

A NEW FOUNDATION FOR AMERICAN GREATNESS

I. OVERVIEW

This 2018 Budget lays the groundwork for an overdue renewal of the American spirit, and provides a detailed and specific roadmap to get us there. *A New Foundation for American Greatness* is not just the title of this Budget. It is a bold and specific set of policy and budgetary initiatives that tackle many of the problems ignored or exacerbated by previous administrations.

Our Nation must make substantial changes to the policies and spending priorities of the previous administration if our citizens are to be safe and prosperous in the future. This Budget represents an attainable vision of a Government that preserves the safety and fiscal security of this Nation while enabling the creativity and drive that has always supported the American Dream. This New Foundation for American Greatness presents an opportunity for our Nation's values and constitutional principles to send a message of American strength, leadership, and fiscal responsibility to the rest of the world.

This message comes from a place of profound respect for the American people and the hard-working taxpayers who built this Nation. It reflects President Donald J. Trump's deep commitment to restore this Nation's greatness, a rejection of the failed status quo, and an effort that strives to be worthy of the American people and the trust they have placed in the President.

With a \$20 trillion debt threatening generations of American prosperity, our Federal budget must spend every dollar effectively, efficiently, and in ways that make a demonstrable

difference for our Nation. It also must do something equally important: lay the foundation for a rebuilt national defense, strengthened borders, and the long-term soundness of our economy and well-being of the American family.

The President and this Budget aim to achieve this by laying:

- A new foundation that solidifies our commitment to the border's security.
- A new foundation of policies to produce new American jobs.
- A new foundation for immigration policy that serves the national interest and the American taxpayer.
- A new foundation of federalism that trusts States to help manage America's health care.
- A new foundation that creates a pathway to welfare reform that is focused on promoting work and lifting people out of poverty.
- A new foundation that places America first by returning more American dollars home and ensuring foreign aid supports American interests and values.
- A new foundation that spurs innovation and enables the American worker and family to thrive.
- A new foundation of restraint that limits Government regulation and intrusion.
- A new foundation of discipline that puts our budget on a path to balance.

- And, a new foundation of focus on the forgotten American worker who now has an advocate in the Oval Office.

The time is now to address the fundamental challenges facing our Nation. It is more than just words on pages; it is a call to action to save this great Nation. We have borrowed from our children and their future for too long, the devastating consequences of which cannot be overstated. We are fast approaching having publicly held debt at or exceeding 100 percent of our Gross Domestic Product (GDP), a point at which hopes for a more prosperous future are irrevocably lost.

This Budget makes it clear that we will reverse the damaging trends from previous administrations and restore the American Dream. The New

Foundation for American Greatness will put our Nation's budget back into balance and begin to reduce the national debt.

A New Foundation for American Greatness requires a new approach to how we tax, regulate, and support our American worker and job creators. A new approach to how we provide for the common defense and promote the general welfare. A new approach to how we care for the sick and educate our young. A new approach to how we spend every tax dollar.

The President believes it will take courage and bold leadership to restore our Nation's greatness. This Budget is a large and bold reversal from the spiral of decline we were on toward a more bright and prosperous future.

II. WHAT WENT WRONG: INHERITING \$20 TRILLION IN DEBT AND A BROKEN, STAGNANT ECONOMY

The new Administration inherited an economic situation in which the United States is \$20 trillion in debt and yet at the same time dramatically underserving the needs of its citizens due to a broken, stagnant economy.

The previous administration's economic policies resulted in a near doubling of the national debt from \$10.6 trillion in 2009 to nearly \$20 trillion in 2016. The amount of this debt that is publicly held—that is, the portion that requires financing on the capital markets—is \$14 trillion. Relative to the economy, publicly held debt at the end of last fiscal year was 77 percent of GDP, nearly double the level of 39 percent of GDP eight years earlier. This run-up in debt over the last eight years brought it to a level that we have not seen since shortly after World War II.

While our national debt has soared, our economic growth has been historically abysmal.

Stagnant economic growth has severely weakened our Nation's capacity to pay off the debt in the future, especially as measured

against historic norms. Overall growth of the economy was subpar even before the last recession and recovery from that recession has been weak.

From World War II to 2007, the average fourth quarter-over-fourth quarter growth rate was 3.5 percent. Over the last nine years, average growth has been 1.3 percent.

Productivity growth is also down from historical averages. Productivity growth (defined as growth in real output per labor hour) has averaged 0.5 percent per year over 2011-2016. Over the years 1948 to 2007, average annual productivity growth was 2.3 percent. This stagnation has left hardworking taxpayers and American families feeling like the American Dream is out of their reach.

SOURCES OF ECONOMIC STAGNATION

Trade Deals That Have Exported American Jobs. All across America, there are cities and towns devastated by unfair trade policies. Horrible trade deals from prior administrations

have stripped wealth and jobs from our Nation. Persistent trade deficits go hand in hand with a stagnant recovery and our trade deficits have increased: net exports were about -1 percent of GDP in the early 1990s; they were -3.4 percent of GDP in 2016.

Burdensome Federal Regulation. Until the new Administration took office this year, the regulatory state had continued to grow and impede growth in the economy. For example, over the 10 years ending in 2016, non-independent agencies added between \$78-\$115 billion in estimated annual costs through the finalization of new regulations. This included several environmental regulations, such as the Light Duty Fuel Economy regulations and the Power Plant Mercury regulations that each had estimated compliance costs approaching or exceeding \$10 billion per year. The true impact of regulations during this time was undoubtedly higher, as regulations issued by the so-called “independent agencies” are not included in this total. These “independent agencies” issue the majority of burdensome financial regulations, including the vast majority of the cost of compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

Everyone believes in and supports safe food supplies and clean air and water. But the agencies of the Federal Government have gone way beyond what was originally intended by the Congress. The hallmark feature of these regulations has been a mind-numbing complexity that minimizes the understanding of what constitutes compliance, and maximizes the opportunity for arbitrary and ad hoc bureaucratic decision-making, often through vehicles that may not be a legitimate substitute for notice-and-comment rulemaking, such as guidance and interpretive documents.

