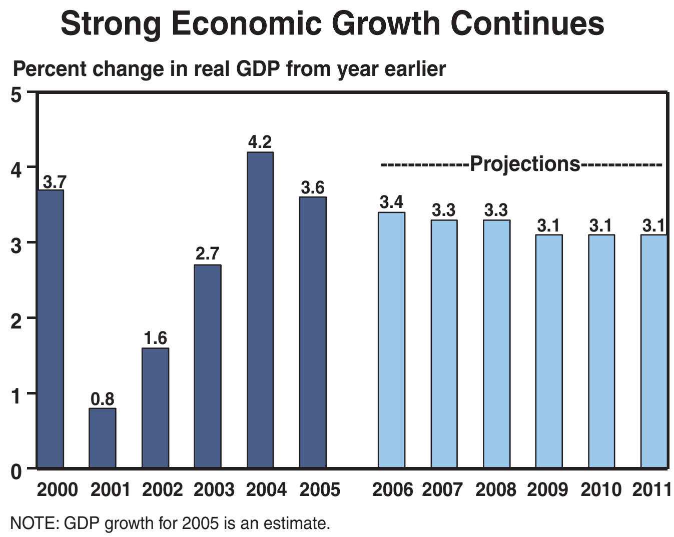
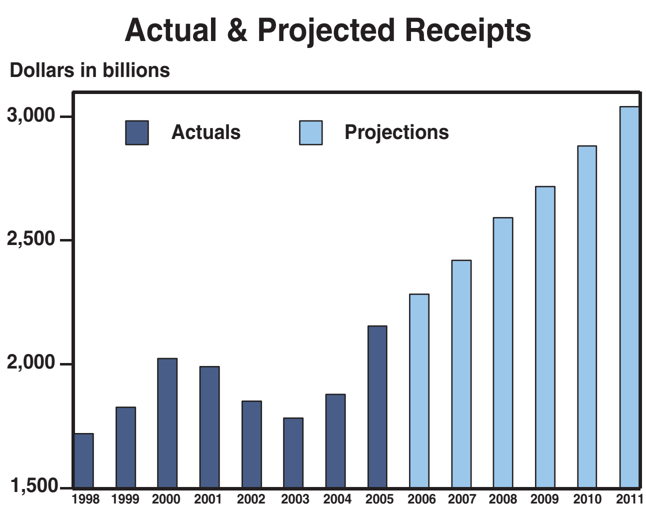
OVERVIEW OF THE PRESIDENT'S 2007 BUDGET

The President's 2007 Budget continues his commitment to fighting and winning the War on Terror, protecting the homeland, and advancing the cause of freedom across the globe. Its policies also promote a strong U.S. economy and support important domestic initiatives, such as improving our schools and reducing the cost of health care. As in past budget proposals, the President is focusing taxpayer dollars on these priorities, and enforcing additional spending restraint elsewhere across the Federal Government. By holding Federal programs to a firm test of accountability, we are taking the steps necessary to achieve deficit reduction goals and promote our economy's expansion.



The 2007 Budget continues policies that have helped fuel economic growth. In 2001 and again in 2003, the President signed major tax relief benefiting workers, families, and businesses. Thanks to this tax relief, and the hard work of America's entrepreneurs and workers, our economy is strong. Over the past year, inflation-adjusted Gross Domestic Product is estimated to have grown at a strong annual rate of 3.6 percent. Economic expansion has produced more than 4.6 million new jobs since May 2003, reduced unemployment to 4.9 percent, and raised homeownership to all-time highs.



In addition, we have seen dramatic increases in household wealth. U.S. equity markets have added more than three trillion dollars in value, and the net worth of Americans has risen by 28 percent since early 2001.

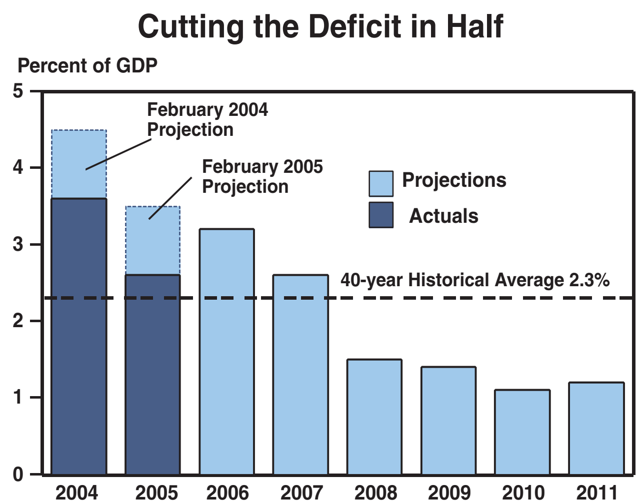
These gains are especially impressive given the challenges that this economy has faced: a stock market collapse, recession, corporate scandals, the terrorist attacks of September 11, 2001, the War on Terror, and most recently, major hurricanes and a surge in energy prices.

