

Economic Report of the President



Transmitted to the Congress
February 2007

together with
THE ANNUAL REPORT
of the
COUNCIL OF ECONOMIC ADVISERS

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C O N T E N T S

	<i>Page</i>
ECONOMIC REPORT OF THE PRESIDENT	1
ANNUAL REPORT OF THE COUNCIL OF ECONOMIC ADVISERS*	7
CHAPTER 1. THE YEAR IN REVIEW AND THE YEARS AHEAD	23
CHAPTER 2. PRODUCTIVITY GROWTH	45
CHAPTER 3. PRO-GROWTH TAX POLICY.....	63
CHAPTER 4. THE FISCAL CHALLENGES FACING MEDICARE	85
CHAPTER 5. CATASTROPHE RISK INSURANCE	105
CHAPTER 6. THE TRANSPORTATION SECTOR: ENERGY AND INFRASTRUCTURE USE.....	125
CHAPTER 7. CURRENCY MARKETS AND EXCHANGE RATES	149
CHAPTER 8. INTERNATIONAL TRADE AND INVESTMENT	167
CHAPTER 9. IMMIGRATION	189
APPENDIX A. REPORT TO THE PRESIDENT ON THE ACTIVITIES OF THE COUNCIL OF ECONOMIC ADVISERS DURING 2006.....	207
APPENDIX B. STATISTICAL TABLES RELATING TO INCOME, EMPLOYMENT, AND PRODUCTION.....	221

** For a detailed table of contents of the Council's Report, see page 11*

**ECONOMIC REPORT
OF THE PRESIDENT**

ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

Economic growth in the United States has been above the historic average and faster than any other major industrialized economy in the world. January was the 41st month of uninterrupted job growth produced by this economy, in an expansion that has thus far added more than 7.4 million new jobs. Unemployment is low, inflation is moderate, and real wages are rising. Our economy is on the move and we can keep it that way by continuing to pursue sound economic policy based on free-market principles.

Sound economic policy begins with low taxes. We should work together to spend the taxpayers' money wisely and to tackle unfunded liabilities inherent in entitlement programs such as Social Security, Medicare, and Medicaid. I have laid out a detailed plan in my budget to restrain spending, cut earmarks in half by the end of this session, and balance the budget by 2012 without raising taxes. The tax relief of the past few years has been a key ingredient in growing our economy, and it should be made permanent.

Our growing economy is dynamic. The rise of new technologies, new competition, and new markets abroad is changing how we do business. We need to take action in four key areas to keep America's economy flexible and dynamic.

First, we must break down barriers to trade so our workers can sell more goods and services to the 95 percent of the world's customers who live outside of our borders. Global trade talks like the Doha Round at the World Trade Organization have the potential to level the playing field so that we can compete on fair terms in foreign markets, while helping lift millions of people out of poverty around the world.

The only way we can complete the Doha Round and make headway on other trade agreements is to extend Trade Promotion Authority, which is set to expire on July 1st. This authority is essential to completing good trade agreements. The Congress must renew it if we are to improve our competitiveness in the global economy.

Second, we must work to make private health insurance more affordable and to give patients more choices and control over their health care. One of the most promising ways to do this is by reforming the tax code. We must end the unfair bias against individuals who buy insurance on their own. I propose creating a standard deduction for every American who buys health insurance, whether they get it through their jobs or on their own. In a changing economy, we need a health care system that is flexible and consumer-oriented. With this reform, more than 100 million Americans who are now covered by employer-provided insurance will benefit from lower tax bills. Those who now purchase health insurance on their own would save money on their taxes. Millions of others who now have no health insurance at all would find basic private coverage within their reach. My proposal also taps the innovation of States in making basic, affordable insurance available to all by creating Affordable Choices grants to help ensure the poor and the sick have access to private health insurance.

Third, we must continue to diversify our energy supply to benefit our economy, national security, and environment. In my State of the Union Message, I set an ambitious goal of reducing gasoline usage in the United States by 20 percent over the next 10 years. Meeting this goal will require significant changes in supply and demand, but we should let the market decide the best mix of technologies and fuels to most efficiently attain it. On the supply side, I propose a higher and reformed fuel standard that would include renewable and other alternative fuels. We should also allow environmentally friendly exploration of oil and natural gas. On the demand side, I propose enhancing Corporate Average Fuel Economy standards for cars and extending the current rule for light trucks, so that we can reduce the amount of gasoline that our passenger vehicles consume, and do so in a more efficient way.

Fourth, a strong and vibrant education system is vital to maintaining our Nation's competitive edge in the world and extending economic opportunity to every citizen here at home. Five years ago, we rose above partisan differences to enact the No Child Left Behind Act, preserving local control, raising standards, holding schools accountable for results, and providing more choice. This year, we must reauthorize and strengthen this good law while preserving its core principles.

Strong productivity growth underlies much of the good economic news from the past few years and the policies discussed above. Productivity growth helps to increase our standards of living and improve our international competitiveness. To maintain this progress, we must pursue a variety of pro-growth policies, including those contained in the American Competitiveness Initiative and comprehensive immigration reform.

These and other issues are discussed in the 2007 *Annual Report of the Council of Economic Advisers*. The Council has prepared this *Report* to put into broader context the economic issues that underlie my Administration's policy decisions. I commend it to you.

A large, stylized handwritten signature in black ink, which appears to be "George W. Bush". The signature is written in a cursive, flowing style with a large initial "G" and "B".

THE WHITE HOUSE
FEBRUARY 2007

**THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS**

LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS
Washington, D.C., February 13, 2007

MR. PRESIDENT:

The Council of Economic Advisers herewith submits its 2007 Annual Report in accordance with the provisions of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

Sincerely,



Edward P. Lazear
Chairman



Katherine Baicker
Member



Matthew J. Slaughter
Member