Burdensome Permitting Process. As major infrastructure projects are proposed, Federal agencies are responsible for reviewing potential impacts on safety, security, communities, and the environment. Over time, the legal requirements and processes for the permitting and review of

major infrastructure projects have developed in a siloed and ad-hoc way, creating complex processes that in some cases take multiple years to complete. Projects that are particularly large and complex, or that have significant environmental impacts, are often in the permitting and review process for several years. Up to 18 Federal agencies and 35 bureaus are responsible for individual, independent permitting and review decisions. Delays and uncertainty in project review timelines can affect critical financing and siting decisions; postpone needed upgrades, replacements, or new development; and ultimately, delay job creation and negatively affect American competitiveness. While there have been a number of efforts to improve these processes over time, they have had little quantifiable impact. Under the auspices of the infrastructure initiative, through administrative, regulatory, and legislative changes, the Administration will work to streamline and rationalize the permitting process while maintaining opportunities for meaningful public input and protecting the environment.

Highest Business Taxes in the World. The corporate tax rate in the United States is the highest in the Organization for Economic Cooperation and Development (OECD) and one of the highest in the world. While the Federal corporate income tax in the United States is 35.0 percent, after including State taxes, the rate is 38.9 percent. This compares to an average top marginal tax rate of 22.5 percent worldwide and 24.7 percent in the OECD. As long as our corporate tax rate is well above other nations, businesses will have the incentive to locate overseas, and America will continue to lose out on both jobs and tax revenue.

Low Business Investment. Due to high taxes, high regulations, and poor economic policies, real private nonresidential fixed investment has grown by only 1.3 percent each year (on a fourth quarter-over-fourth quarter basis) since 2007, compared to 4.9 percent annually before the recession. The capital stock is an important determinant of labor productivity, and weak

growth in labor productivity in recent years reinforces the need for more investment.

THE HUMAN COST OF ECONOMIC STAGNATION: TOO MANY AMERICANS LEFT BEHIND

Due to the slow recovery and over-burdened job creators, American workers and their families have not seen significant gains in their wages in recent years. In 2016, real hourly wages for production workers grew by only 0.5 percent (on a December-over-December basis). From the end of 2007 to the end of 2016, real GDP grew by 12.1 percent, but real wages grew by only 7.7 percent. In 2015, 13.5 percent of Americans lived in poverty, higher than in 2007. The poverty rate among children was even higher, 19.7 percent in 2015, compared to 18 percent in 2007.

Further compounding the twin challenges of growing debt and economic stagnation are social and economic policies that have failed millions of able-bodied adults. Millions of Americans are too discouraged to remain in the labor force or are being forced to work part-time.

In December 2007, before the start of the Great Recession, the labor force participation (LFP) rate was 66.0 percent. At the end of 2016, over seven years after the end of the recession, the participation rate was 62.7 percent. This is not solely a reflection of an aging population. Even amongst “prime-age” workers (those aged 25 to 54 years), participation in the labor force has declined, from 83.1 percent at the end of 2007, to 81.5 percent at the end of 2016. For those aged 25 to 34 years, too, participation has fallen according

to the U.S. Bureau of Labor Statistics (from 83.1 percent in December 2007, to 81.9 percent in December 2016). The employment-to-population ratio has fallen one percentage point for this young demographic between the end of 2007 and the end of 2016.

THE DANGEROUS COMBINATION OF HISTORIC DEBT AND ECONOMIC STAGNATION

Recent Federal budgets tell the story of a persistent and unresolved national crisis. During the Great Recession, the Federal budget deficit rose to unprecedented heights as revenue fell and spending rose sharply. From 2009 to 2012, the budget ran trillion-dollar deficits ranging in size from 6.8 percent to 9.8 percent of GDP, a standard measure of the size of deficits relative to the economy. Relative to GDP, these deficits were the largest seen since the Nation was on an all-out war footing during World War II.

From 2013 to 2016, deficits diminished from the trillion-dollar peaks, but still remained between \$400 and \$700 billion. These deficits were still above historical levels prior to the recession, despite coming years after the recession ended. Unless we change our fiscal course, our budget deficits will begin rising again after next year and will soon reach trillion-dollar levels once again. That would mean the publicly held debt will continue to mushroom and soon place the Nation in uncharted fiscal territory, unable to weather unexpected events such as recession or war, and vulnerable to fiscal and economic crises.

III. HOW TO MAKE THINGS RIGHT: NEW POLICIES FOR JOBS AND GROWTH AND NEW SPENDING PRIORITIES

To promote safety and prosperity for all Americans, we need to reprioritize Federal spending as we change the policies that have stifled economic growth. We need to incentivize business investment and reform the tax and regulatory systems that have been headwinds for growth. We need trade practices that will

stimulate American exports and jobs. We need family friendly policies that acknowledge the reality of dual income households. In addition, we need to bring Federal deficits and debt under control so that the Federal Government no longer absorbs available capital that could go to more productive uses.

NEW POLICIES FOR JOBS AND GROWTH

The President's Budget proposes the following bold steps to spark faster economic growth, balance the budget within 10 years, and finance important new priorities.

Control Federal Spending. The first step is to bring Federal spending under control and return the Federal budget to balance within 10 years. Deficit spending has become an ingrained part of the culture in the Nation's capital. It must end to avoid passing unsustainable levels of debt on to our children and grandchildren and causing serious economic damage. When debt levels keep increasing, more and more of the Nation's resources are required to service that debt and are diverted away from Government services that citizens depend on. To help correct this and reach our budget goal in 10 years, the Budget includes \$3.6 trillion in spending reductions over 10 years, the most ever proposed by any President in a Budget. By including the anticipated economic gains that will result from the President's fiscal, economic, and regulatory policies, the deficit will be reduced by \$5.6 trillion compared to the current fiscal path.

