congress a supplemental update of the Budget that was transmitted to the Congress earlier in the year. This supplemental update of the Budget, commonly known as the Mid-Session Review, contains revised estimates of the budget deficit, receipts, outlays, and budget authority for fiscal years 2006 through 2011.

Sincerely,

Rob Portman

Rob Portman

Enclosure

Identical Letter Sent to The President of the Senate

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GENERAL NOTES

1. All years referred to are fiscal years unless otherwise noted.
2. All totals in the text and tables display both on-budget and off-budget spending and receipts unless otherwise noted.
3. Details in the tables and text may not add to totals due to rounding.
4. Web address: *http://www.whitehouse.gov/omb/budget*

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SUMMARY

Since the President's 2007 Budget was released in February, the Federal budget outlook has improved dramatically. This Mid-Session Review of the Budget updates the estimates of the Government's receipts, outlays, and deficit to reflect economic changes, legislative action, and other developments since February.

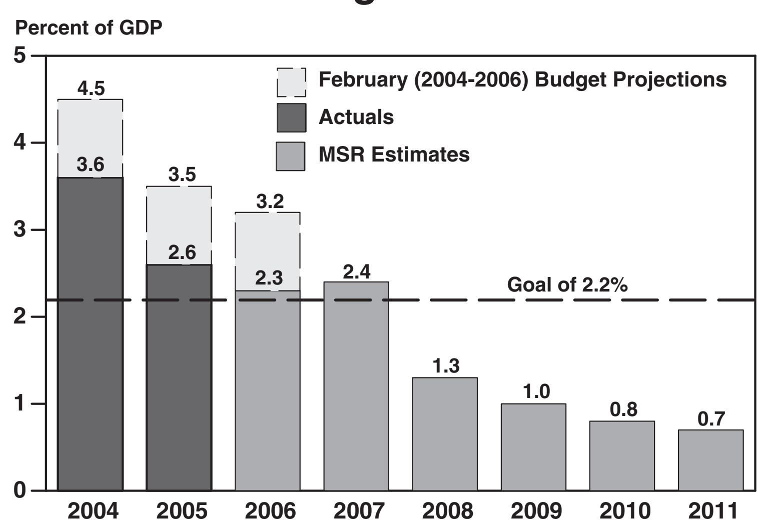
Due to the strong performance of the Nation's economy, revenues for the current fiscal year are now forecast to grow at a double-digit rate—11 percent. Largely as a result of these increased revenues, the projected budget deficit for 2006 has fallen from $423 billion, or 3.2 percent of Gross Domestic Product (GDP), to $296 billion, or 2.3 percent of GDP. This projected deficit is equal to the 40-year average of 2.3 percent of GDP and is lower than the deficits in 17 of the past 25 years. The improved deficit outlook continues over the next five years, indicating that the President is on track to meet his goal of cutting the deficit in half by 2008, a year ahead of schedule, from its projected 2004 peak of 4.5 percent of GDP, or $521 billion.

A robust economy and the resulting revenue increases drove this improved deficit outlook despite significant expenditures for the Global War on Terror and Gulf Coast rebuilding efforts, including the recently enacted emergency supplemental appropriations bill. In addition, to reflect reasonably anticipated future expenditures of the ongoing operations in Afghanistan and Iraq, the Mid-Session Review includes all the known costs that will be incurred in 2006, the full costs currently anticipated for next year, and an allowance of $50 billion for 2008.

STRONG ECONOMY

The Administration is pursuing pro-growth economic policies and spending restraint to reduce the budget deficit. Since the Congress enacted and fully implemented the President's tax relief program in 2003, the Nation has experienced strong, sustained economic growth. In addition to tax relief, the President has worked with the Congress to strengthen

Chart 1. Cutting the Deficit in Half



the economy through a number of initiatives, including eliminating trade barriers and opening overseas markets to American products and services, reducing unnecessary litigation, limiting the burden of Government paperwork and regulations, adopting reforms in public education, and promoting research and innovation.

Due in part to the President's economic policy, the economy has grown for 18 consecutive quarters, with growth at an annualized rate of 3.3 percent or better in every quarter but one beginning in early 2003. This sustained growth is particularly impressive in light of the series of challenges the Nation has faced over the past five and a half years—the stock market decline, recession, the terrorist attacks of 9/11, the ensuing Global War on Terror, devastating hurricanes, and significant energy price increases.

Despite these challenges, the economy grew at a faster pace than expected at the beginning of calendar year 2006, 5.6 percent, and at a faster pace than at any other time during the past two and one-half years. Since the beginning of 2003, real, or inflation-adjusted, GDP growth has averaged 4.0 percent per year, exceeding the post-World War II average of 3.4 percent per year. The projected rate of real economic growth is expected to remain strong through 2006 and into 2007, and to moderate only slightly for the remainder of the forecast period, 2008–2011.

This strong economic growth has resulted in increased employment opportunities for Americans. Nearly 2 million jobs have been created during the past year, and 5.4 million jobs have been created since August 2003. In addition, the unemployment rate has fallen this year to 4.6 percent, which is lower than the average rate for each of the past four decades.

Labor productivity, which reflects the efficiency of the labor force, has increased significantly in the past several years, in part because of the President's pro-growth economic policies. The current decade has witnessed the strongest period of sustained growth in labor productivity in the Nation since the 1960s, with non-farm productivity growth averaging 3.3 percent per year since the beginning of 2001.

The growing economy, increased employment opportunities, and increased labor productivity translate into increased income for Americans. Since January 2001, after-tax income has increased 12.9 percent in real (inflation-adjusted) terms, and on a per capita basis real, after-tax, personal income has risen 7.2 percent.

Even with sustained economic growth, inflationary pressures remain contained and are not expected to be significant in the future. Excluding volatile energy prices, inflation has been relatively low and stable over the past five years, with the core Personal Consumption Expenditure price index rising just 2.1 percent over the past 12 months. Looking ahead, inflation is expected to remain relatively low beyond 2006 in part because energy prices are projected to stabilize.

The Role of Tax Relief

Over the past five years the President has signed legislation to reduce taxes for the Nation's workers, families, retirees, and businesses, thereby stimulating and sustaining a strong economy. The President proposed and the Congress enacted tax provisions reducing marginal tax rates, doubling the child tax credit, reducing the marriage penalty, reducing capital gains and dividend tax rates, encouraging retirement savings, eliminating the estate tax, and increasing incentives for small business investment.

Most recently, on May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005, extending for two years through 2010 his 2003 proposals cutting capital gains and dividend tax rates and extending an incentive to encourage investment by small businesses through 2009. Congress' action to extend these provisions will maintain a healthy business climate for long-term investment. The President continues to advocate making his tax relief program permanent, rather than allowing it to expire at the end of this decade, because of the beneficial effect the tax relief has had and will continue to have on the economy, as discussed in the accompanying text box.

A DYNAMIC ANALYSIS OF PERMANENT EXTENSION OF THE PRESIDENT'S TAX RELIEF

The President's tax relief has provided important benefits to the U.S. economy. This relief has come through lower tax rates on individual ordinary income, lower tax rates on capital gains and dividends, a new 10 percent tax rate for lower-income Americans, doubling of the child tax credit, marriage penalty relief, and phase-out and eventual repeal of the death tax. These policies stimulated economic growth and moved the economy out of the 2001 recession more quickly and will encourage greater economic growth in the longer term by increasing the after-tax reward from work, saving, and investment.

Effect of the Tax Relief in the Near Term

In 2003, real GDP was below its potential level and the unemployment rate was elevated. There is strong evidence that the tax relief substantially improved economic performance in the near term.

First, since the passage of the tax relief in 2001 through 2003 growth in national output (i.e., GDP) has accelerated. The recovery from the economic downturn of 2001 had been sluggish up through the first quarter in 2003. Real GDP growth in the nine quarters preceding the 2003 tax relief averaged 1.1 percent at an annual rate, while the growth rate in the 12 quarters since the passage of the tax relief has averaged 4.0 percent, exceeding the average real growth rate since World War II of 3.4 percent. The increase in national output was the result of both increased capital use and increased employment; approximately 5.4 million jobs have been created since mid-2003.

Second, the Treasury Department previously compared how the economy would have performed if there had been no tax relief. An analysis of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and Worker Assistance Act of 2002, and the Jobs and Growth Tax Relief Reconciliation Act of 2003 shows that the tax relief has increased employment substantially above what would have occurred otherwise.

In this analysis, the Treasury Department used the Macroeconomic Advisers macro-econometric model to estimate how the economy would have performed had there been no fiscal stimulus from 2001 through 2004. This analysis found that: (1) by the second quarter of 2003, the economy would have created as many as 1.5 million fewer jobs and GDP would have been as much as 2 percent lower, and (2) by the end of 2004, the economy would have created as many as 3 million fewer jobs and real GDP would be as much as 3.5 to 4.0 percent lower. (These results assume interest rates followed the same path as they did historically from 2001 forward.)

Effect of Permanent Tax Relief on Economic Performance in the Long Run

Beyond short-term economic stimulus, the President's tax relief also helps encourage economic growth in the longer term. The lower tax rates enable workers to keep more of their earnings, which helps increase work effort and labor force participation. The lower tax rates also enable innovative and risk-taking entrepreneurs to keep more of what they earn, which further encourages their entrepreneurial activity. The lower tax rates on dividends and capital gains lower the cost of equity capital and reduce the tax biases against dividend payment, equity finance, and investment in the corporate sector. All of these policies improve incentives for work, saving, and investment by reducing the distorting effects of taxes. Capital investment and labor productivity will thus be higher, which means higher output and living standards in the long run.

A DYNAMIC ANALYSIS OF PERMANENT EXTENSION OF THE PRESIDENT'S TAX RELIEF—Continued

The Treasury Department has conducted a dynamic long-run analysis of these policies using a model that takes into account this greater work effort, increase in savings and investment, and improved allocation of resources on the size of the economy. While this model captures many aspects of economic circumstances and decision-making, others are not reflected in the model. For example, the model assumes that resources are fully employed in the economy and that capital is only somewhat mobile internationally. This analysis shows how large the long-run economic effects of making the tax cuts permanent are likely to be. While difficult to estimate precisely, the level of annual output (i.e., national income) may ultimately be higher by as much as 0.7 percent because of the combined effects of these policies.

The dynamic analysis also reveals that the long-run effects of these policies depend crucially on how they are eventually financed. These policies will result in substantially more economic activity if they are financed by a future reduction in government spending than if they are financed by future tax increases. This supports the Administration's emphasis on the permanence of the tax relief, combined with spending restraint in its proposed budgets.

Treasury's analysis also reveals that the tax relief components are likely to have very different effects on future economic activity. For example, the lower tax rates on dividends and capital gains, and the reduction in the top four tax rates, all have particularly beneficial effects in strengthening the economy.

By keeping taxes low, the President has allowed taxpayers to keep $1.1 trillion more of their own money over the past six years, rewarding the hard work and entrepreneurial spirit of the Nation's workers and their families. The President's enacted tax proposals will allow 111 million taxpayers to save an average of $1,900 in 2006. These provisions will allow 44 million families with children to save an average of $2,500 in 2006 and 14 million elderly persons to save an average of $2,000. The President's tax relief initiatives also mean the total elimination of tax liabilities in 2006 for more than five million low-income individuals and families.

Small businesses, the primary job creators in the Nation's economy, have benefited from the extension of the President's tax cuts, with 25 million small businesses expected to save an average of $3,600 in 2006. Capital gains and dividend tax relief have effectively reduced the tax rate on business investment by more than 15 percent. Partly as a result, business investment has been increasing for twelve straight quarters, at an average rate of nine percent per year.

The overall result of tax relief and other pro-growth policies has been a strong economy with low unemployment and high labor productivity growth.

SPENDING RESTRAINT

The effectiveness of the President's pro-growth policies in strengthening the economy has generated higher-than-expected tax receipts, which have helped reduce the deficit. The second key element in reducing the Government's deficit is spending restraint.

The President and the Congress have reduced the growth rate of non-security discretionary spending in every year of this Administration. Earlier this year, the President signed into law legislation that was estimated to generate nearly $40 billion in mandatory savings over five years.

To further restrain the growth in Federal spending, the President's 2007 Budget proposed to hold the growth in total discretionary spending below the rate of inflation and to reduce non-security discretionary spending. To achieve this, the 2007 Budget proposed major reductions in or the elimination of 141 programs, saving the taxpayers $15 billion. In addition to restraining discretionary spending, the 2007 Budget proposed reforms to entitlement and other mandatory programs that would generate $59 billion in savings over five years.

