ECONOMIC REPORT OF THE PRESIDENT

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ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

Over the past 6 years of economic expansion, the American economy has proven its strength and resilience. Job creation grew uninterrupted for a record period of time, inflation remains moderate, unemployment is low, and productivity continues to grow. The economy is built upon a strong foundation, with deep and sophisticated capital markets, flexible labor markets, low taxes, and open trade and investment policies.

Americans should be confident about the long-term strength of our economy, but our economy is undergoing a period of uncertainty, and there are heightened risks to our near-term economic growth. To insure against these risks, I called upon the Congress to enact a growth package that is simple, temporary, and effective in keeping our economy growing and our people working.

There is more we should do to strengthen our economy. First, we must keep taxes low. Unless the Congress acts, most of the tax relief that we have delivered over the past 7 years will be taken away and 116 million American taxpayers will see their taxes rise by an average of $1,800. The tax relief of the past few years has been a key factor in promoting economic growth and job creation and it should be made permanent. We must also work together to tackle unfunded obligations 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, and balance the budget by 2012 without raising taxes.

Second, we must trust Americans with the responsibility of homeownership and empower them to weather turbulent times in the market. My Administration has acted aggressively to help credit-worthy homeowners avoid foreclosure. We launched a new initiative called *FHASecure* to help families refinance their homes. I signed legislation to protect families from

higher taxes when lenders forgive a portion of their home mortgage debt. We have also brought together the HOPE NOW alliance, which is helping many struggling homeowners avoid foreclosure by facilitating the refinancing and modification of mortgages. The Congress can do more to help American families keep their homes by passing legislation to reform Freddie Mac and Fannie Mae, modernize the Federal Housing Administration, and allow State housing agencies to issue tax-free bonds to help homeowners refinance their mortgages.

Third, we must continue opening new markets for trade and investment. We have an unprecedented opportunity to reduce barriers to global trade and investment through a successful Doha round. The Congress should also approve our pending free trade agreements. I thank the Congress for its approval of a good agreement with Peru, and ask for the approval of agreements with Colombia, Panama, and South Korea. These agreements will benefit our economy by providing greater access for our exports and supporting good jobs for American workers, and they will promote America's strategic interests. I have asked the Congress to reauthorize and reform trade adjustment assistance so that we can help those workers who are displaced by trade to learn new skills and find new jobs.

Fourth, we must make health care more affordable and accessible for all Americans. I have proposed changes in the tax code that would end the bias against those who do not receive health insurance through their employer and would make it easier for many uninsured Americans to obtain insurance. This reform would put private health care coverage within reach for millions. My Budget also improves access to health care by increasing the power of small employers, civic groups, and community organizations to negotiate lower-priced health premiums. These policies would encourage competition among health plans across State lines, help reduce frivolous lawsuits that increase patients' costs, and promote the use of health savings accounts.

Fifth, we must increase our energy security and confront climate change. Last year, I proposed an ambitious plan to reduce U.S. dependence on oil and help cut the growth of greenhouse gas emissions. I am pleased that the Congress responded, and I was able to sign into law a bill that will increase fuel economy and the use of alternative fuels, as well as set new efficiency mandates on appliances, light bulbs, and Federal Government operations. In my State of the Union Message, I proposed that we take the next steps to accelerate technological breakthroughs by funding new technologies to generate coal power that captures carbon emissions, advance emissions-free nuclear power; and invest in advanced battery technology and renewable energy. I am also committing

$2 billion to a new international clean technology fund that will help developing nations make greater use of clean energy sources. Additionally, my Budget proposes to protect the economy against oil supply disruptions by doubling the capacity of the Strategic Petroleum Reserve.

Finally, a strong and vibrant education system is vital to maintaining our Nation's competitive edge and extending economic opportunity to every citizen. Six years ago, we came together to pass the No Child Left Behind Act, and no one can deny its results. Now we must work together to increase accountability, add flexibility for States and districts, reduce the number of high school dropouts, and provide extra help for struggling schools.

Many of these issues are discussed in the 2008 *Annual Report of the Council of Economic Advisers.* The Council has prepared this *Report* to help policymakers understand the economic conditions and issues that underlie my Administration's policy decisions. By relying on the foundation and resilience of our economy, trusting the decisions of individuals and markets and pursuing pro-growth policies, we should have confidence in our prospects for continued prosperity and economic growth.

THE WHITE HOUSE
FEBRUARY 2008

THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS

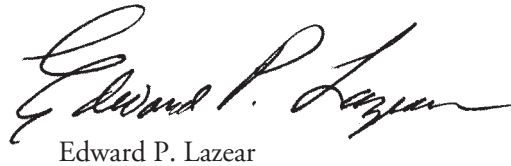
LETTER OF TRANSMITTAL

Council of Economic Advisers
Washington, D.C., February 12, 2008

Mr. President:

The Council of Economic Advisers herewith submits its 2008 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