As a result, by the end of the 10-year budget window, when the budget reaches balance, publicly held debt will be reduced to 60 percent of GDP, the lowest level since 2010, when the economic policies of the last administration took effect. Under this plan, the debt will continue to fall both in nominal dollars and as a share of GDP beyond that point, putting us on a path to repay the debt in full within a few decades. Bringing the budget into surplus and reducing the level of debt sets up a virtuous cycle in which fewer tax dollars are needed to service the debt. This increases budget flexibility, in which the Government can pursue other needed priorities. Reduced Federal borrowing on the capital markets also frees up capital to flow to productivity-enhancing investments, leading to higher economic growth.

The following are a few of the ways we will bring spending under control:

Repeal and Replace Obamacare. The Budget includes \$250 billion in deficit savings associated with health care reform as part of the President's commitment to rescue Americans from the failures of Obamacare, and to expand choice, increase access, and lower premiums. The President supports a repeal and replace approach that improves Medicaid's sustainability and targets resources to those most in need, eliminates Obamacare's onerous taxes and mandates, provides funding for States to stabilize markets and ensure a smooth transition away from Obamacare, and helps Americans purchase the coverage they want through the use of tax credits and expanded Health Savings Accounts. Repealing Obamacare and its regulations on businesses will also increase employment, thereby increasing GDP and creating much needed economic growth. The Administration applauds the House's passage of the American Health Care Act and is committed to working with the Congress to repeal and replace Obamacare.

The Administration is committed to providing needed flexibility to issuers to help attract healthy consumers to enroll in health insurance coverage, improve the risk pool and bring stability and certainty to the individual and small group markets, while increasing the options for patients and providers. The Administration also supports State flexibility and control to create a free and open health care market and will continue to empower States to make decisions that work best for their markets. In light of these goals, the Budget promotes efficient operations and only funds critical activities for the Health Insurance Exchanges. The Administration will continue to work with the Congress to provide for a stable transition from the burdensome requirements of Obamacare and transition to a health care system focused on these core values.

Reform Medicaid. To realign financial incentives and provide stability to both Federal and State budgets, the Budget

proposes to reform Medicaid by giving States the choice between a per capita cap and a block grant and empowering States to innovate and prioritize Medicaid dollars to the most vulnerable populations. States will have more flexibility to control costs and design individual, State-based solutions to provide better care to Medicaid beneficiaries. These reforms are projected to save \$610 billion over 10 years.

Support the Highest Priority Biomedical Research and Development. The Budget institutes policies to ensure that Federal resources maximally support the highest priority biomedical science by reducing reimbursement of indirect costs (and thus focusing a higher percentage of spending on direct research costs) and implementing changes to the National Institutes of Health's (NIH) structure to improve efficiencies in the research enterprise. In 2018, the Department of Health and Human Services (HHS) and NIH will develop policies to reduce the burden of regulation on recipients of NIH funding consistent with the Administration's initiatives on regulatory reform and the goals articulated for the new Research Policy Board established in the 21st Century Cures Act.

Provide a Path Toward Welfare Reform. The Budget provides a path toward welfare reform, particularly to encourage those individuals dependent on the Government to return to the workforce. In doing so, this Budget includes Supplemental Nutrition Assistance Program (SNAP) reforms that tighten eligibility and encourage work, and proposals that strengthen child support and limit the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) to those who are authorized to work in the United States.

As a primary component of the social safety net, SNAP—formerly Food Stamps—has grown significantly in the past decade. As expected, SNAP participation grew to historic

levels during the recession. However, despite improvements in unemployment since the recession ended, SNAP participation remains persistently high.

The Budget proposes a series of reforms to SNAP that close eligibility loopholes, target benefits to the neediest households, and require able-bodied adults to work. Combined, these reforms will reduce SNAP expenditures while maintaining the basic assistance low-income families need to weather hard times. The Budget also proposes SNAP reforms that will re-balance the State-Federal partnership in providing benefits by establishing a State match for benefit costs. The Budget assumes a gradual phase-in of the match, beginning with a national average of 10 percent in 2020 and increasing to an average of 25 percent by 2023. To help States manage their costs, in addition to the currently available operational choices States make that can impact participation rates and benefit calculations, new flexibilities to allow States to establish locally appropriate benefit levels will be considered.

The Budget also includes a number of proposals that strengthen the Child Support Enforcement Program, providing State agencies additional tools to create stronger, more efficient child support programs that facilitate family self-sufficiency and promote responsible parenthood. Specifically, a suite of Establishment and Enforcement proposals serves to increase child support collections that in turn result in savings to Federal benefits programs, and a Child Support Technology Fund will allow States to replace aging information technology systems to increase security, efficiency, and program integrity.

The Budget also proposes to require a Social Security Number (SSN) that is valid for work in order to claim the CTC and EITC. Under current law, individuals who do not have SSNs valid for work can claim the CTC, including the refundable portion of

the credit. This proposal would ensure only people who are authorized to work in the United States are eligible for the CTC. In addition, this proposal fixes gaps in current administrative practice for EITC filers that allowed some people with SSNs that are not valid for work to still claim the EITC.

Reform Disability Programs. The Budget proposes to reform disability insurance programs to promote greater LFP. Currently, people with disabilities have low rates of LFP—20 percent—which is less than a third of the LFP rate of the overall working age population. Disability benefits are essential for workers with long-term and permanent disabilities who are unable to work. Program integrity efforts are crucial to ensure only participants who remain eligible continue receiving benefits. The greatest waste is when the Government is not doing enough to enable individuals to remain in the labor force—incentives and pathways to recover from a temporary disability and return to work. These disability insurance programs should be helping people to stay in the workforce and be self-sufficient.