The Congress recently exercised spending restraint by reducing the cost of the emergency supplemental bill to meet the overall spending limit the President proposed. The emergency funding bill provides $94.5 billion to continue fighting the Global War on Terror, promoting democracy in Afghanistan and Iraq, protecting the Nation's homeland by securing the country's borders, rebuilding communities devastated by the 2005 hurricane season, and protecting Americans in the event of a possible flu pandemic.

MID-SESSION UPDATE

Change in Tax Receipts

At $2.400 trillion, receipts for 2006 are $115 billion higher than projected, accounting for 90 percent of the reduction in the 2006 deficit projected in February. Compared to the Budget's projection, receipts are estimated to be higher throughout the projection period.

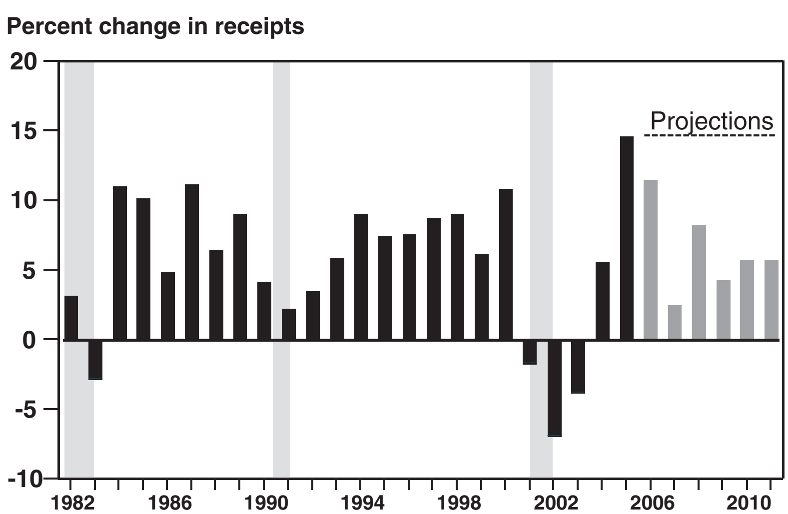
Tax receipts increased $274 billion from 2004 to 2005, or nearly 15 percent, which is the largest recorded increase in tax receipts and the largest percentage increase in more than two decades. In addition, tax receipts for the first eight months of the current fiscal year are up almost 13 percent compared to the same period one year ago. Both individual and corporate income tax receipts are showing sizeable increases. As a result, for the fiscal year as a whole, individual tax collections are now expected to be approximately 15 percent higher in 2006 than last year, corporate tax collections are expected to be 19 percent higher and total receipts are projected to be 11 percent higher.

As shown in Chart 3, as a percent of GDP, tax receipts have averaged 18.2 percent historically. For 2006, receipts are forecast to rise to 18.3 percent of GDP, slightly higher than the historical average.

Changes in Outlays

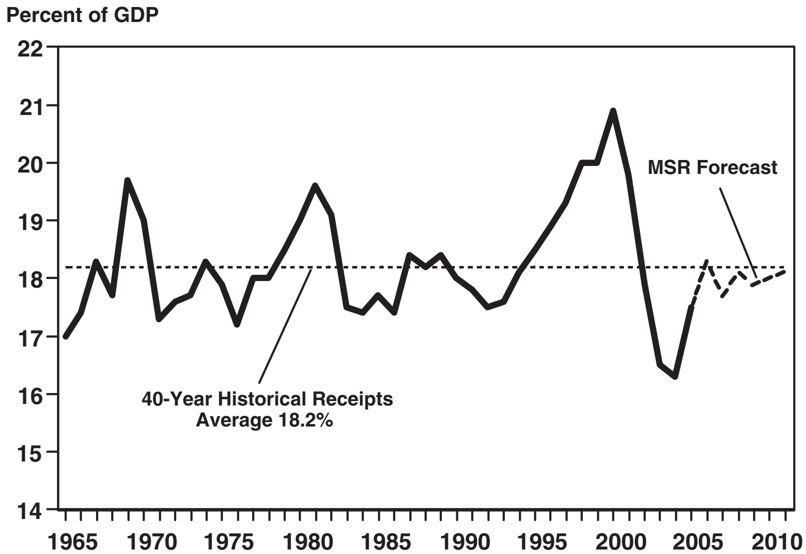
At $2.696 trillion, outlays for 2006 are now estimated to be $12 billion lower than the level estimated in February, accounting for 10 percent of the reduction in the 2006 deficit. The lower estimate of 2006 outlays results primarily from reductions in the projected growth rates for Medicare and Medicaid,

Chart 2. Strong Economy = Strong Receipts



Note: Shaded areas indicate recessions.

Chart 3. Receipts as a Percent of GDP



particularly estimates of the cost of Medicare's new prescription drug benefit program. The competitive reforms adopted in these programs have brought down outlays. However, in the traditional Medicare fee-for-service programs, projections of increased spending outstrip these savings in the long-term and as a result, total spending in the Medicare and Medicaid programs continues to grow at unsustainable rates. These spending trends in Medicare Parts A and B highlight the importance of adopting the Administration's proposed reforms to improve competition and slow cost growth in these programs.

In 2007, to fund the anticipated additional costs of operations in Iraq and Afghanistan, this Mid-Session Review assumes an additional $60 billion in budget authority will be needed later in the fiscal year, for a total allowance of $110 billion. This update also provides a $50 billion allowance for a portion of additional costs anticipated in 2008 for the Global War on Terror. Neither the additional funding in 2007 nor the allowance for 2008 reflects a detailed forecast of funding needs; actual funding needs will be determined by conditions at the time.

Deficit

The improved budget outlook puts the budget on a path to achieve the President's goal of cutting the deficit in half by 2009 one year early, in 2008. The estimated deficit for 2006, $296 billion, is lower than the deficits in 2003 through 2005. As a percent of GDP, the 2006 deficit is expected to be 2.3 percent, significantly lower than the 3.2 percent of GDP forecast in February. The deficit-to-GDP ratio measures the size of the deficit in relation to the economy as a whole and permits meaningful comparisons of deficits over time. The 2.3 percent deficit-to-GDP ratio would be the lowest ratio since 2002 and in line with the 40-year average of 2.3 percent.

As shown in Chart 1 at the beginning of this section, following a slight increase to 2.4 percent of GDP projected for next year, the deficit-to-GDP ratio is projected to fall through 2011. For 2009, the deficit is projected to reach 1.0 percent of GDP, or $157 billion, far surpassing the President's goal of cutting the deficit in half from its estimated 2004 peak of 4.5 percent of GDP, or $521 billion.

While recent and current deficit levels are too high, economists generally have not viewed them as a risk to the economy, a view supported by the markets in that the deficits have not had an apparent adverse effect on interest rates. Since 2001, interest rates have been relatively low, and in line with or below historical averages.

Just as the deficit-to-GDP ratio is falling at a faster rate than projected in the February Budget, the debt-to-GDP ratio is also falling more quickly. In February, Federal debt held by the public was projected to be 38.5 percent of GDP for 2006 and 39.2 percent in 2007, and to begin declining in 2008. At mid-session, debt held by the public is projected to be 37.3 percent of GDP for 2006 and 37.8 in 2007 and, as in February, to begin declining in 2008. By 2011, debt held by the public is expected to be less than its 40-year historical average of 35.4 percent of GDP.

FUTURE CHALLENGES

As the President noted in his 2007 Budget released in February, in the long term the biggest challenge to the Nation's fiscal outlook comes from the unsustainable growth in entitlement spending. As currently structured, entitlement spending in Social Security, Medicare, and Medicaid is growing faster than the economy and the Nation's ability to pay for this spending. No plausible amount of cuts to discretionary programs or tax increases can avert this major fiscal challenge. Entitlement or mandatory spending plus net interest expense currently comprise 62 percent of the budget. Within the next thirty years, entitlements and interest on the public debt together will exceed all available tax revenue, even without spending on education, defense, and homeland security.

The reforms in Medicare proposed in the President's Budget will bring the program's financing needs more in line with available resources in the near term, but both Medicare and Medicaid need additional reforms to ensure their long-term health. In addition, the President has called for reforming Social Security in a manner that preserves benefits for those already in or near retirement and puts the program's finances on a sustainable footing for future generations.

Chart 4. Declining Federal Debt

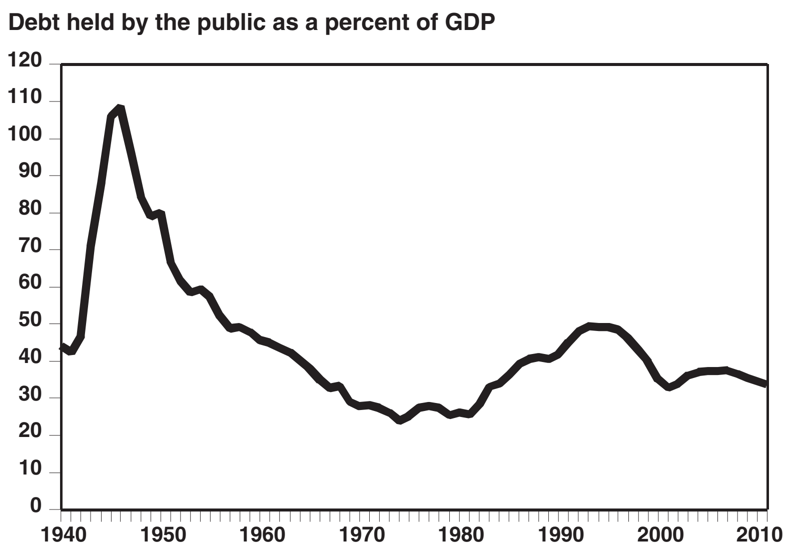
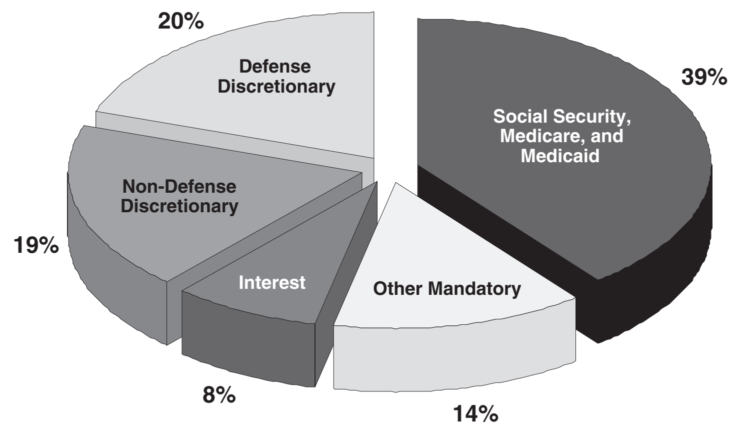


Chart 5. 2006 Governmental Outlays



CONCLUSION

With the help of the President's successful pro-growth economic policies, the 2006 deficit is 30 percent lower than initially projected. Through efforts to manage taxpayers' money responsibly and to reduce spending, as well as to promote a strong economy, we are on track to achieve the President's goal to cut the deficit in half a year ahead of schedule, by 2008.

The President's 2007 Budget focused resources on the Global War on Terror, securing the Nation's homeland, and promoting democracy throughout the world, and meeting other priorities such as improving education, promoting innovation, and making quality health care more affordable. The Administration's proposals for fostering a strong economy, funding the Nation's priorities while restraining Government spending, and addressing the long-term problem of unsustainable entitlement spending set the stage for an even brighter future for all Americans.

Table 1. CHANGES FROM THE FEBRUARY BUDGET

(In billions of dollars)

	2006	2007	2008	2009	2010	2011	2007–11
2007 February Budget deficit	–423	–354	–223	–208	–183	–205	–1,173
Percent of GDP	–3.2%	–2.6%	–1.5%	–1.4%	–1.1%	–1.2%	
Economic and technical reestimates:							
Receipts	107	60	77	62	61	60	320
Medicare	8	5	–2	–8	–10	–12	–27
Medicaid	7	6	6	6	6	6	30
Other [1]	–1	–1	12	22	26	31	89
Subtotal, economic and technical reestimates	121	69	93	82	83	85	412
Policy changes:							
Enacted 2006 supplemental	–2	–12	5	2	*	–*	–4
Further war funding in 2007 and 2008	....	–25	–51	–24	–7	–2	–108
Tax reconciliation bill (TIPRA) and changes in revenue proposals	8	–17	–9	–4	–10	2	–37
Other legislation and policy changes [2]	–1	–1	–4	–6	–7	–8	–25
Subtotal, policy changes	6	–54	–58	–31	–23	–7	–174
Total, changes	127	15	35	51	60	78	239
Mid-Session Review deficit	–296	–339	–188	–157	–123	–127	–934
Percent of GDP	–2.3%	–2.4%	–1.3%	–1.0%	–0.8%	–0.7%	

* $500 million or less.

