Leap in Deficit Instead of Fall Is Seen for U.S.

By EDMUND L. ANDREWS

WASHINGTON, Aug. 26 — Even if the economy rebounds strongly over the next few years, the federal budget deficit could climb for the rest of the decade if Congress adopts proposals strongly supported by President Bush, the Congressional Budget Office said today.

Offering a sharp contrast to recent projections by the White House, which had said the budget deficit would hit $475 billion next year and decline significantly after that, the Congressional report warns that annual deficits could rise rather than fall.

The nonpartisan office said the deficit would be $480 billion next year but could reach a cumulative total of $5.8 trillion by 2013.

Administration officials quickly dismissed the Congressional projections as too speculative to take seriously, noting that long-term budget projections have been notoriously inaccurate.

But the new analysis is nonetheless based on fairly cautious assumptions. It assumes that economic growth will surge next year and remain solid for the rest of the decade. The biggest reason for potentially much higher deficits is the added cost of legislation that both the White House and the Republican majority in Congress support.

That agenda includes making almost all the tax cuts of the past three years permanent, which Congressional analysts said would cost $1.5 trillion over 10 years. It also includes the cost of a major new prescription drug program for the elderly, supported by Republicans and Democrats, that would cost $400 billion over 10 years.

And it includes the cost of overhauling the Alternative Minimum Tax, which under current law is expected to force tens of millions of taxpayers to pay much higher taxes as their incomes rise with inflation. That change, supported by Republicans and Democrats alike, would cost an additional $400 billion over 10 years.

Those adjustments alone would add about $500 billion to the deficit over the next 5 years and about $2.7 trillion over 10 years. If government spending continues to increase at anywhere near the rates of the past five years, the deficit would surge far higher.

That would be in sharp contrast to Mr. Bush's outlook. Last month, the White House Office of Management and Budget projected that the deficit would peak

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at $475 billion next year and decline to just $62 billion in 2008.

The Congressional "baseline" forecast, which is not allowed to consider the costs of any legislative proposals not yet enacted, shows a similar trend.

But when Congressional analysts spelled out in stark terms for the returning Congress the costs of additional tax cuts and new Medicare benefits, the deficit would remain at over $500 billion in 2008 and continue to climb after that.

Democrats immediately pounced on today's report to charge that Mr. Bush and his Republican Congressional allies were leading the country into a fiscal catastrophe just as today's baby-boom generation begins to approach retirement age and start drawing heavily on Social Security and Medicare entitlements.

"We have new numbers from the C.B.O., and what they show is that the president is taking us into the deep, dark hole of deficits and debt that will take the nation many generations to recover from," said Senator Kent Conrad of North Dakota, the ranking Democrat on the Senate Budget Committee.

Trent Duffy, spokesman for the White House budget office, countered that long-term budget projections were inherently unreliable and said today's report merely supported Mr. Bush's promise to reduce government spending.

"The only thing we know about 10-year projections is that they are terribly, terribly wrong," Mr. Duffy said today. "In 1993, 10 years ago today, C.B.O. did not predict that in the late 1990's we would have a surplus."

Douglas Holtz-Eakin, director of the Congressional Budget Office, emphasized that his agency was not predicting huge new deficits so much as describing the likely consequences of different policy decisions.

"We don't mean these as projections," Mr. Holtz-Eakin told reporters today. "They are meant to illustrate the range of possible outcomes."

Nevertheless, today's attempt to estimate the broader fiscal outlook was similar to projections by analysts from across the political spectrum. In June, economists at Goldman Sachs predicted that the federal government would run a 10-year deficit of $4.5 trillion. Congressional Democrats have come up with a similar number, based on similar assumptions.

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1 | 2 | Next>>

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(Page 2 of 2)

"Among careful budget analysts there is not a great deal of controversy about what the forecast looks like, and it is grim," said Robert Greenstein, director of the Center on Budget and Policy Priorities, a liberal policy research group in Washington.

To be sure, forecasting budget deficits has been about as accurate in the past few years as forecasting earthquakes. Neither Congressional analysts nor the administration predicted the flood of tax revenue at the height of the stock market boom. Nor did they predict that revenues would fall for each of the past three years.

One big uncertainty over the next few years will be the costs of occupying Iraq and Afghanistan. The basic Congressional forecast assumes that this year's war costs will essentially continue and increase with inflation over the next 10 years.

Most analysts say that is unrealistic, because war-related costs will almost certainly decline. But the administration, for its part, has yet to budget anything for war-related costs in 2004 and thereafter — a position that may be equally unrealistic.

The biggest uncertainty is about the trend in discretionary government spending — programs from defense to education that lie outside mandatory entitlement benefits like Social Security and Medicare.

Discretionary spending has risen by about 7.7 percent a year for the past five years, far faster than the rate of inflation. Under Mr. Bush, the biggest new spending has been for defense, counterterrorism and a few domestic programs like education.

The Bush administration assumes that discretionary spending will climb by only 4 percent annually in the years ahead. The Congressional Budget Office tested out several different possibilities, and these produced huge differences in the budget outlook.

When the office assumed that discretionary spending would remain absolutely flat, not even keeping pace with inflation, the projected cumulative deficit over

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the next 10 years would shrink by $1.2 trillion.

That prospect would entail deep cuts in real spending, adjusted for inflation.

But if spending climbs in line with overall economic growth, Congressional analysts estimated that the projected deficits would swell by $1.4 trillion over 10 years. And if spending continued to climb as fast as it has in the past five years, the deficits would swell by $2.8 trillion over 10 years.

Despite the range of possible outcomes, today's report left little doubt that Congress and Mr. Bush face difficult choices.

Edward McKelvey, an economist at Goldman Sachs who has predicted steep new deficits for the next 10 years, said today's report had reinforced his views.

"Our pessimistic view of the budget outlook will remain very much intact," Mr. McKelvey wrote in a research note today after seeing the Congressional report.

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