At the same time, Government must ensure only those who are truly eligible receive benefits. Reform proposals in the Budget include efforts to improve program integrity, close loopholes that make the program more susceptible to fraud, and address inequities in the system. For instance, the Budget proposes to hold fraud facilitators liable for overpayments and, instead of the automatic current lifetime appointment for Federal staff reviewing applications, the Budget proposes a probationary period for all new Administrative Law Judges hired.

To test creative and effective ways to promote greater LFP of people with disabilities so individuals can be independent and self-sufficient, the Budget proposes to expand demonstration authority to allow the Administration to test new program rules and processes and require mandatory

participation by program applicants and beneficiaries. An expert panel will identify specific changes to program rules that would increase LFP and reduce program participation, informed by successful demonstration results and other evidence. Past efforts have provided enhanced incentives to pursue work for disability insurance beneficiaries who already spent years out of the labor force. The Budget, in contrast, focuses on early intervention return-to-work initiatives that would help the individual worker maintain attachment to the labor force while also reducing the individuals' need to apply to the disability insurance programs.

Currently, there is a common expectation that receipt of disability benefits results in a permanent exit from the labor force. The Budget challenges this assumption by evaluating alternative program designs that will result in helping individuals with temporary work-disabilities return to work. The Budget includes targets for reduced program costs in the second five years of the budget window, savings that would result from increased LFP by people with disabilities.

Reform Federal Employees Retirement Benefits. The employee retirement landscape continues to evolve as private companies are providing less compensation in the form of retirement benefits. The shift away from defined benefit programs and cost-of-living adjustments for annuitants is part of that evolution. By comparison, the Federal Government continues to offer a very generous package of retirement benefits. Consistent with the goal of reining in Federal Government spending in many areas, as well as to bring Federal retirement benefits more in line with the private sector, adjustments to reduce the long-term costs associated with these benefits are included in this Budget. These proposals include increasing employee payments to the defined benefit Federal Employee Retirement System pension such that the employee will generally be paying the same amount as the employing agency,

and reducing or eliminating cost-of-living adjustments for existing and future retirees. Viewed in the context of the broader labor environment, the Administration believes the implementation and phasing in of these changes will not impact the Federal Government's recruiting and retention efforts.

Reduce Improper Payments Government-Wide. For the past few years, improper payments have been rising, and the Budget helps fulfill the President's promise to crack down on these improper Government payments. Even though the majority of Government payments are made properly, any waste of taxpayer money is unacceptable. The Budget prioritizes shrinking the amount of improper cash out the door. Specifically, by 2027 the Budget proposes to curtail Government-wide improper payments by half through actions to improve payment accuracy and tighten administrative controls.

Reduce the Federal Government to Redefine its Proper Role and Promote Efficiency. The Budget Blueprint for 2018 provided a plan for reprioritizing Federal discretionary spending so that it advances the safety and security of the American people. It included a \$54 billion increase in defense spending in 2018, which was fully offset by \$54 billion in reductions to non-defense programs. The Budget provides more detail on these spending reductions and provides additional savings and reforms that are necessary to balance the budget by 2027.

Details on these spending reductions are included in a separate *Major Savings and Reforms* volume. This volume provides a specific, aggressive set of program elimination, reduction, and saving proposals that redefine the proper role of the Federal Government, and curtail programs that fall short on results or provide little return to the American people.

For instance, within HHS, in order to return the provision of social services back to State and local governments as well as the private sector, the Budget eliminates the Social Services Block Grant (SSBG), a broad-based block grant that lacks strong performance and accountability standards. Relatedly, the Budget reduces the portion of the Temporary Assistance for Needy Families (TANF) block grant (10 percent) that States may transfer from TANF to SSBG. Finally, the Budget eliminates the TANF Contingency Fund, as it fails to provide well-targeted counter-cyclical funding to States.

Redirect Foreign Aid Spending. The Budget supports the core activities of the Department of State, the U.S. Agency for International Development (USAID), and other international programs, and refocuses their work on the highest priorities and strategic objectives. These include: investing in critical embassy security and maintenance needs in order to safeguard Federal employees overseas; meeting our commitment to Israel; supporting U.S. national security in efforts to defeat the Islamic State of Iraq and Syria; preventing the spread or use of weapons of mass destruction by state or non-state actors; maintaining U.S. leadership in shaping global humanitarian assistance while also asking the rest of the world to increase their share; fostering opportunities for U.S. economic interests by combatting corruption and ensuring a level playing field for American businesses; advancing global health security and pandemic preparedness; and ensuring effectiveness and accountability to the U.S. taxpayer. The Budget will also continue to support ongoing commitments to global health programs, including completing our commitment to Gavi, the Vaccine Alliance, maintaining funding for malaria programs, and continuing treatment for all current HIV/AIDS patients under the U.S. President's Emergency Plan for Aids Relief.

The Budget proposes to reduce or end direct funding for international programs and organizations whose missions do not substantially advance U.S. foreign policy interests. The Budget also renews attention on the appropriate U.S. share of international spending at the United Nations, at the World Bank, and for many other global issues where the United States currently pays more than its fair share. In addition, this Budget request focuses on making the Department of State and USAID leaner, more efficient, and more effective, and streamlines international affairs agencies more broadly through the elimination of Federal funding to several smaller agencies. The Budget will allow the Department of State and USAID to support their core missions, while ensuring the best use of American taxpayer dollars in ways that advance national security as we work to build a more prosperous and peaceful world.