[1] Includes debt service on all reestimates.

[2] Includes debt service on all policy changes.

ECONOMIC ASSUMPTIONS

At mid-year 2006 the U.S. economy is in its fifth year of expansion, maintaining a solid pace of economic growth with low rates of unemployment and underlying inflation, rising payroll jobs, high homeownership rates, strong business investment, and high productivity growth. The healthy performance of the economy over the past year demonstrated again the robust nature of the expansion in the face of shocks, including higher energy prices and the substantial damages and disruptions from the worst hurricane season on record in the summer and fall of 2005.[1]

The good performance of the economy in recent years stands in marked contrast to the economic slowdown and recession of 2000–2001 followed by slow recovery in 2002–2003. The strong economic performance since mid-2003 is a testament to the resilience of the U.S. economy and the adoption of successful pro-growth policies, including tax relief, Federal Reserve monetary policy actions, and ongoing efforts to promote investment in innovative technologies and liberalized international trade.

The Administration and private forecasters expect the expansion to continue for the foreseeable future—with sustained non-inflationary real growth providing a firm foundation for the Federal budget outlook.

Recent Economic Performance

In the first quarter of 2006, real gross domestic product (GDP) in the U.S. economy grew at an annual rate of 5.6 percent. It has been increasing for 18 consecutive quarters, with the latest three years showing an average annual growth rate of 4.0 percent. The economy is in the midst of a self-reinforcing expansion with growth widespread across various components and sectors. Increases in employment and high growth in labor productivity have combined to generate sustained solid growth in real output. In labor markets, nonfarm payroll employment has increased by 5.4 million jobs since the post-recession low in August 2003, with nearly 1.9 million of those job gains occurring over the past 12 months. Reflecting the improving labor situation, the unemployment rate was at 4.6 percent in June 2006, down from a post-recession high of 6.3 percent in June 2003.

Other indicators illustrate the broad-based nature of the expansion. Over the past four quarters real consumer spending increased 3.3 percent. Although preliminary data indicate consumption growth slowed somewhat during the second quarter of 2006—especially for motor vehicle purchases—real consumption spending is expected to grow at a moderate-to-strong pace going forward. Manufacturing activity and private investment spending have been strong in recent years, rebounding from the recession in 2001 and the initially slow recovery in 2002. Industrial production in manufacturing (through May) is up 4.9 percent over the past 12 months, and has increased at a 4.7 percent annual rate over the past three years. Real business equipment and software spending rose at a 15 percent annual rate in the first quarter and at an 11 percent annual rate over the past three years. Real exports of goods and services have also contributed to growth, increasing at a 7.7 percent annual rate over the past three years, although not as fast as real imports, which grew 8.1 percent. Over the past two years the national homeownership rate has continued to run near record levels of about 69 percent. Higher prices for housing and equities have boosted real household wealth, which reached $53 trillion at the end of the first quarter of 2006—nearly six times the level of annual personal income—up 6.9 percent over the prior four quarters after adjusting for inflation.

Labor productivity gains—the increase in output per hour of labor—have been remarkably strong in recent years, providing a substantial boost to growth in real GDP. For example, output per hour in the nonfarm

[1] Economic performance is discussed in terms of calendar years. Budget figures are in terms of fiscal years.

business sector rose by 2.5 percent during 2005, following an increase of 2.6 percent during 2004 and an especially robust increase of 5.0 percent during 2003. The recent productivity gains reinforce the stronger trend productivity performance of the past decade. Since 1995, labor productivity in the nonfarm business sector has increased at about a 2.9 percent annual rate—nearly double the 1.5 percent annual rate of gain that occurred from 1973 to 1995. Improved productivity growth reflects how well government policies, the private sector, and our Nation as a whole allocate resources—people, capital, and natural resources—to their best uses. The most basic sources of increased productivity growth are technological innovation and increased capital available per worker. Lower individual income tax rates and lower dividend and capital gains tax rates have significantly improved the investment and research and development incentives of America's businesses. Preserving the low tax environment will help to promote continued productivity gains. Stronger growth in labor productivity is a fundamental building block for the longer-term performance of the economy and represents the essential basis for increasing standards of living for American workers and families.

Strong gains in labor productivity over the past several years have helped to keep the underlying rate of inflation low by historical standards. Other factors, however, also affect the short-run behavior of prices. Primary commodity prices have been on a strong upward trend over the past five years, reflecting increased worldwide demand and some depreciation of the U.S. dollar. Energy prices—notably crude oil and natural gas prices—have increased sharply. The rise in energy and gasoline prices has contributed to the increase in the "headline" rate of inflation: the consumer price index (CPI) has increased at a 5.2 percent annual rate so far in 2006. Abstracting from volatile food and energy items, "core" CPI inflation has increased at a 3.1 percent annual rate so far this year, somewhat higher than previously expected, increasing the uncertainty about the inflation outlook. The Administration and private forecasters in general expect the rate of inflation to subside.

While the U.S. economy is fundamentally strong, a number of challenges remain.

- Recently, housing starts have settled back to an annual pace of about 1.9 million units—a relatively high pace by historical standards but below the high levels of 2005. Most analysts anticipate that an orderly transition will occur to a more moderate pace of housing activity with stabilizing prices, and that household consumption spending and overall economic performance will not be adversely affected.
- The United States continues to run large international trade and current account deficits, and concerns persist about their sustainability. These international deficits are largely the result of the stronger pace of growth in the U.S. economy over the past decade than in the economies of our foreign trading partners. The general expectation is that the U.S. trade position will gradually improve, consistent with the outlook for stronger growth in foreign economies.
- The long-run Federal budget outlook presents challenges, as well. The strong U.S. economy generated dramatic increases in Federal receipts during 2005 and incoming receipts data show large gains again in the current fiscal year. The receipts gains have helped reduce the Federal budget deficit, even as special factors have added to Federal spending, including rebuilding and disaster relief efforts following the worst hurricane season on record in 2005 and the Global War on Terror including operations in Afghanistan and Iraq. To deal with ongoing spending pressures and the longer-term effects of demographic changes and rising health care costs, fiscal discipline will continue to be required both within and beyond the five-year budget window.

Although these factors present potential risks, the current medium-term outlook continues to be one of continued expansion in the U.S. economy.

Policy Background

The fiscal and monetary policies of the past five years have successfully contributed to the recent and current good economic performance and to the expectation for continued expansion. Looking back, timely tax relief and reductions in interest rates promoted a rebound from the recession and initial slow recovery in 2000–2003, helping to overcome the adverse effects from the various shocks the economy faced. Looking forward, the Administration's proposed fiscal policies contribute to the outlook for sustained expansion in the U.S. economy for the foreseeable future.

Fiscal Policy: Over the past five years, the Administration proposed, and Congress enacted, significant tax relief designed to overcome the economic shocks and recession—promoting recovery in the growth of output, income, and jobs—and to provide a strong basis for continued economic expansion in the long term. The Tax Increase Prevention and Reconciliation Act of 2005 signed into law by the President in May 2006 continued those measures. It extended tax relief in several areas, including: extension of lower tax rates on capital gains and dividends through 2010 and an extension of the increased expensing of equipment and software investment for small businesses through 2009. Preserving a relatively low tax environment in the United States is an important part of the Administration's economic and budget policies. The Administration's budget proposals—including significant spending restraint combined with a low-tax environment—will continue to promote solid performance in the U.S. economy and to reduce the Federal budget deficit in coming years as a share of GDP. Publicly held debt is lower than originally estimated and is projected to begin declining in 2008, relative to the size of the economy.

Monetary Policy and Interest Rates: As the economy moved from recovery to sustained expansion over the past 3 years, the Federal Reserve increased the Federal funds rate from 1.0 percent in June 2003—the lowest level in 50 years—to 5.25 percent by the end of June 2006. In its statement accompanying the June 2006 increase, the Federal Reserve stated that "economic growth is moderating from its quite strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices" but that "some inflation risks remain." The Federal Reserve indicated in its statement that future increases in interest rates will depend on how the economic outlook evolves. The Administration forecast for the 3-month Treasury bill rate presented below is generally consistent with market expectations.

Longer-term interest rates, notably the yield on 10-year Treasury notes, remain low by historical standards. Over the first half of 2006, the 10-year yield trended upward, rising from just below 4.4 percent at the beginning of the year to 5.15 percent at the end of June. With the increases in the Federal funds rate to 5.25 percent, the relatively low 10-year Treasury yield at mid-year produced a flat structure of interest rates across short- to long-term maturities.

Economic Projections

The Administration's economic projections, based on information available as of the beginning of June 2006, are summarized in Table 2. These assumptions are close to those of the Blue Chip Consensus (an average of about 50 private-sector forecasts), as shown below in Table 3. The assumptions call for a continuation of good economic performance, including: sustained growth in real GDP; a relatively low unemployment rate with solid jobs growth; a return to lower inflation; and, relatively low interest rates by historical standards, although higher than in 2002–2005.

Real GDP and Unemployment Rate: Real GDP, which increased 3.5 percent in 2005 on a year-over-year basis, is projected to rise 3.5 percent this year as well. During the next few years, real GDP growth is expected to moderate gradually, trending to a 3.0 percent rate by 2011. The unemployment rate is projected to change little, rising only slightly from 4.7 percent in 2006 to about 4.9 percent for 2008 and beyond—remaining roughly at the center of the range that is thought to be consistent with stable inflation.

Inflation: Inflation increased over the past year in large part because of surging energy prices. Although energy prices remain high, their rate of increase has slowed, and inflation

Table 2. ECONOMIC ASSUMPTIONS[1]

(Calendar years; dollar amounts in billions)

	2005 Actual	Projections					
		2006	2007	2008	2009	2010	2011
Gross Domestic Product (GDP):							
Levels, dollar amounts in billions:							
Current dollars	12,487	13,331	14,106	14,885	15,678	16,505	17,371
Real, chained (2000) dollars	11,135	11,524	11,901	12,286	12,672	13,064	13,459
Chained price index (2000 = 100), annual average	112.2	115.7	118.5	121.2	123.7	126.4	129.1
Percent change, fourth quarter over fourth quarter:							
Current dollars	6.4	6.6	5.7	5.4	5.3	5.3	5.3
Real, chained (2000) dollars	3.2	3.6	3.3	3.2	3.1	3.1	3.0
Chained price index (2000 = 100)	3.1	2.9	2.3	2.1	2.1	2.1	2.2
Percent change, year over year:							
Current dollars	6.4	6.8	5.8	5.5	5.3	5.3	5.2
Real, chained (2000) dollars	3.5	3.5	3.3	3.2	3.1	3.1	3.0
Chained price index (2000 = 100)	2.8	3.1	2.5	2.2	2.1	2.1	2.2
Incomes, billions of current dollars:							
Corporate profits before tax	1,438	1,672	1,708	1,716	1,681	1,656	1,653
Wages and salaries	5,712	6,024	6,392	6,781	7,173	7,572	8,008
Other taxable income[2]	2,469	2,631	2,770	2,898	3,024	3,162	3,306
Consumer Price Index (all urban):[3]							
Level (1982–84 = 100), annual average	195.3	202.1	207.3	212.2	217.3	222.7	228.3
Percent change, fourth quarter over fourth quarter	3.7	3.0	2.4	2.4	2.4	2.5	2.5
Percent change, year over year	3.4	3.5	2.6	2.4	2.4	2.5	2.5
Unemployment rate, civilian, percent:							
Fourth quarter level	5.0	4.8	4.8	4.9	4.9	4.9	4.9
Annual average	5.1	4.7	4.8	4.9	4.9	4.9	4.9
Federal pay raises, January, percent:							
Military[4]	3.5	3.1	2.2	NA	NA	NA	NA
Civilian[5]	3.5	3.1	2.2	NA	NA	NA	NA
Interest rates, percent:							
91–day Treasury bills[6]	3.2	4.7	4.6	4.4	4.4	4.3	4.3
10–year Treasury notes	4.3	5.0	5.2	5.4	5.5	5.5	5.5

NA = Not Available

[1] Based on information available as of early June 2006.