The strong economy has had a positive impact on the fiscal condition of the Nation. With the President's tax relief fully implemented in 2003, the economy responded strongly, and tax revenues rebounded. In 2004, receipts grew by 5.5 percent. In 2005, receipts increased by $274 billion, at 14.5 percent, the largest increase in 24 years.

The increase in receipts in 2004 and 2005 played a significant role in bringing down the size of the deficit. Since the President set a goal of cutting the deficit in half from its projected peak in 2004 of 4.5 percent of GDP, or $521 billion, the deficit has come down markedly. The final 2004 deficit was 3.6 percent of GDP, or $413 billion, and the 2005 deficit fell further, to 2.6 percent of GDP, or $318 billion.

In last year's Mid-Session Review, the Administration forecast a higher nominal deficit for 2006, in part reflecting the implementation on January 1, 2006 of the new Medicare prescription drug benefit. With the unanticipated spending associated with relief and recovery efforts in response to Hurricanes Katrina and Rita, the deficit is now expected to be larger than previously forecast. We now project that the 2006 deficit will come in at 3.2 percent of GDP, or $423 billion.

While this increase in the deficit is unwelcome, a deficit at this level is still well within the historical range. At 3.2 percent of GDP, it would still be smaller than the deficits in 11 of the last 25 years. More importantly, if we build on the policies of economic growth and spending restraint reflected in this Budget, the deficit is projected to return to its downward trajectory and stay on track to meet the President's goal of cutting the deficit in half by 2009.



For 2007, the Budget forecasts a decline in the deficit to 2.6 percent of GDP, or $354 billion. By 2009, the deficit is projected to be cut by more than half from its projected peak to just 1.4 percent of GDP, which is well below the 40-year historical average deficit.

As last year's dramatic increase in receipts demonstrates, the most important factor in reducing the deficit is a strong economy.

To extend the economic expansion that has produced gains for American workers and businesses, and improved the Nation's fiscal condition, the 2007 Budget proposes to make permanent the tax relief signed into law by the President in 2001 and 2003. Unless tax relief is made permanent, income tax rates will rise, the marriage penalty will go up, the child tax credit will be cut in half, savers and investors will see their taxes rise, and the death tax will come back to life.

To further promote long-term economic growth, the 2007 Budget proposes policies to maintain and build America's competitive edge. The President will continue to press his agenda of removing trade barriers and opening markets overseas to U.S. goods and services, reducing unnecessary litigation and regulation, supporting reform and high standards in public schools, confronting the rising costs of health care, and promoting and developing new energy sources. In addition, the 2007 Budget places special focus on a new effort, called the American Competitiveness Initiative, to better prepare American children in math and science, develop and train a high-tech workforce, and further strengthen private-sector innovation and entrepreneurship. Progress in all these areas will help ensure that America's economy continues to grow at the healthy pace required to generate increased revenues to the Treasury.

A second critical component of deficit reduction is a vigorous policy of spending restraint. This past year, the Administration and the Congress achieved significant success in restraining spending. In the 2006 Budget, the President set three major goals for the discretionary side of the budget: first, the President proposed to hold growth in overall discretionary spending below the rate of inflation; second, he proposed an actual cut in the non-security portion of discretionary spending—the first such proposal since the Reagan Administration; and third, he proposed major reductions in or eliminations of 154 Government programs that were not getting results or not fulfilling essential priorities.

The Congress delivered on all three goals. It held overall growth in discretionary spending below the rate of inflation and enacted appropriations bills that cut non-security spending. It also achieved $6.5 billion in savings by acting on 89 of the 154 discretionary programs the Administration targeted for termination or reduction.

The 2007 Budget builds on this success in reining in spending. Like last year, the 2007 Budget holds overall discretionary spending growth below the rate of inflation and again proposes a cut in non-security discretionary spending. The 2007 Budget also proposes major savings in or eliminations of 141 Federal programs, saving nearly $15 billion.

Over the long-term, however, the greatest threat to our fiscal health comes from unsustainable growth in entitlement programs such as Social Security and Medicare. Toward the end of the next decade, deficits stemming largely from these programs will begin to rise indefinitely, and no plausible amount of spending cuts in discretionary accounts or tax increases could solve the problem. If unaddressed, these unfunded obligations will put an increasing burden on our children and grandchildren. To solve this problem, we do not need to cut these programs, but we do need to slow their growth.

Last year, we took an important first step on the mandatory side of the budget: the Congress adopted a spending reduction bill that will achieve $40 billion in mandatory savings over five years. The 2007 Budget proposes reforms that will produce an additional $65 billion in net mandatory savings over the next five years, including reforms in Medicare that will promote competition and the delivery of efficient, high-quality care to beneficiaries. The 2007 Budget paves the way for additional reforms that will be needed over the longer term to bring Medicare's finances in line with available resources. The President will also continue to promote the cause of comprehensive reform of Social Security to place the program's finances on sustainable footing for future generations, while preserving benefits for those already at or near retirement.

These responsible efforts to restrain spending will help the Nation meet its near-term and long-term fiscal challenges. Taken together with pro-growth economic policies, especially tax relief, we are setting the stage for an even brighter economic future for all Americans.