Reduce Non-Defense Discretionary Spending Each Year with a 2-Penny Plan. The Budget Blueprint outlined a plan to reduce non-defense discretionary spending by \$54 billion in 2018. As part of the plan to achieve a balanced budget by 2027, the Budget builds on this approach with a 2-penny plan that would reduce non-defense budget authority by two percent each year, to reach approximately \$385 billion in 2027, or just over 1.2 percent of GDP. For comparison, at the 2017 cap level, non-defense base budget authority is \$519 billion and 2.7 percent of GDP. This reduction may seem steep, but the strict and disciplined discretionary policies already proposed in the Budget Blueprint will serve as a down payment on the out-year reforms the Administration will unveil, as it seeks to downsize the mission of the non-defense discretionary budget in the coming years.

Simplify the Tax Code and Provide Tax Relief. A comprehensive overhaul to our tax code will boost economic growth and investment. A simpler, fairer, and more efficient tax system is critical to growing the economy and creating

jobs. Our outdated, overly complex, and burdensome tax system must be reformed to unleash America's economy, and create millions of new, better-paying jobs that enable American workers to meet their families' needs.

The Budget assumes deficit neutral tax reform, which the Administration will work closely with the Congress to enact.

The Administration has articulated several core principles that will guide its discussions with taxpayers, businesses, Members of Congress, and other stakeholders. Overall, the Administration believes that tax reform, both for individuals and businesses, should grow the economy and make America a more attractive business environment.

Tax relief for American families, especially middle-income families, should:

- Lower individual income tax rates.
- Expand the standard deduction and help families struggling with child and dependent care expenses.
- Protect homeownership, charitable giving and retirement saving.
- End the burdensome alternative minimum tax, which requires many taxpayers to calculate their taxes twice.
- Repeal the 3.8 percent Obamacare surcharge on capital gains and dividends, which further hinders capital formation.
- And, abolish the death tax, which penalizes farmers and small business owners who want to pass their family enterprises on to their children.

The Administration believes that business tax reform should:

- Reduce the tax rate on American businesses in order to fuel job creation and economic growth.
- Eliminate most special interest tax breaks to make the tax code more equitable, more

efficient, and to help pay for lower business tax rates.

- And, end the penalty on American businesses by transitioning to a territorial system of taxation, enabling these businesses to repatriate their newly earned overseas profits without incurring additional taxes. This transition would include a one-time repatriation tax on already accumulated overseas income.

Going forward, the President is committed to continue working with the Congress and other stakeholders to carefully and deliberatively build on these principles to create a tax system that is fair, simple, and efficient—one that puts Americans back to work and puts America first.

Provide a Comprehensive Plan to Reform the Federal Government and Reduce the Federal Civilian Workforce. During the first 100 days of this Administration, the Office of Management and Budget issued guidance that takes steps to implement the President’s charge to reorganize agencies and reduce the Federal workforce to begin the work of creating a leaner, more accountable, less intrusive, and more effective Government. Each executive department and agency will be examined and the American public will have an opportunity to provide input. The result will be a comprehensive Government reform plan that eliminates unnecessary, overlapping, outdated and ineffective programs. Some agencies may find the greatest efficiencies come from insourcing or reducing management layers while others will want to review programs, shared service and outsourcing options, or restructuring. This may mean reorganizing, consolidating, and eliminating programs, functions, and organizations where necessary.

Rather than setting arbitrary targets, the Administration tasked each agency to determine workforce levels that align with effectively and efficiently delivering its mission, including planning for funding levels in the President’s Budget. In addition to broad agency reform, the Administration is committed to removing the

red tape that often traps Federal employees in an overly bureaucratic environment. It is often heard that managers are unable to function at an optimal level, given unnecessary layers of disjointed guidance, policy, and regulation. To alleviate this barrier to managing an efficient and effective workforce, a standard requirement included in the Agency Reform plan response is a plan for how agencies will reward top performers, while holding those with conduct or performance issues accountable.

Roll Back Burdensome Regulations. The American people deserve a regulatory system that works for them, not against them—a system that is both effective and efficient. Each year, however, Federal agencies issue thousands of new regulations that, taken together, impose substantial burdens on American consumers and businesses big and small. These burdens function much like taxes that unnecessarily inhibit growth and employment. The President is committed to fixing these problems by eliminating unnecessary and wasteful regulations. To that end, the President has already taken four significant steps:

Launch a Regulatory Freeze. On January 20, 2017, the President’s Chief of Staff issued a memorandum to all agencies, directing them to pull back any regulations that had been sent to, but not yet published by, the Office of the Federal Register; to not publish any new regulations unless approved by one of the President’s political appointees; and to delay the effective date of any pending regulations for 60 days to provide the new Administration time to review and reconsider those regulations. Federal agencies responded by pulling back over 60 so-called “midnight” regulations from being issued and continue to take a very close look at those published, but not yet in effect.

Control Costs and Eliminate Unnecessary Regulations. On January 30, 2017, the President signed Executive Order (EO) 13771, “Reducing Regulation and Controlling Regulatory Costs.” This EO emphasizes a

critical principle for the regulatory state. It requires Federal agencies to identify for elimination at least two existing regulations for each new regulation they issue. It generally also requires agencies to ensure that for 2017, the total incremental cost of all new regulations be no greater than \$0. For 2018 and beyond, the EO establishes and institutionalizes a disciplined process for imposing regulatory cost caps and allowances for each Federal agency.

Establish Executive Order (EO) 13777, “Enforcing the Regulatory Reform Agenda.” This EO establishes within each agency a Regulatory Reform Officer and a Regulatory Reform Task Force to carry out the President’s regulatory reform priorities. These new teams will work hard to identify regulations that eliminate jobs or inhibit job creation; are outdated, unnecessary, or ineffective; or impose costs that exceed benefits. These efforts build upon a widely recognized and bipartisan consensus that many existing regulations are likely to be ineffective and no longer necessary. The difference, however, is accountability, and these teams and this effort will be a critical means by which Federal agencies will identify and cut regulations in a smart and efficient manner.