[2] Rent, interest, dividend, and proprietors' income components of personal income.

[3] Seasonally adjusted CPI for all urban consumers.

[4] Percentages apply to basic pay only; percentages to be proposed for years after 2007 have not yet been determined.

[5] Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2007 have not yet been determined.

[6] Average rate, secondary market (bank discount basis).

is likely to be lower in the future. On a year-over-year basis, the CPI is projected to increase 3.5 percent this year with the increase moderating to 2.6 percent in 2007 and to be in the 2.4 to 2.5 percent range through 2011. Growth in the GDP price index is projected to be 3.1 percent in 2006, and then decline to 2.5 percent in 2007 and to be in the 2.1 percent to 2.2 percent range for 2008–2011, slightly less than the CPI, which is the usual pattern. The forecast of low inflation reflects the current low core inflation rate, modest inflationary expectations, low pressure on wages and prices due to both domestic and global competition, and the Federal Reserve's policy actions.

Interest Rates: The 3-month Treasury bill rate is expected to average 4.7 percent in 2006, and then to decline—coinciding with lower inflation—to 4.3 percent by 2010. The yield on the 10-year Treasury note is expected to average 5.0 percent in 2006 and to rise gradually to 5.5 percent by 2009. The projected low levels of inflation help to keep projected interest rates relatively low as well; adjusted for inflation, the projected real interest rates are close to their historical averages.

Incomes and Income Shares: The income levels shown in Table 2 reflect the behavior of the specific types of income relative to nominal GDP. The share of labor compensation in GDP—wages and salaries and other compensation such as employer-provided insurance and pension benefits—is projected to rise while the share of corporate profits before tax is projected to decline. During the projection period, labor compensation is expected to increase, raising the labor share in GDP to about its historical average. Reflecting the relative gain in total labor compensation, the wage share in GDP is expected to rise.

Comparison with the Budget Forecast and Private-Sector Forecasts

Table 3 compares the Mid-Session Review (MSR) economic assumptions with those from the 2007 Budget and from the Blue Chip Consensus. The private-sector forecasts are based on different assumptions than those of the Administration, including their appraisals of the most likely outcomes for fiscal and monetary policies. The Administration forecast generally assumes that the President's Budget proposals will be enacted. Despite their differing policy assumptions, the Administration and Blue Chip economic projections are very close.

The Administration economic forecast has changed only slightly since the Budget was published in February. Real GDP growth is higher for 2006, now expected to be 3.5 percent compared to the 3.4 percent shown in the Budget—the upward revision resulting from the stronger-than-expected growth in the first quarter of the year. Reflecting the stronger growth, the unemployment rate is now expected to average 4.7 percent for 2006, compared to the Budget estimate of 5.0 percent. Inflation and short-term interest rates are expected to be somewhat higher for 2006 than estimated earlier. Consumer price index (CPI) inflation is ex-

Table 3. COMPARISON OF ECONOMIC ASSUMPTIONS

(Calendar Years)

	Projections					
	2006	2007	2008	2009	2010	2011
Real GDP: [1]						
MSR	3.5	3.3	3.2	3.1	3.1	3.0
2007 Budget	3.4	3.3	3.2	3.1	3.1	3.1
Blue Chip Consensus	3.4	2.9	3.1	3.1	3.1	2.9
Consumer Price Index: [1]						
MSR	3.5	2.6	2.4	2.4	2.5	2.5
2007 Budget	3.0	2.4	2.4	2.4	2.4	2.5
Blue Chip Consensus	3.3	2.5	2.3	2.3	2.3	2.3
Unemployment Rate: [2]						
MSR	4.7	4.8	4.9	4.9	4.9	4.9
2007 Budget	5.0	5.0	5.0	5.0	5.0	5.0
Blue Chip Consensus	4.7	4.8	4.8	4.8	4.9	4.9
Interest Rates: [2]						
91–Day Treasury Bills:						
MSR	4.7	4.6	4.4	4.4	4.3	4.3
2007 Budget	4.2	4.2	4.3	4.3	4.3	4.3
Blue Chip Consensus	4.8	4.9	4.7	4.7	4.7	4.5
10–Year Treasury Notes:						
MSR	5.0	5.2	5.4	5.5	5.5	5.5
2007 Budget	5.0	5.4	5.5	5.6	5.6	5.6
Blue Chip Consensus	5.0	5.2	5.4	5.5	5.5	5.4

MSR = Mid-Session Review

Source: Chapter 12, "Economic Assumptions" of *Analytical Perspectives, 2007 Budget;* June 2006 *Blue Chip Economic Indicators*, Aspen Publishers, Inc. for 2006 and 2007; March 2006 *Blue Chip Economic Indicators* for 2008–2011.

[1] Year-over-year percent change.

[2] Annual averages, percent.

pected to be 3.5 percent in 2006, compared to the 3.0 percent estimate in the Budget, and the 3-month Treasury bill rate is expected to average 4.7 percent for this year, compared to the Budget's 4.2 percent estimate. Beyond 2006, the Administration forecast remains very similar to that published in February. Real GDP growth trends down from 3.3 percent in 2007 to 3.1 percent in 2010—with only a slight downward revision to the forecast in 2011 from 3.1 percent to 3.0 percent. The unemployment rate rises slightly from the lower level in 2006 and settles at 4.9 percent for 2008–2011, a slight reduction from the 5.0 percent rate shown in the Budget. CPI inflation is revised up slightly in 2007 to 2.6 percent from 2.4 percent, but remains the same as in the Budget thereafter, settling at 2.5 percent for 2010 and 2011. The 3-month Treasury bill rate—after rising slightly because of the temporary increase in inflation—returns to the 4.3 percent level shown in the Budget by 2010 and 2011. The 10-year Treasury note yield is now expected to settle at 5.5 percent in 2009–2011 compared to the 5.6 percent shown in February. Table 3 also shows that the Administration forecast is generally similar to that for the private Blue Chip Consensus.

SUMMARY

The economic news since the Budget was issued has been mostly favorable. Economic growth has continued at a strong pace, with solid gains in payroll jobs, lower unemployment, and robust increases in manufacturing production and real business investment. Even though inflation has been temporarily boosted by higher energy prices, the long-run inflation outlook is still favorable. The Mid-Session Review economic forecast projects continued economic growth, low and stable inflation, moderate interest rates, and healthy job creation and wage growth—in short, a favorable economic outlook to serve as a basis for Federal budget projections.

RECEIPTS

The current estimates of receipts for 2006 and 2007 exceed the February Budget estimates by $115 billion and $43 billion, respectively. The current estimates for 2008 through 2011 also exceed the February Budget estimates, resulting in receipts that are higher by $284 billion over the five years, 2007 through 2011. These changes are the net effect of revised economic assumptions, technical reestimates, enacted legislation, and revisions in the Administration's proposals.

Revised economic assumptions and technical reestimates account for most of the revisions in receipts since February, increasing receipts by $107 billion in 2006, $60 billion in 2007, and $320 billion over the five-year period, 2007 through 2011. Higher-than-expected collections of individual and corporation income taxes account for most of the increase in receipts for 2006. These increases are in large part attributable to higher-than-expected individual and corporation income tax liability in tax years 2005 and 2006, as reflected in collection experience since February, and technical reassessment of the division of total withheld taxes between individual income tax liability and payroll tax liability. The revisions in subsequent years primarily reflect increases in individual and corporation income taxes, attributable in large part to upward revisions in income and taxable profits (in part due to reduced depreciation write-offs), and revisions in estimating models to reflect current collection experience. The revisions also reflect the effect of recent court decisions effectively invalidating part of the Federal telephone tax.

Table 4. CHANGE IN RECEIPTS

(In billions of dollars)

	2006	2007	2008	2009	2010	2011	2007–2011
February estimate	2,285.5	2,415.9	2,590.3	2,714.2	2,878.2	3,034.9	
Changes due to:							
Economic assumptions and technical reestimates:							
Individual income taxes	59.6	23.8	45.0	35.7	38.9	39.9	183.3
Corporation income taxes	53.0	68.0	50.1	40.8	37.8	33.8	230.5
Social security and Medicare payroll taxes	–6.1	–18.2	–8.7	–8.4	–7.0	–4.4	–46.7
Telephone tax rulings	–1.4	–15.2	–8.0	–5.9	–6.0	–6.1	–41.2
Other sources of receipts	1.6	1.3	–1.4	–0.4	–2.3	–3.0	–5.8
Subtotal, economic assumptions and technical reestimates	106.6	59.6	77.0	61.8	61.4	60.3	320.1
Enacted legislation (TIPRA)	–5.3	–33.8	–8.5	–34.5	3.6	15.7	–57.4
Revisions in proposals:							
Portion of proposals enacted or partly enacted in TIPRA [1]	13.7	20.5	6.9	34.7	–3.2	–13.9	45.0
Other revisions	*	–3.4	–7.1	–4.2	–10.2	0.7	–24.1
Total revisions	13.7	17.1	–0.2	30.5	–13.3	–13.2	20.9
Total change	115.0	43.0	68.3	57.8	51.7	62.8	283.6
Mid-Session estimate	2,400.5	2,458.8	2,658.6	2,772.0	2,929.8	3,097.7	

* $50 million or less.

[1] Extension of tax relief for alternative minimum tax, capital gains and dividend tax rates, increased expensing for small business, and modified amortization for certain geological and geophysical expenditures.

Legislated tax changes since February decrease receipts in 2006 through 2009, then increase them in both 2010 and 2011. These changes are almost entirely the result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) which the President signed on May 17, 2006. The February budget included proposals similar to the major provisions of TIPRA—an increased alternative minimum tax exemption for tax year 2006, extension of current tax rates on dividends and capital gains, and extension of expiring small business expensing provisions. Therefore the enactment of TIPRA results in roughly offsetting changes to the February proposals, reflected in the line in Table 4 for the portion of proposals enacted or partly enacted in TIPRA.

SPENDING

Total outlays for 2006 are now estimated to be $2,696 billion, down $12 billion from the February estimate. A small increase due to policy changes is more than offset by reductions due to estimating changes. For 2007, the estimate of total outlays has increased by $28 billion relative to February, to $2,798 billion. This increase is largely the result of additional funding for the Global War on Terror.

Policy changes

In total, policy changes increase outlays by $2.2 billion in 2006 and $37.3 billion in 2007. Over the five-year period 2007 through 2011, policy changes increase outlays by $137.1 billion. Since the transmittal of the Budget, the Congress has enacted the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery. Although the total supplemental funding was only slightly higher than the placeholder in the Budget, the timing of outlays differs from what was assumed, adding $11.5 billion to outlays in 2007 and reducing them in future years. The Mid-Session Review has also added a placeholder for additional funding for the Global War on Terror to fully fund currently anticipated needs for 2007 and provide a bridge for 2008 funding. Outlays from this funding will occur over several years, raising 2007 outlays by $25.2 billion and 2008 outlays by $50.6 billion.

Estimating changes

Changes in estimates arise from non-policy related factors including changes in economic assumptions, discussed earlier in this Review, and changes in technical factors. For 2006 and 2007, estimated outlays are $14.6 billion and $9.4 billion lower, respectively, than in February for non-policy related reasons. Over the period 2007 through 2011, outlays are $92.4 billion lower than in February for non-policy related reasons.

Discretionary appropriations.—Outlays for discretionary appropriations increase by $1.9 billion in 2006 and $3.2 billion in 2007 relative to the February budget as a result of estimating changes. The 2006 change is the net effect of faster spending for relief related to the 2005 hurricanes offset in part by delay in spending for Iraqi relief and reconstruction and other programs. The 2007 increase offsets the delays in 2006. The offsetting reduction in disaster relief occurs in 2008 through 2011.

Medicaid.—As a result of estimating changes, Medicaid outlays are projected to decrease by $7.4 billion in 2006, $6.0 billion in 2007, and $29.7 billion over the period 2007 through 2011. The largest factor in the decrease is a reduction in estimates for medical assistance payments, driven by lower estimates provided by the States this Spring.

Medicare.—Estimates of Medicare outlays are $7.8 billion and $4.7 billion lower for 2006 and 2007, respectively, than estimated in February. However, over the period 2007 through 2011, outlays are above the February projections by $26.8 billion. The reductions in 2006 and 2007 are driven by lower estimates for the prescription drug benefit, reflecting updated assumptions about participation and other actual program data. Increases in later years stem from revisions to economic assumptions and increased utilization rates for some Medicare providers.

Unemployment insurance.—Continuing strength in the labor market has led to a decline in both the projected total and insured unemployment rates resulting in outlays for unemployment compensation $17.8 billion below the February projections over the 5-year period 2007 though 2011.

Earned income and child tax credits.—During the 2006 filing season, claims for the earned income and child tax credits were higher than previously anticipated. As a result, the Mid-Session Review has $14.0 billion higher outlays for these refundable tax credits over 5 years than estimated in February.

Social security.—Estimating changes reduce outlays for Social Security by $8.5 billion over the 5-year period. Increases in the forecasted cost-of-living adjustments are more than offset by technical revisions including lower projections of beneficiaries contained in the most recent Social Security Trustees Report.

Outer continental shelf receipts.—Increases in projected oil and gas prices increase anticipated receipts from the outer continental shelf. Because these receipts are recorded as offsets to outlays, the increases reduce expected outlays by $7.1 billion over the five-year period. The reduction in anticipated receipts in 2006 reflects a slower ramp-up in production than projected in February, largely due to continuing impacts from Hurricanes Katrina and Rita.

Commodity credit corporation (CCC) farm price supports.—As a result of estimating assumptions, outlays for CCC farm price supports have decreased by $4.2 billion in 2007. This change was driven by revised crop forecasts, which raised price projections for a few crops. When crop prices increase, payments to farmers for price and income support programs decline.

Student loans.—Outlays for student loan programs are projected to increase by $10.5 billion over the period 2006 to 2011. This increase is largely the result of improvements in estimating models, including better estimation of collections on defaulted loans and improved estimates of the eligible portfolio of tax-exempt special allowance payments. In addition, $2.4 billion of this increase is the result of improvements in the methodology for projecting interest rates. The student loan programs include statutorily required special allowance payments and interest rate caps; as a result, the cost estimates are highly sensitive to interest rate projections. Previously, projections used a single borrower interest rate scenario to estimate these programs' subsidy costs. The 2007 President's Budget noted that the Administration would explore changes to this method to better capture the effects of interest rate volatility. Beginning with this Mid-Session Review and going forward, cost estimates will incorporate alternative interest rate scenarios.

Table 5. CHANGE IN OUTLAYS

(In billions of dollars)

	2006	2007	2008	2009	2010	2011	2007–11
February estimate	2,708.7	2,770.1	2,813.6	2,921.8	3,060.9	3,239.8	
Changes due to policy:							
Supplemental	1.5	11.5	–4.8	–2.4	–0.4	0.2	4.1
Global War on Terror	....	25.2	50.6	24.1	6.7	1.7	108.2
Other programmatic	0.7	0.4	*	0.2	0.2	0.2	0.3
Related debt service	–0.1	1.0	3.6	5.6	6.8	7.5	24.6
Subtotal, policy	2.2	37.3	49.4	27.5	13.4	9.5	137.1
Changes due to reestimates:							
Discretionary appropriations	1.9	3.2	–0.7	–3.1	–1.6	–1.5	–3.7
Medicaid	–7.4	–6.0	–6.0	–5.9	–5.9	–6.0	–29.7
Medicare	–7.8	–4.7	1.6	7.7	10.4	11.7	26.8
UI	–4.1	–3.8	–3.5	–3.6	–3.5	–3.5	–17.8
EITC and child credit	2.5	3.1	2.6	2.9	2.9	2.7	14.0
Social security	–1.0	–0.7	–1.2	–1.9	–2.3	–2.4	–8.5
OCS receipts	0.9	–0.3	–1.6	–1.6	–2.0	–1.7	–7.1
CCC	–0.7	–4.2	–2.0	–0.4	–0.1	–*	–6.7
Student loans	4.8	1.6	1.1	1.0	1.0	1.0	5.7
Other programs	–2.8	2.9	1.6	*	1.2	2.0	7.7
Net interest	–0.8	–0.5	–8.0	–15.6	–21.2	–27.4	–72.8
Subtotal, reestimates	–14.6	–9.4	–16.2	–20.5	–21.3	–25.1	–92.4
Total, changes	–12.4	27.9	33.3	7.0	–7.9	–15.5	44.7
Mid-Session estimate	2,696.3	2,798.0	2,846.9	2,928.8	3,052.9	3,224.2	

* $50 million or less.

Net interest.—Excluding the debt service associated with policy changes, outlays for net interest have decreased by $72.8 billion over five years. This reduction is nearly all the result of lower debt service costs related to estimating changes in receipts and outlays.

SUMMARY TABLES

Table S–1. BUDGET TOTALS

(Dollar amounts in billions)

	2005	2006	2007	2008	2009	2010	2011
Budget Totals:							
Receipts	2,154	2,400	2,459	2,659	2,772	2,930	3,098
Outlays	2,472	2,696	2,798	2,847	2,929	3,053	3,224
Deficit	**–318**	**–296**	**–339**	**–188**	**–157**	**–123**	**–127**
Gross Domestic Product (GDP)	12,294	13,119	13,910	14,691	15,477	16,295	17,150
Budget Totals as a Percent of GDP:							
Receipts	17.5%	18.3%	17.7%	18.1%	17.9%	18.0%	18.1%
Outlays	20.1%	20.6%	20.1%	19.4%	18.9%	18.7%	18.8%
Deficit	**–2.6%**	**–2.3%**	**–2.4%**	**–1.3%**	**–1.0%**	**–0.8%**	**–0.7%**

Table S–2. DISCRETIONARY TOTALS

(Net budget authority; dollar amounts in billions)

	2006 Enacted	2007 Request	2008 Estimate	Change: 2006–2007	
				Dollar	Percent
Discretionary budget authority:					
Department of Defense	410.8	439.3	462.4	28.5	6.9%
Homeland Security (non-Department of Defense)	32.1	33.1	34.7	1.1	3.3%
Other Operations of Government	400.1	398.6	398.4	–1.6	–0.4%
Total, Discretionary budget authority	**843.0**	**871.0**	**895.5**	**28.0**	**3.3%**
Enacted supplemental and emergency funding:					
Global War on Terror	120.4				
Hurricane Response	24.7				
Pandemic Flu Preparedness	6.1				
Border Security and Other	2.0				
Total, Enacted supplemental and emergency funding	**153.1**				
Estimated Emergency Requests:					
Global War on Terror		*110*	*50*		

Table S–3. GROWTH IN DISCRETIONARY BUDGET AUTHORITY BY MAJOR AGENCY

(Net budget authority; dollar amounts in billions)

Agency	2001 Actual	2006 Enacted	2007 Request	Growth: 2006–2007 Dollar	Growth: 2006–2007 Percent	Growth: 2001–2007 Percent Average	Growth: 2001–2007 Percent Cumulative
Agriculture	19.2	21.1	19.7	–1.4	–6.5%	0.4%	2.5%
Commerce	5.1	6.4	6.1	–0.2	–3.7%	3.1%	20.4%
Defense—Military	302.5	410.8	439.3	28.5	6.9%	6.4%	45.2%
Education	40.1	56.5	54.4	–2.1	–3.8%	5.2%	35.7%
Energy	20.0	23.5	23.6	0.0	0.1%	2.7%	17.6%
Health and Human Services	54.0	69.2	67.6	–1.6	–2.3%	3.8%	25.2%
Homeland Security	14.0	30.5	30.9	0.4	1.3%	14.1%	121.0%
Housing and Urban Development	28.4	34.1	33.6	–0.4	–1.2%	2.9%	18.7%
Interior	10.3	10.8	10.5	–0.3	–3.0%	0.3%	1.8%
Justice	18.4	21.0	19.5	–1.5	–7.2%	1.0%	6.0%
Labor	11.9	11.3	10.9	–0.4	–3.9%	–1.5%	–8.7%
State and Other International Programs	21.7	30.2	33.9	3.7	12.2%	7.7%	55.8%
Transportation	14.6	14.6	13.2	–1.4	–9.4%	–1.6%	–9.3%
Treasury	10.3	11.4	11.6	0.2	1.4%	1.9%	12.3%
Veterans Affairs	22.4	33.1	35.7	2.6	8.0%	8.1%	59.5%
Corps of Engineers	4.7	5.3	4.7	–0.6	–11.2%	0.2%	1.0%
Environmental Protection Agency	7.8	7.6	7.3	–0.3	–4.0%	–1.1%	–6.6%
Executive Office of the President	0.3	0.3	0.3	–0.0	–0.6%	4.0%	26.4%
Judicial Branch	4.0	5.3	5.9	0.5	9.9%	6.7%	47.9%
Legislative Branch	2.8	3.8	4.3	0.5	12.3%	7.6%	55.4%
National Aeronautics and Space Administration	14.3	16.3	16.8	0.5	3.2%	2.8%	17.8%
National Science Foundation	4.4	5.6	6.0	0.4	7.9%	5.2%	35.9%
Social Security Administration	6.0	7.3	7.9	0.5	6.8%	4.5%	30.2%
Other Agencies	6.7	6.9	7.3	0.4	5.8%	1.5%	9.1%
Total, Discretionary Spending	**643.8**	**843.0**	**871.0**	**28.0**	**3.3%**	**5.2%**	**35.3%**

Note: Supplementals and emergencies, enacted and estimated, are excluded.

Table S–4. HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority in millions of dollars)

	2006 Enacted	2006 Supple-mental	2007 Request
Homeland Security Funding:			
Agriculture	564	....	650
Commerce	181	....	218
Defense—Military (DOD) [1]	16,441	708	16,699
Energy	1,704	....	1,700
Health and Human Services	4,300	....	4,565
Homeland Security	25,256	1,500	27,526
Interior	56	....	55
Justice	2,964	34	3,279
State	1,107	....	1,213
Transportation	182	....	206
Treasury	117	....	134
Veterans Affairs	310	....	314
Corps of Engineers	72	....	43
Environmental Protection Agency	129	....	183
General Services Administration	99	....	96
National Aeronautics and Space Administration	213	....	203
National Science Foundation	344	....	387
Smithsonian Institution	83	....	80
Social Security Administration	177	....	184
Other Agencies	304	....	297
Total, Homeland Security Funding [2]	**54,603**	**2,242**	**58,032**
Less, Defense—Military (DOD)	–16,441	–708	–16,699
Less, Mandatory Homeland Security Funding [3]	–2,235	....	–2,455
Less, Discretionary Fee-Funded Activities [4]	–3,877	....	–5,769
Net Non-DOD Discretionary Homeland Security [2]	**32,050**	**1,534**	**33,109**

[1] Reported DOD homeland security funding has been revised upward in all years to reflect better estimating methodologies for DOD homeland security programs. See the Homeland Security Funding Analysis chapter of the *Analytical Perspectives* volume of the *2007 Budget* for more details.

[2] Amounts in this table are rounded to the nearest million dollars at the account level, which accounts for any discrepancies with the Homeland Security Funding Analysis chapter in the *Analytical Perspectives* volume.

[3] Mandatory homeland security programs include Agriculture Quarantine and Inspections, Border Protection, and Immigration Enforcement.

[4] Discretionary fee-funded homeland security programs include Visa Processing, Airport Security, and Social Security physical and computer security measures.