Reform Financial Regulation and Prevent Taxpayer-Funded Bailouts. The Budget fosters economic growth and vibrant financial markets by rolling back the regulatory excesses mandated by the Dodd-Frank Act. On February 3, 2017, the Administration issued an EO on Core Principles for Regulating the United States Financial System (Core Principles EO), which includes preventing taxpayer-funded bailouts and restoring accountability within Federal financial regulatory agencies.

As directed in the Core Principles EO, the Secretary of the Treasury, with the heads of the member agencies of the Financial Stability Oversight Council, is conducting a thorough review of the extent to which existing laws,

regulations, and other Government policies promote (or inhibit) these Core Principles. The Budget includes \$35 billion in savings to be realized through reforms that prevent bailouts and reverse burdensome regulations that hinder financial innovation and reduce access to credit for hardworking American families.

Further, the Budget proposes legislation to restructure the Consumer Financial Protection Bureau (CFPB). CFPB’s interpretation of the Dodd-Frank Act has resulted in an unaccountable bureaucracy controlled by an independent director with unchecked regulatory authority and punitive power. Restructuring is required to ensure appropriate congressional oversight and to refocus CFPB’s efforts on enforcing the law rather than impeding free commerce. The Budget proposes to limit CFPB’s funding in 2018 to allow for an efficient transition period and bring a newly streamlined agency into the regular appropriations process beginning in 2019.

The Budget also proposes to restore the Securities and Exchange Commission’s accountability to the American taxpayer by eliminating the “Reserve Fund” created by the Dodd-Frank Act.

Reform Immigration Policy. America’s immigration policy must serve our national interest. The Budget supports commonsense immigration standards that protect American workers, reduce burdens on taxpayers and public resources, and focus Federal funds on underserved and disadvantaged citizens. When fully implemented, these changes have the potential to save American taxpayers trillions of dollars over future decades.

Census data show that current U.S. immigration policy results in a large numbers of residents and citizens who struggle to become financially independent and instead rely on Government benefits financed by taxpayers. In 2012, the census reported that 51 percent of all households

headed by immigrants received payments from at least one welfare or low-income assistance program. In addition, participation in welfare programs among immigrant-headed households varies by education level. In 2012, 76 percent of households headed by an immigrant without a high school education used at least one major welfare program compared to 26 percent for households headed by an immigrant with at least a bachelor's degree. Focusing immigration policy on merit-based admissions has the potential to reduce Federal outlays for welfare payments to lower-skilled immigrant-headed households.

Estimates from a recent report by the National Academy of Sciences (NAS) on the Economic and Fiscal Consequences of Immigration indicate that each individual immigrant who lacks a high school education may create as much as \$247,000 more in costs at all levels of government than they pay in taxes over the next 75 years. Based on data from the Census Bureau's Current Population Survey, 8.2 million adults with a high school education or less settled in the United States from abroad between 2000 and 2015.

The NAS study also found that, in 2013, first-generation immigrants (across all skill levels) and their dependents living in the United States may have cost government at all levels as much as \$279 billion more than they paid in taxes for all levels of government, when the costs of national defense and other public goods are included on an average cost basis. The Federal costs alone were estimated to be as much as \$147 billion if all public goods and benefits are included.

Some of this cost is driven by our Nation's current refugee policy. Under the refugee program, the Federal Government brings tens of thousands of entrants into the United States, on top of existing legal immigration flows, who are instantly eligible for time-limited cash benefits and numerous non-cash Federal benefits, including food assistance through SNAP, medical care, and education, as well as a host of State and local benefits.

A large proportion of entrants arriving as refugees have minimal levels of education, presenting particular fiscal costs. The HHS Annual Survey of Refugees showed that, in 2015, those who had arrived in the previous five years had less than 10 years of education on average. The survey also showed that of refugees who arrived in the prior five years nearly 50 percent were on Medicaid in 2015, 45 percent received cash assistance, and 75 percent received benefits from SNAP. These federally supported benefit programs are not tracked separately in terms of welfare and other benefits; they are added to the bottom line of the Federal deficit and Federal programs. The way that refugee spending is typically budgeted for makes it difficult to attribute the full fiscal costs, including appropriated funds for the Department of State and HHS, along with fee-funded programs from the Department of Homeland Security. Additional State and local funding for services, including public education, is not captured in the Federal budget, nor are local and State taxes collected from refugees to the Federal Government. While HHS is appropriated funds specifically for refugee benefits, many others, including SNAP and Medicaid, are unallocated to refugees.

The paradoxical effect of refugee spending is that the larger the number the United States admits for domestic resettlement, the fewer people the United States is able to help overall; each refugee admitted into the United States comes at the expense of helping a potentially greater number out of country. Thus, reducing the number of refugees increases the number of dislocated persons the United States is financially able to assist, while increasing the number of refugees may have the effect of reducing the total size of the refugee population the United States is able to assist financially.

The Administration is exploring options for budget presentation that would make transparent the net budgetary effects of immigration programs and policy. The goal of such changes would be to capture better the impact of immigration policy decisions on the Federal Government's fiscal path. Once the net effect of immigration

on the Federal Budget is more clearly illustrated, the American public can be better informed about options for improving policy outcomes and saving taxpayer resources. In that regard, the Budget supports reforming the U.S. immigration system to encourage: merit-based admissions for legal immigrants, ending the entry of illegal immigrants, and a substantial reduction in refugees slotted for domestic resettlement.

NEW PRIORITIES

The Budget reprioritizes spending in several important ways.

Invest in Defense. The President's Budget includes \$639 billion of discretionary budget authority for the Department of Defense (DOD), a \$52 billion increase above the 2017 annualized continuing resolution (CR) level, fully offset by targeted reductions elsewhere. These resources provide for the military forces needed to conduct ongoing operations, deter potential adversaries, and protect the security of the United States.

Reverse the Defense Sequestration.

The Budget fully reverses the defense sequestration by increasing funding for national defense by \$54 billion above the cap in current law, and fully offsetting this increase. This includes a \$52 billion increase for the DOD, as well as \$2 billion of increases for other national defense programs. Since defense sequestration was first triggered in 2013, the world has grown more dangerous due to rising terrorism, destabilizing technology, and increasingly aggressive potential adversaries. Over the same period, our military has become smaller, and deferred training, maintenance, and modernization have degraded its ability to prepare for future war while sustaining current operations. The President's Budget ends this depletion and begins to rebuild the U.S. Armed Forces, laying the groundwork for a larger, more capable, and more lethal joint force consistent with a new National Defense Strategy.

Fill Critical Gaps and Build Warfighting Readiness. The Administration inherited the smallest Army since before World War II, a Navy and Marine Corps facing shortfalls in maintenance and equipment procurement, and the smallest Air Force with the oldest planes in history. The President began corrective action immediately, ordering a readiness review, requesting \$30 billion of additional 2017 appropriations (of which the Congress provided \$21 billion), and developing a budget that adds \$54 billion to national defense in 2018. These funds will begin years of increased investment to end the depletion of our military and build warfighting readiness. In 2018, the Budget provides for 56,400 more Soldiers, Sailors, Airmen, and Marines than the end strength planned by the Obama Administration. These troops are needed to fill gaps in our combat formations, man essential units previously scheduled for divestment, and provide critical enablers. The Budget prioritizes readiness, funding critical shipyard requirements, accelerating depot maintenance and weapon system sustainment, enhancing training, growing our cyber workforce and capabilities, and restoring degraded infrastructure. Funds also recapitalize, modernize, and enhance weapons systems. For example, the Air Force, Navy, and Marine Corps would buy 84 new fighter aircraft in 2018, including 70 Joint Strike Fighters and 14 Super Hornets. The Navy continues to increase its ship count, with the acquisition of eight new battle force ships funded in 2018.

Implement Defense Reform. The Budget lays the groundwork for an ambitious reform agenda that underscores the President's commitment to reduce the costs of military programs wherever feasible without reducing effectiveness or efficiency. The Budget also continues ongoing efforts to improve the Department's business processes, reduce major headquarters activities by 25 percent, and eliminate redundant spending on service contracts.

Increase Border Security and Investments in Public Safety. The President's Budget includes \$44.1 billion for the Department of Homeland Security (DHS) and \$27.7 billion for the Department of Justice (DOJ) for law enforcement, public safety and immigration enforcement programs and activities.

Increase Border Security Infrastructure and Technology. The President's Budget secures the borders of the United States by investing \$2.6 billion in high-priority tactical infrastructure and border security technology, including funding to plan, design, and construct a physical wall along the southern border as directed by the President's January 25, 2017 EO. This investment would strengthen border security, helping stem the flow of people, drugs, and other illicit material illegally crossing the border.

Increase DHS Personnel. The Budget also advances the President's plan to strengthen border security and immigration enforcement with more than \$300 million to recruit, hire, and train 500 new Border Patrol Agents and 1,000 new Immigration and Customs Enforcement law enforcement personnel in 2018, plus associated support staff. These new personnel would improve the integrity of the immigration system by adding capacity to interdict those aliens attempting to cross the border illegally, as well as to identify and remove those already in the United States who entered illegally.

Enforce the Nation's Laws. The Budget enhances enforcement of immigration laws by proposing an additional \$1.5 billion above the 2017 annualized CR level for expanded detention, transportation, and removal of illegal immigrants. These funds would ensure that DHS has sufficient detention capacity to hold prioritized aliens, including violent criminals and other dangerous individuals, as they are processed for removal.

Invest in Law Enforcement. The Budget provides critical resources for DOJ

to confront terrorism, reduce violent crime, tackle the Nation's opioid epidemic, and combat illegal immigration. Additional spending is provided for DOJ to enhance public safety and law enforcement including \$214 million above current levels for immigration enforcement—allowing DOJ to hire 75 additional immigration judge teams, bringing the total number of funded immigration judge teams to 449. In addition, \$84 million more is provided for increases in the Federal detainee population. Increases of \$188 million are included to address violent and gun-related crime in communities across the Nation and to target transnational criminal organizations and drug traffickers. As part of this increase, \$103 million is added to maintain and expand capacity to fight against opioids and other illicit drugs. Further, DOJ will take steps to mitigate the risk that sanctuary jurisdictions pose to public safety.

Invest in Cybersecurity. The internet has transformed and modernized our society and enabled astonishing business growth. It has fostered education, fueled innovation, and strengthened our military. That transformation—and the opportunities it has created—has been exploited by our enemies and adversaries. Bad actors must not be allowed to use the internet to perpetrate crimes and threaten our security. These crimes affect our largest companies, impact millions of people at a time, damage our small businesses, and affect our national security. The Budget supports the President's focus on cybersecurity to ensure strong programs and technology to defend the Federal networks that serve the American people, and continues efforts to share information, standards, and best practices with critical infrastructure and American businesses to keep them secure. The Budget also includes an increase in law enforcement and cybersecurity personnel across DHS, DOD, and the Federal Bureau of Investigation to execute these efforts and counter cybercrime. In addition, the Budget includes an increase in resources for the National Cybersecurity and

Communications Integration Center, which enables DHS to respond effectively to cyber attacks on critical infrastructure.

Provide an Infrastructure Plan to Support \$1 Trillion in Private/Public Infrastructure Investment. The President has consistently emphasized that the Nation's infrastructure needs to be rebuilt and modernized to create jobs, maintain America's economic competitiveness, and connect communities and people to more opportunities. Unfortunately, the United States no longer has the best infrastructure in the world. According to the World Economic Forum, the United States' overall infrastructure places 12th, with countries such as Japan, Germany, the Netherlands, and France ranking higher.