Table S–5. MANDATORY PROPOSALS

(In millions of dollars)

	2006	2007	2008	2009	2010	2011	Total 2007–2011	Total 2007–2016
Reforms Resulting in Savings:								
Agriculture:								
Commodity Program changes	....	–1,081	–1,079	–945	–965	–917	–4,988	–8,933
Restrict Food Stamp categorical eligibility	....	–76	–151	–154	–157	–161	–699	–1,572
Allow State Food Stamp agencies to access the National Directory of New Hires (NDNH)	....	....	–1	–1	–1	–1	–4	–9
Subtotal, Agriculture	....	–1,157	–1,231	–1,100	–1,123	–1,079	–5,691	–10,514
Defense:								
Increase National Defense Stockpile Sales	....	–1	–50	–72	–80	–96	–299	–347
Energy:								
Repeal Oil and Gas Research and Development Program	....	–20	–40	–50	–50	–50	–210	–460
Health and Human Services:								
Medicare	....	–2,182	–5,082	–7,520	–8,848	–10,105	–33,737	–101,492
Medicaid/State Children's Health Insurance Program	....	–723	–876	–1,062	–1,116	–1,168	–4,945	–11,859
Child Support Enforcement	....	–2	–1	–3	–5	–6	–17	–60
Child Welfare Program option	....	22	5	55	–27	–61	–6	–1
Subtotal, Health and Human Services	....	–2,885	–5,954	–8,530	–9,996	–11,340	–38,705	–113,412
Interior:								
Arctic National Wildlife Refuge lease bonuses:								
State of Alaska's share:								
Receipts	....	....	–3,502	–2	–503	–3	–4,010	–4,025
Expenditures	....	....	3,502	2	503	3	4,010	4,025
Federal share:								
Receipts	....	....	–3,502	–2	–503	–3	–4,010	–4,025
Amend Bureau of Land Management (BLM) Land Sale Authority	....	–1	–28	–40	–42	–71	–182	–351
Eliminate BLM Range Improvement Fund	....	–7	–10	–10	–10	–10	–47	–97
Recover Pick-Sloan Project Cost	....	–23	–23	–23	–23	–23	–115	–230
Repeal Energy Bill Fee Prohibition	....	–5	–27	–27	–27	–24	–110	–209
Subtotal, Interior	....	–36	–3,590	–102	–605	–131	–4,464	–4,912
Labor:								
Reform Pension Benefit Guaranty Corporation	....	....	–3,069	–3,052	–3,034	–3,011	–12,166	–26,806
Unemployment Insurance Integrity Legislation:								
Benefit Payment Recoveries	....	....	–477	–513	–363	–376	–1,729	–3,749
Reform Federal Employee's Compensation Act	....	–3	–8	–10	–11	–13	–45	–140
Subtotal, Labor	....	–3	–3,554	–3,575	–3,408	–3,400	–13,940	–30,695
Treasury:								
Eliminate 10–year Statute-of-Limitations on Non-Tax Debt	....	–11	–6	–6	–6	–6	–35	–65
Federal Communications Commission (FCC):								
Extend Spectrum Auction Authority	....	....	....	....	....	....	....	–1,000
Terminate the Telecommunications Development Fund	....	–5	–5	–6	–7	–7	–30	–65
Subtotal, FCC	....	–5	–5	–6	–7	–7	–30	–1,065

Table S–5. MANDATORY PROPOSALS—Continued

(In millions of dollars)

	2006	2007	2008	2009	2010	2011	Total 2007–2011	Total 2007–2016
Office of Personnel Management:								
Amend Federal Employee Health Benefits Program Statute	....	–34	–134	–231	–306	–367	–1,072	–3,431
Total, Reforms Resulting in Savings	....	–4,152	–14,564	–13,672	–15,581	–16,476	–64,446	–164,901
User Fee Proposals:								
Agriculture:								
Food Safety and Inspection Service User Fees *	....	–105	–155	–148	–151	–154	–713	–1,535
Grain Inspection User Fees *	....	–20	–20	–21	–21	–22	–104	–220
Animal and Plant Health Inspection User Fees *	....	–8	–11	–11	–12	–12	–54	–117
Agricultural Marketing Service User Fees *	....	–2	–2	–2	–2	–2	–10	–20
Federal Crop Insurance User Fees *	....	....	–15	–15	–15	–15	–60	–135
Health and Human Services:								
FDA User Fee Proposal *	....	–26	–27	–27	–28	–28	–136	–286
Homeland Security:								
Extend Customs User Fees	....	....	....	....	....	....	....	–5,830
Treasury:								
Alcohol and Tobacco Tax and Trade Bureau User Fees *	....	–29	–29	–29	–29	–29	–145	–290
Environmental Protection Agency:								
Pesticide Fees *	....	–56	–66	–53	–53	–53	–281	–546
Pre-Manufacturing Notification Fee *	....	–4	–8	–8	–8	–8	–36	–76
FCC:								
Authorize Spectrum License Fees	....	–50	–150	–300	–300	–400	–1,200	–3,625
Total, User Fee Proposals	....	–300	–483	–614	–619	–723	–2,739	–12,680
Subtotal, Reforms Resulting in Savings and User Fee Proposals	....	**–4,452**	**–15,047**	**–14,286**	**–16,200**	**–17,199**	**–67,185**	**–177,581**
Program Augmentations:								
Agriculture:								
Exclude retirement savings in Food Stamp Program	....	47	94	144	147	151	583	1,405
Energy:								
Bonneville Power Administration borrowing authority	....	....	....	....	....	....	....	200
Health and Human Services:								
Medicaid/State Children's Health Insurance Program	....	1,227	686	539	425	601	3,478	6,773
Cover the Kids outreach grants	....	100	100	100	100	100	500	1,000
Grants to states for chronically ill	....	250	375	493	506	523	2,146	5,000
Temporary Assistance for Needy Families	....	40	149	425	473	488	1,575	4,070
Foster Care District of Columbia Federal Medical Assistance Percentage (FMAP) Rate	....	5	6	6	6	6	29	65
Treasury:								
Extend the Rum Carryover for Puerto Rico	69	95	24	....	....	....	119	119
Office of Personnel Management:								
Make Changes to Federal Retirement Improvement Act	....	....	3	5	7	9	24	85
Social Security Administration:								
Extend Supplemental Security Income eligibility for refugees	....	70	75	74	....	....	219	219
Total, Program Augmentations	69	1,834	1,512	1,786	1,664	1,878	8,673	18,936

Table S–5. MANDATORY PROPOSALS—Continued
(In millions of dollars)

	2006	2007	2008	2009	2010	2011	Total 2007–2011	Total 2007–2016
User Fee Proposals with Mandatory Spending:								
Marketing Agreements and Orders User Fees:								
Receipts	....	–12	–12	–13	–13	–13	–63	–132
Spending	....	12	12	13	13	13	63	132
Net effect	....	....	....	....	....	....	....	....
Increase Indian Gaming Commission Fees [1]	....	....	4	5	5	5	19	44
Foreign Labor Certification User Fees:								
Receipts	....	–35	–35	–35	–35	–35	–175	–350
Spending	....	35	35	35	35	35	175	350
Net effect	....	....	....	....	....	....	....	....
Immigration Examination Fees:								
Receipts	....	–31	–31	–31	–31	–31	–155	–310
Spending	....	25	31	31	31	31	149	304
Net effect	....	–6	....	....	....	....	–6	–6
Army Corps of Engineers: Additional Recreation User Fees and Contributions:								
Receipts	....	–9	–17	–17	–17	–17	–77	–162
Spending	....	....	8	16	17	17	58	143
Net effect	....	–9	–9	–1	....	....	–19	–19
Total, User Fee Proposals with Mandatory Spending	....	–15	–5	4	5	5	–6	19
Subtotal, Including Program Augmentations and User Fee Proposals with Mandatory Spending	**69**	**–2,633**	**–13,540**	**–12,497**	**–14,531**	**–15,316**	**–58,517**	**–158,626**
Further Hurricane Response:								
National Flood Insurance (emergency)	2,992	333	....	....	....	....	333	333
Social Security Personal Accounts (off-budget)	....	....	....	....	24,364	57,956	82,320	721,414
Outlay Effects of Tax Proposals: [1]								
Health Tax Credit	....	723	1,257	1,684	1,883	2,024	7,571	19,858
Child Tax Credit	....	....	–383	–368	–422	–427	–1,600	–3,897
Earned Income Tax Credit	....	–209	8	–64	–75	–67	–407	–907
Total, Outlay Effects of Tax Proposals	....	514	882	1,252	1,386	1,530	5,564	15,054
Other Mandatory Proposals:								
Use Escrow Account for USPS Retiree Health Benefits:								
Postal Retiree Health Benefits Account	–2,933	–3,202	–3,528	–3,739	–4,064	–4,426	–18,959	–45,556
Postal Escrow Account	2,933	3,202	3,528	3,739	4,064	4,426	18,959	45,556
Unified budget effect	....	....	....	....	....	....	....	....
Refinance Black Lung Disability Trust Fund debt:								
Black Lung Disability Trust Fund	....	2,297	–431	–425	–425	–432	584	–2,751
Interest receipts on repayable advances	....	–2,297	431	425	425	432	–584	2,751
Net effect	....	....	....	....	....	....	....	....
County Payments Safety Net:								
County Payments	....	78	303	179	120	97	777	777
National Forest Land Sales	....	–78	–303	–179	–120	–97	–777	–777
Net effect	....	....	....	....	....	....	....	....

Table S–5. MANDATORY PROPOSALS—Continued

(In millions of dollars)

	2006	2007	2008	2009	2010	2011	Total 2007–2011	Total 2007–2016
Full-time Attendance Required for Child's Social Security Benefits at Age 16 (off-budget)	....	–11	–84	–150	–155	–159	–559	–1,461
Enforcement of Windfall Elimination Provision/Government Pension Offset (off-budget)	....	....	....	....	–133	–294	–427	–2,431
Replace Disability Insurance/Worker's Comp Offset with Uniform Offset (off-budget)	....	–8	–35	–50	–63	–72	–228	–402
Correct trust accounting deficiencies in individual Indian money investments (non-paygo)	6	....	....	....	....	....	....	....
Indirect Effects (Third Scorecard):								
Amend Federal Employee Health Benefits Program Statute	....	28	86	139	182	220	655	2,035
Unemployment Insurance Integrity Legislation	....	....	–59	–124	–130	–138	–451	–1,218
Refine Department of Defense Medicare-Eligible Retiree Health Care Accrual Calculation	....	73	77	82	87	92	411	967
Food Stamp Impact of Commodity Supplemental Food Program Elimination	....	49	61	53	48	45	256	439
Temporary Assistance for Needy Families Impact of Social Services Block Grant Reduction and Other	....	108	20	–103	–16	1	10	20
Subtotal, Indirect Effects	....	258	185	47	171	220	881	2,243
Total, Other Mandatory Proposals	6	239	66	–153	–180	–305	–333	–2,051
Grand Total	**3,067**	**–1,547**	**–12,591**	**–11,396**	**11,040**	**43,866**	**29,373**	**576,133**
Memorandum: Savings Net of Program Augmentations:								
Medicaid/State Children's Health Insurance Program	....	*504*	*–190*	*–523*	*–691*	*–567*	*–1,467*	*–5,086*
Food Stamp Program	....	*–29*	*–58*	*–11*	*–11*	*–11*	*–120*	*–176*

* Once the fees are enacted, the Administration will work to reclassify them to offset discretionary spending beginning in 2008.

[1] Affects both receipts and outlays. Only the outlay effect is shown here. Excludes tax extenders assumed in baseline.

Table S–6. RECEIPTS PROPOSALS

(In millions of dollars)

	2006	2007	2008	2009	2010	2011	Total 2007–2011	Total 2007–2016
Make Permanent Certain Tax Cuts Enacted in 2001 and 2003 (assumed in the baseline):								
Dividends tax rate structure	278	563	580	598	–9,362	–7,722	–15,343	–66,902
Capital gains tax rate structure	....	....	....	....	–6,921	–10,143	–17,064	–59,322
Expensing for small business	....	....	....	....	–4,541	–6,183	–10,724	–25,893
Marginal individual income tax rate reductions	....	....	....	....	....	–68,604	–68,604	–622,082
Child tax credit [1]	....	....	....	....	....	–5,426	–5,426	–116,186
Marriage penalty relief [2]	....	....	....	....	....	–4,960	–4,960	–37,093
Education incentives	....	....	....	....	3	–1,098	–1,095	–10,957
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	–193	–1,000	–1,609	–2,424	–3,178	–25,891	–34,102	–333,086
Modifications of pension plans	....	....	....	....	....	–346	–346	–2,858
Other incentives for families and children	....	....	....	....	5	–171	–166	–4,363
Total make permanent certain tax cuts enacted in 2001 and 2003	85	–437	–1,029	–1,826	–23,994	–130,544	–157,830	–1,278,742
Tax Incentives:								
Simplify and encourage saving:								
Expand tax-free savings opportunities	....	1,874	4,009	3,189	1,117	–2,671	7,518	–16,825
Consolidate employer-based savings accounts	....	–331	–495	–529	–570	–1,770	–3,695	–19,906
Establish Individual Development Accounts (IDAs)	....	....	–134	–286	–326	–300	–1,046	–1,763
Total simplify and encourage saving	....	1,543	3,380	2,374	221	–4,741	2,777	–38,494
Encourage entrepreneurship and investment:								
Increase expensing for small business	....	–2,130	–3,067	–2,380	–1,869	–1,503	–10,949	–16,481
Invest in health care:								
Expand health savings accounts (HSAs) [3]	....	–1,992	–4,351	–6,245	–7,768	–8,880	–29,236	–87,739
Provide an above-the-line deduction for high-deductible insurance premiums [4]	....	–2,529	–3,836	–3,873	–3,732	–3,713	–17,683	–38,531
Provide refundable tax credit for the purchase of health insurance [5]	....	–253	–856	–1,188	–1,396	–1,354	–5,047	–11,100
Improve the Health Coverage Tax Credit [6]	....	–1	–3	–4	–5	–5	–18	–51
Allow the orphan drug tax credit for certain pre-designation expenses [7]	....	....	....	....	....	....	....	....
Total invest in health care	....	–4,775	–9,046	–11,310	–12,901	–13,952	–51,984	–137,421
Provide incentives for charitable giving:								
Permit tax-free withdrawals from IRAs for charitable contributions	....	–102	–510	–512	–501	–497	–2,122	–4,706
Expand and increase the enhanced charitable deduction for contributions of food inventory	....	–44	–96	–106	–116	–127	–489	–1,345
Reform excise tax based on investment income of private foundations	....	–57	–86	–91	–97	–103	–434	–1,086
Modify tax on unrelated business taxable income of charitable remainder trusts	....	–1	–6	–6	–6	–6	–25	–62
Modify basis adjustment to stock of S corporations contributing appreciated property	....	–3	–15	–21	–25	–28	–92	–301
Repeal the $150 million limitation on qualified 501(c)(3) bonds	....	–2	–3	–7	–11	–11	–34	–87