If the United States continues to underinvest in infrastructure, we will continue to fall further and further behind our peers and our economic performance will suffer. Given these challenges, the Administration's goal is to seek long-term reforms on how infrastructure projects are regulated, funded, delivered, and maintained. Simply providing more Federal funding for infrastructure is not the solution. Rather, we will work to fix underlying incentives, procedures, and policies to spur better, and more efficient, infrastructure decisions and outcomes, across a range of sectors, including surface transportation, airports, waterways, ports, drinking and waste water, broadband and key Federal facilities. Such improvements will include tracking the progress of major infrastructure projects on a public dashboard to ensure transparency and accountability of the permitting process.

The President's target of \$1 trillion will be met with a combination of new Federal funding, incentivized non-Federal funding, and expedited projects that would not have happened but for the Administration's involvement (for example, the Keystone XL Pipeline). While the Administration will propose additional funding for infrastructure, those funds will be focused on incentivizing additional non-Federal investments. While the Administration continues to work with the Congress, States, localities, and

other infrastructure stakeholders to finalize the suite of direct Federal programs that will support this effort, the Budget includes \$200 billion in outlays related to the infrastructure initiative.

The impact of this investment will be amplified with other administrative and regulatory actions the Administration plans to pursue. The Administration is comprehensively reviewing administrative policies that impact infrastructure, and will eliminate and revise policies that no longer fulfill a useful purpose. Further, as part of the regulatory reform agenda, the Administration will eliminate or significantly revise regulations that create unnecessary barriers to infrastructure investment by all levels of government and the private sector.

The United States has maintained an excellent aviation safety record while operating the world's most congested airspace. Despite this record, the Federal Aviation Administration (FAA) is challenged increasingly to address the quickly evolving needs of the Nation's airspace users.

To accommodate growing air traffic volume and meet the demands of aviation users, the Administration proposes to shift the air traffic control functions to a non-profit, non-governmental entity. Similar efforts have been undertaken successfully in many other countries. This transformative undertaking will create an innovative corporation that can more nimbly respond to the demand for air traffic services, all while reducing taxes and Government spending. The parts of FAA that will remain with the Government will retain important aviation safety regulatory activities as well as maintain the Airport Improvement Program grant program.

The Budget reflects the proposal to shift the air traffic control function to an independent, non-governmental organization beginning in 2021, with a cap reduction in discretionary spending of \$72.8 billion, and reduction in aviation excise taxes of \$115.6 billion. These estimated changes represent a high-level reflection of the Administration's proposal.

Support Families and Children. The Administration is committed to helping American families and children.

Provide Paid Parental Leave. During his campaign, the President pledged to provide paid family leave to help new parents. The Budget delivers on this promise with a fully paid-for proposal to provide six weeks of paid family leave to new mothers and fathers, including adoptive parents, so all families can afford to take time to recover from childbirth and bond with a new child without worrying about paying their bills.

Using the Unemployment Insurance (UI) system as a base, the proposal will allow States to establish paid parental leave programs in a way that is most appropriate for their workforce and economy. States would be required to provide six weeks of parental leave and the proposal gives States broad latitude to design and finance the program. The proposal is fully offset by a package of sensible reforms to the UI system—including reforms to reduce improper payments, help unemployed workers find jobs more quickly, and encourage States to maintain reserves in their Unemployment Trust Fund accounts. The Administration looks forward to working with the Congress on legislation to make paid parental leave a reality for families across the Nation.

Extend the Children’s Health Insurance Program (CHIP). While the future of CHIP is addressed alongside other health reforms, the Budget proposes to extend CHIP funding for two years, through 2019, providing stability to States and families. The Budget also proposes a series of improvements that rebalance the State-Federal partnership, including returning to the historic Federal matching rate, and increasing State flexibility.

Reform Student Loan Programs. In recent years, income-driven repayment (IDR) plans, which offer student borrowers the option of making affordable monthly payments based

on factors such as income and family size, have grown in popularity. However, the numerous IDR plans currently offered to borrowers overly complicate choosing and enrolling in the right plan. The Budget proposes to streamline student loan repayment by consolidating multiple IDR plans into a single plan. The single IDR plan would cap a borrower’s monthly payment at 12.5 percent of discretionary income. For undergraduate borrowers, any balance remaining after 15 years of repayment would be forgiven. For borrowers with any graduate debt, any balance remaining after 30 years of repayment would be forgiven.

To support this streamlined pathway to debt relief for undergraduate borrowers, and to generate savings that help put the Nation on a more sustainable fiscal path, the Budget eliminates the Public Service Loan Forgiveness program, establishes reforms to guarantee that all borrowers in IDR pay an equitable share of their income, and eliminates subsidized loans. These reforms will reduce inefficiencies in the student loan program and focus assistance on needy undergraduate student borrowers instead of high-income, high-balance graduate borrowers. All student loan proposals apply to loans originated on or after July 1, 2018, except those provided to borrowers to finish their current course of study.

The Budget also supports expanded access to Pell Grants for eligible recipients through Year-Round Pell. This policy incentivizes students to complete their degrees faster, helping them reduce their loan debt and enter the workforce sooner. Year-Round Pell gives students the opportunity to earn a third semester of Pell Grant support during an academic year, boosting total Pell Grant aid by \$1.5 billion in 2018 for approximately 900,000 students.

Extend the Current VA Choice Program. Veterans’ access to timely, high quality health care is one of this Administration’s highest priorities. The Budget provides mandatory funding to extend the Veterans Choice Program, enabling eligible veterans to receive timely care, close to home. As of April 2017, veterans have completed

over 8.7 million appointments through the Choice Program. The Administration will work with the Congress to improve this program and implement bold change so that the Department of Veterans Affairs (VA) continues to provide the services and choices veterans have earned. The Budget proposes to fully offset the cost of continuing this

program through targeted programmatic changes to mandatory benefits programs to better align them with programmatic intents. Through these tradeoffs, VA will focus its budgetary resources on providing veterans with the most efficient and effective care and benefits.