Table S–6. RECEIPTS PROPOSALS—Continued

(In millions of dollars)

	2006	2007	2008	2009	2010	2011	Total 2007–2011	Total 2007–2016
Repeal certain restrictions on the use of qualified 501(c)(3) bonds for residential rental property	....	–2	–5	–10	–17	–24	–58	–286
Total provide incentives for charitable giving	....	–211	–721	–753	–773	–796	–3,254	–7,873
Strengthen education:								
Extend the above-the-line deduction for qualified out-of-pocket classroom expenses	–17	–171	–178	–180	–183	–185	–897	–1,867
Provide assistance to distressed areas:								
Establish Opportunity Zones	....	–221	–411	–439	–451	–482	–2,004	–4,960
Protect the environment:								
Extend permanently expensing of brownfields remediation costs	–99	–148	–166	–179	–170	–159	–822	–1,523
Restructure assistance to New York City:								
Provide tax incentives for transportation infrastructure	....	–200	–200	–200	–200	–200	–1,000	–2,000
Repeal certain New York City Liberty Zone incentives	....	200	200	200	200	200	1,000	2,000
Total restructure assistance to New York City	....	....	....	....	....	....	....	....
Total tax incentives	–116	–6,113	–10,209	–12,867	–16,126	–21,818	–67,133	–208,619
Simplify the Tax Laws for Families:								
Clarify uniform definition of a child [8]	....	17	66	50	32	48	213	395
Simplify EITC eligibility requirement regarding filing status, presence of children, and work and immigration status [9]	....	28	–17	–17	–19	–23	–48	–150
Reduce computational complexity of refundable child tax credit [10]	....	....	....	....	....	....	....	....
Total simplify the tax laws for families	....	45	49	33	13	25	165	245
Strengthen the Employer-Based Pension System:								
Ensure fair treatment of older workers in cash balance conversions and protect defined benefit plans	2	43	49	63	76	87	318	910
Strengthen funding for single-employer pension plans	....	388	1,859	–432	–2,402	–1,639	–2,226	–10,151
Reflect market interest rates in lump sum payments	....	....	–3	–9	–17	–24	–53	–274
Total strengthen the employer-based pension system	2	431	1,905	–378	–2,343	–1,576	–1,961	–9,515
Close Loopholes and Improve Tax Compliance:								
Combat abusive foreign tax credit transactions	....	1	2	2	3	3	11	26
Impose penalties on charities that fail to enforce conservation easements	....	3	8	8	9	9	37	91
Eliminate the special exclusion from unrelated business taxable income for gain or loss on the sale or exchange of certain brownfields	....	2	14	30	43	41	130	201
Limit related party interest deductions	....	82	141	148	155	163	689	1,635
Clarify and simplify qualified tuition programs	....	4	12	13	14	20	63	222
Total close loopholes and improve tax compliance	....	92	177	201	224	236	930	2,175

Table S–6. RECEIPTS PROPOSALS—Continued
(In millions of dollars)

	2006	2007	2008	2009	2010	2011	Total 2007–2011	Total 2007–2016
Tax Administration, Unemployment Insurance, and Other:								
Improve tax administration:								
Implement IRS administrative reforms and initiate cost saving measures [11]	....	1	2	2	2	2	9	23
Reduce the tax gap	....	189	185	135	112	113	734	1,633
Total improve tax administration	....	190	187	137	114	115	743	1,656
Strengthen financial integrity of unemployment insurance:								
Strengthen the financial integrity of the unemployment insurance system by reducing improper benefit payments and tax avoidance [12]	....	....	30	24	–18	–94	–58	–3,825
Extend unemployment insurance surtax [12]	....	....	1,061	1,524	1,560	1,601	5,746	1,982
Total strengthen integrity of unemployment insurance [12]	....	....	1,091	1,548	1,542	1,507	5,688	–1,843
Other proposals:								
Increase Indian gaming activity fees	....	....	5	5	5	5	20	45
Repeal excise tax on local telephone service [12]	....	–546	–456	–147	–73	–74	–1,296	–1,684
Total other proposals [12]	....	–546	–451	–142	–68	–69	–1,276	–1,639
Total tax administration, unemployment insurance, and other [12]	....	–356	827	1,543	1,588	1,553	5,155	–1,826
Modify Energy Policy Act of 2005:								
Repeal reduced recovery period for natural gas distribution lines	....	14	49	91	129	144	427	957
Modify amortization for certain geological and geophysical expenditures	....	112	165	135	70	25	507	566
Total modify Energy Policy Act of 2005	....	126	214	226	199	169	934	1,523
Promote Trade:								
Implement free trade agreements [12]	....	–201	–420	–569	–702	–776	–2,668	–7,195
Extend GSP [12]	....	–352	–563	–639	–686	–735	–2,975	–3,200
Total promote trade [12]	....	–553	–983	–1,208	–1,388	–1,511	–5,643	–10,395
Extend Expiring Provisions:								
Research & Experimentation (R&E) tax credit	–2,097	–4,601	–5,944	–6,889	–7,669	–8,340	–33,443	–86,440
Combined work opportunity/welfare-to-work tax credit	–80	–144	–86	–25	–7	–3	–265	–266
First-time homebuyer credit for DC	–1	–18	....	....	....	....	–18	–18
Authority to issue Qualified Zone Academy Bonds	....	–3	–8	–13	–18	–20	–62	–162
Disclosure of tax return information related to terrorist activity [7]	....	....	....	....	....	....	....	....
Excise tax on coal [12]	....	....	....	....	....	....	....	768
Total extend expiring provisions [12]	–2,178	–4,766	–6,038	–6,927	–7,694	–8,363	–33,788	–86,118
Total budget proposals, including proposals assumed in the baseline [12]	–2,207	–11,531	–15,087	–21,203	–49,521	–161,829	–259,171	–1,591,272
Total budget proposals, excluding proposals assumed in the baseline [12]	–2,292	–11,094	–14,058	–19,377	–25,527	–31,285	–101,341	–312,530

[1] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $47 million for 2011 and $51,869 million for 2007–2016.

[2] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is –$381 million for 2011 and $7,459 million for 2007–2016.

[3] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $92 million for 2007, $182 million for 2008, $257 million for 2009, $316 million for 2010, $359 million for 2011, $1,206 million for 2007–2011, and $3,566 million for 2007–2016.
[4] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $248 million for 2007, $321 million for 2008, $326 million for 2009, $310 million for 2010, $313 million for 2011, $1,518 million for 2007–2011, and $3,275 million for 2007–2016.
[5] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $379 million for 2007, $744 million for 2008, $1,089 million for 2009, $1,243 million for 2010, $1,337 million for 2011, $4,792 million for 2007–2011, and $12,878 million for 2007–2016.
[6] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $4 million for 2007, $10 million for 2008, $12 million for 2009, $14 million for 2010, $15 million for 2011, $55 million for 2007–2011, and $139 million for 2007–2016.
[7] No net budgetary impact.
[8] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is –$170 million for 2008, –$196 million for 2009, –$250 million for 2010, –$234 million for 2011, –$850 million for 2007–2011, and –$2,224 million for 2007–2016.
[9] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is –$209 million for 2007, $127 million for 2008, $106 million for 2009, $100 million for 2010, $97 million for 2011, $221 million for 2007–2011, and $683 million for 2007–2016.
[10] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is –$332 million for 2008, –$342 million for 2009, –$347 million for 2010, –$357 million for 2011, –$1,378 million for 2007–2011, and –$3,263 million for 2007–2016.
[11] Outlays from this proposal will be reflected in the Financial Management Service's budget.
[12] Net of income offsets.

Table S–7. BUDGET SUMMARY BY CATEGORY

(In billions of dollars)

	2005	2006	2007	2008	2009	2010	2011
Outlays:							
Discretionary:							
DOD military	473	510	536	516	493	490	500
Homeland security	30	32	35	35	37	38	40
Other	465	493	498	474	464	459	454
Total, Discretionary	968	1,035	1,068	1,025	994	988	994
Mandatory:							
Social Security:							
Current program	519	549	581	611	643	680	720
Personal accounts	....	....	....	....	....	24	58
Medicare	294	330	382	401	429	458	501
Medicaid and SCHIP	187	191	200	213	227	244	264
Other	320	372	319	330	354	366	387
Total, Mandatory	1,320	1,442	1,482	1,554	1,654	1,773	1,929
Net Interest	184	219	248	268	281	293	302
Total Outlays	2,472	2,696	2,798	2,847	2,929	3,053	3,224
Receipts	2,154	2,400	2,459	2,659	2,772	2,930	3,098
Deficit	–318	–296	–339	–188	–157	–123	–127
On-budget deficit	–494	–470	–517	–394	–380	–344	–334
Off-budget surplus	175	174	177	206	224	221	207

Table S–8. RECEIPTS BY SOURCE

(In billions of dollars)

	2005 Actual	Estimate					
		2006	2007	2008	2009	2010	2011
February estimates:							
Individual income taxes	927.2	997.6	1,096.4	1,208.5	1,268.4	1,370.1	1,466.9
Corporation income taxes	278.3	277.1	260.6	268.5	277.1	282.0	292.0
Social insurance and retirement receipts	794.1	841.1	884.1	932.1	980.7	1,037.4	1,096.7
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	**2,153.9**	**2,285.5**	**2,415.9**	**2,590.3**	**2,714.2**	**2,878.2**	**3,034.9**
Mid-Session estimates:							
Individual income taxes	927.2	1,063.4	1,107.7	1,246.5	1,299.9	1,404.4	1,511.8
Corporation income taxes	278.3	332.3	324.7	316.2	317.3	313.5	323.8
Social insurance and retirement receipts	794.1	833.9	864.7	922.1	971.3	1,028.5	1,088.6
Excise taxes	73.1	73.2	59.4	68.4	72.7	74.2	78.3
Estate and gift taxes	24.8	27.4	23.1	23.7	25.3	19.4	1.5
Customs duties	23.4	24.7	28.0	30.7	31.8	33.5	34.8
Miscellaneous receipts	33.0	45.7	51.2	50.9	53.7	56.3	58.8
Total	**2,153.9**	**2,400.5**	**2,458.8**	**2,658.6**	**2,772.0**	**2,929.8**	**3,097.7**
Difference:							
Individual income taxes	....	65.8	11.4	38.0	31.4	34.3	45.0
Corporation income taxes	....	55.1	64.2	47.7	40.2	31.5	31.8
Social insurance and retirement receipts	....	–7.2	–19.4	–10.0	–9.3	–8.9	–8.1
Excise taxes	....	–0.3	–15.3	–7.6	–4.8	–4.7	–4.9
Estate and gift taxes	....	–0.1	–0.6	–0.7	–0.7	–0.7	–*
Customs duties	....	–1.2	–0.1	–0.7	0.1	–0.4	–1.4
Miscellaneous receipts	....	3.0	2.8	1.5	1.0	0.6	0.4
Total	....	**115.0**	**43.0**	**68.3**	**57.8**	**51.7**	**62.8**

* $50 million or less.

Table S–9. OUTLAYS BY AGENCY

(In billions of dollars)

	2005 Actual	February estimates		Mid-Session estimates	
		2006	2007	2006	2007
Legislative Branch	4.0	4.4	4.4	4.4	4.5
Judicial Branch	5.5	6.1	6.4	6.1	6.4
Agriculture	85.3	95.7	92.8	94.6	88.3
Commerce	6.1	6.5	6.6	6.6	6.7
Defense—Military	474.4	512.1	504.9	512.1	537.3
Education	72.9	84.0	64.5	88.4	66.6
Energy	21.3	21.7	21.4	20.3	21.6
Health and Human Services	581.5	641.5	699.6	627.4	687.9
Homeland Security	38.7	66.8	43.6	72.6	49.3
Housing and Urban Development	42.5	46.8	44.7	45.9	45.9
Interior	9.3	9.1	9.4	9.6	10.0
Justice	22.4	22.3	24.7	22.6	24.6
Labor	46.9	51.4	53.4	47.1	50.2
State	12.7	13.6	14.5	14.0	15.2
Transportation	56.6	61.3	65.7	61.4	65.9
Treasury	410.2	452.1	494.3	456.7	499.3
Veterans Affairs	69.8	70.4	73.8	70.4	74.0
Corps of Engineers-Civil Works	4.7	7.4	5.9	7.3	7.8
Other Defense Civil Programs	43.5	45.7	47.3	45.7	47.5
Environmental Protection Agency	7.9	7.9	7.9	8.0	7.9
Executive Office of the President	7.7	7.4	2.4	5.4	3.6
General Services Administration	*	0.4	0.9	0.4	0.9
International Assistance Programs	15.0	16.3	16.8	15.9	17.2
National Aeronautics and Space Administration	15.6	15.6	16.4	15.6	16.4
National Science Foundation	5.4	5.8	5.8	5.8	5.8
Office of Personnel Management	59.5	63.5	67.3	63.5	67.4
Small Business Administration	2.5	1.2	0.6	1.4	1.4
Social Security Administration	561.3	592.4	622.7	591.1	622.0
Other Independent Agencies	15.0	17.3	21.6	16.6	22.3
Allowances	....	3.7	5.5	....	–0.4
Undistributed Offsetting Receipts	–226.2	–241.6	–275.5	–240.6	–275.6
Total	**2,472.2**	**2,708.7**	**2,770.1**	**2,696.3**	**2,798.0**

* $50 million or less.

Table S–10. OUTLAYS BY FUNCTION

(In billions of dollars)

	2005 Actual	February estimates		Mid-Session estimates	
		2006	2007	2006	2007
National defense	495.3	535.9	527.4	534.9	560.4
International affairs	34.6	34.8	33.3	32.9	35.7
General science, space, and technology	23.7	24.0	25.4	24.0	25.5
Energy	0.4	2.6	1.0	1.8	1.0
Natural resources and environment	28.0	32.7	31.0	33.8	33.9
Agriculture	26.6	26.8	25.7	26.2	21.7
Commerce and housing credit	7.6	9.1	11.2	9.3	12.0
Transportation	67.9	71.6	76.3	72.1	76.7
Community and regional development	26.3	52.0	28.2	58.8	34.8
Education, training, employment, and social services	97.5	109.7	87.6	114.1	89.9
Health	250.6	268.8	280.9	261.6	274.7
Medicare	298.6	343.0	392.0	335.6	387.3
Income security	345.8	360.6	367.2	359.1	365.9
Social Security	523.3	554.7	585.9	553.8	585.4
Veterans benefits and services	70.2	70.4	73.9	70.4	74.1
Administration of justice	40.0	41.3	44.3	41.4	45.7
General government	17.1	19.1	20.2	18.8	20.2
Net interest	184.0	220.1	247.3	219.2	247.8
Allowances	....	3.7	5.5	....	–0.4
Undistributed offsetting receipts	–65.2	–72.4	–94.3	–71.4	–94.4
Total	**2,472.2**	**2,708.7**	**2,770.1**	**2,696.3**	**2,798.0**

Table S–11. CURRENT SERVICES BASELINE CATEGORY TOTALS

(In billions of dollars)

	2005	2006	2007	2008	2009	2010	2011
Outlays:							
Discretionary:							
DOD military	473	510	471	442	447	457	472
Homeland security	30	32	35	35	36	36	38
Other	465	493	501	489	492	498	506
Total, Discretionary	968	1,035	1,006	966	975	991	1,016
Mandatory:							
Social Security	519	549	581	611	644	681	720
Medicare	294	330	385	406	437	466	511
Medicaid and SCHIP	187	191	199	213	228	245	264
Other	320	369	318	337	356	369	389
Total, Mandatory	1,320	1,439	1,482	1,566	1,664	1,761	1,884
Net Interest	184	219	247	264	275	284	290
Total Outlays	2,472	2,693	2,736	2,796	2,914	3,036	3,191
Receipts	2,154	2,403	2,470	2,673	2,791	2,955	3,129
Deficit	–318	–290	–266	–123	–122	–81	–62
On-budget deficit	–494	–468	–446	–332	–349	–330	–333
Off-budget surplus	175	177	181	209	227	249	271

Table S–12. OUTLAYS FOR MANDATORY PROGRAMS UNDER CURRENT LAW [1]

(In billions of dollars)

	2005 Actual	Estimate					
		2006	2007	2008	2009	2010	2011
Human resources programs:							
Education, training, employment and social services	18	33	12	12	12	13	13
Health	200	208	216	231	247	266	286
Medicare	294	330	385	406	437	466	511
Income security	292	304	310	325	336	346	361
Social security	519	549	581	611	644	681	720
Veterans' benefits and services	40	38	39	45	48	51	57
Subtotal, human resources programs	1,363	1,462	1,542	1,629	1,723	1,823	1,949
Other mandatory programs:							
International affairs	–4	–5	–2	–2	–2	–2	–2
Energy	–3	–2	–3	–2	–3	–3	–3
Natural resources and environment	–2	–*	1	1	1	1	1
Agriculture	21	20	17	17	17	16	16
Commerce and housing credit	5	6	7	4	2	*	1
Transportation	2	1	2	2	2	2	2
Community and regional development	1	18	2	*	–*	–*	–*
Justice	1	1	2	1	1	*	*
General government	1	2	2	2	2	2	2
Undistributed offsetting receipts	–65	–68	–91	–89	–81	–82	–85
Other functions	2	3	3	3	3	3	3
Subtotal, other mandatory programs	–43	–23	–60	–63	–59	–62	–65
Total, outlays for mandatory programs under current law	1,320	1,439	1,482	1,566	1,664	1,761	1,884

* $500 million or less

[1] This table meets the requirements of Section 221(b) of the Legislative Reorganization Act of 1970.

Table S–13. FEDERAL GOVERNMENT FINANCING AND DEBT

(Dollar amounts in billions)

	2005 Actual	Estimate 2006	2007	2008	2009	2010	2011
Financing:							
Unified budget deficit (–)	–318	–296	–339	–188	–157	–123	–127
Financing other than the change in debt held by the public:							
Net purchases (–) of non-Federal securities by the National Railroad Retirement Investment Trust	–2	–3	–*	*	*	*	*
Changes in:[1]							
Treasury operating cash balance	1						
Checks outstanding, etc.[2]	17						
Seigniorage on coins	1	1	1	1	1	1	1
Less: Net financing disbursements:							
Direct loan financing accounts	–5	–16	–18	–18	–19	–19	–20
Guaranteed loan financing accounts	11	11	–2	–1	–1	–*	–*
Total, financing other than the change in debt held by the public	22	–7	–19	–19	–18	–18	–20
Total, requirement to borrow from the public	–297	–303	–358	–207	–175	–142	–147
Change in debt held by the public	297	303	358	207	175	142	147
Changes in Debt Subject to Limitation:							
Change in debt held by the public	297	303	358	207	175	142	147
Change in debt held by Government accounts	254	290	265	318	332	331	314
Change in other factors	–13	*	1	1	3	2	3
Total, change in debt subject to statutory limitation	538	593	623	526	510	475	463
Debt Subject to Statutory Limitation, End of Year:							
Debt issued by Treasury	7,879	8,472	9,096	9,622	10,130	10,603	11,063
Adjustment for discount, premium, and coverage[3]	–8	–8	–8	–8	–6	–4	–3
Total, debt subject to statutory limitation[4]	7,871	8,464	9,087	9,613	10,124	10,598	11,061
Debt Outstanding, End of Year:							
Gross Federal debt:[5]							
Debt issued by Treasury	7,879	8,472	9,096	9,622	10,130	10,603	11,063
Debt issued by other agencies	26	26	25	25	24	23	23
Total, gross Federal debt	7,905	8,498	9,121	9,646	10,154	10,626	11,086
Held by:							
Debt held by Government accounts	3,313	3,603	3,868	4,186	4,518	4,849	5,162
Debt held by the public	4,592	4,895	5,253	5,460	5,635	5,777	5,923
As a percent of GDP	37.4%	37.3%	37.8%	37.2%	36.4%	35.5%	34.5%

* $500 million or less.

[1] A decrease in the Treasury operating cash balance (which is an asset) is a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding (which is a liability) is also a means of financing a deficit and therefore also has a positive sign.

[2] Besides checks outstanding, includes accrued interest payable on Treasury debt, uninvested deposit fund balances, allocations of special drawing rights, and other liability accounts; and, as an offset, cash and monetary assets (other than the Treasury operating cash balance), other asset accounts, and profit on sale of gold.

[3] Consists mainly of Federal Financing Bank debt (which is not subject to limit), the unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds), and the unrealized discount on Government account series securities.

[4] The statutory debt limit is $8,965 billion, enacted on March 20, 2006.

[5] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are otherwise measured at face value less unrealized discount (if any).

GLOSSARY

Appropriation.—An appropriation provides legal authority for Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. Appropriations bills, such as the Department of Homeland Security or the Departments of Labor, Health and Human Services, and Education bills, are considered every year by the Congress and supplemental appropriations bills are considered from time to time.

Authorization.—An authorization is an act of the Congress that establishes or continues a Federal program or agency and sets forth the guidelines to which it must adhere.

Budget Authority.—Budget authority is the authority provided by law to incur financial obligations that will result in outlays.

Budget Resolution.—The budget resolution is the Congress' annual framework that sets targets for total budget authority, total outlays, total revenues, and the deficit (on-budget), as well as discretionary and mandatory allocations within the spending targets. These targets guide the committees' deliberations. A budget resolution does not become law and is not binding on the Executive Branch.

Cap.—A "cap" is a legal limit on annual discretionary spending.

Deficit.—A deficit is the amount by which outlays exceed receipts in a fiscal year.

Discretionary Spending.—Discretionary spending is spending that the President and the Congress control through annual appropriations bills. Examples include spending for such activities as the FBI, the Coast Guard, education, space exploration, highway construction, defense, and foreign aid.

Entitlement.—An entitlement program is one in which the Federal Government is legally obligated to make payments or provide aid to any person who meets the legal criteria for eligibility. Examples include Social Security, Medicare, Medicaid, and Food Stamps.

Fiscal Year.—The fiscal year is the Federal Government's accounting period. It begins on October 1st and ends on September 30th. For example, fiscal year 2007 begins on October 1, 2006, and ends on September 30, 2007.

Gross Domestic Product (GDP).—GDP is a measure of the market value of goods and services produced within the United States. It is the standard measure of the size of the economy.

Mandatory Spending.—Mandatory spending is controlled by permanent law rather than annual appropriations. Examples are Social Security and the Student Loan Program. The President and the Congress can change the law with respect to the eligibility criteria or the payment formula, and thus change the level of spending on mandatory programs, but annual action is not necessary to ensure the continuation of spending. In addition, budget authority provided in annual appropriations acts for certain programs is treated as mandatory because the authorizing legislation entitles beneficiaries to receive payment or otherwise obligates the Government to make payment.

Obligations.—Obligations are binding agreements that result in outlays, immediately or in the future.

Outlays.—Outlays are the primary measure of Government spending. Outlays are payments to liquidate obligations, largely measured on a cash basis. Total Federal outlays are a net figure, consisting of gross payments minus the amount of business-like collections and intragovernmental transactions, in a given fiscal year.

Receipts.—Governmental receipts (sometimes called receipts or revenues) are the collections of money that primarily result from taxes and similar Government powers to compel payment. Examples of governmental receipts include income taxes, payroll taxes, excise taxes, and customs duties. They do not include offsetting receipts or collections from the Federal Government's business-like activities, such as the entrance fees at national parks, or collections by one Government account from another.

Surplus.—A surplus is the amount by which receipts exceed outlays in a fiscal year.