

Burden Set to Shift On Balanced Budget

Bush Likely to Force Democrats' Hand

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When he takes the House rostrum next week for the State of the Union address, President Bush will list among his goals a balanced federal budget, a shift for a president who has presided over record deficits while aggressively cutting taxes.

Politically, analysts say, the president is calling the bluff of Democrats, who won control of Congress in part by accusing Bush of reckless fiscal policies. While Bush now shares the Democrats' goal to erase the deficit by 2012, the politically perilous work of making that happen — cutting spending or raising taxes — falls to the Democratic-run Congress.

"The Democrats have assailed

deficits under President Bush. The White House is telling Democrats to walk the walk," said Brian M. Riedl, a budget analyst at the conservative Heritage Foundation.

Budget experts and economists from across the political spectrum, including some who worked in the Bush White House, say that Bush is unlikely to offer real concessions toward a balanced budget in the plan he delivers to Congress next month.

Still, the administration appears to be stepping away from an economic argument that has worked well for Republicans throughout Bush's presidency: that federal deficits, though at record levels, are not especially large as a percentage of the economy and therefore offer little cause for concern, a view famously encapsulated in 2002 when Vice

See DEFICIT, *A9, Col. 2*

Bush Shifts Budget-Balancing Burden to Democrats

DEFICIT, From A1

President Cheney told Paul H. O'Neill, then the Treasury secretary: "Deficits don't matter."

Historically, the deficit is not particularly large. During Bush's presidency, it peaked at \$413 billion in 2004, the biggest ever in dollars. At 3.6 percent of economic output, however, it did not approach the historic high, in 1943 during World War II, when the deficit exceeded 30 percent of gross domestic product. Last year, the deficit dropped to \$258 billion, or about 1.8 percent of the economy.

But that view ignores some important facts, U.S. comptroller general David Walker said. The government is living far beyond its means, he said, and if not for excess cash in the Social Security trust fund, it would be recording deficits on a magnitude not seen since the recession of the early 1900s. The trust fund's Social Security surplus of \$434 billion last year, about 3.3 percent of GDP, which rose 6 percent in 2005, compared with 2004.

That point is critical, Walker told a Senate committee last week, because the Social Security surplus will begin to shrink in 2009, as the baby boomers start to retire. It is estimated that the fund will dry up completely in 2017. At that point, the nation's rosy fiscal picture will darken rapidly. Costs for entitlement programs — Social Security, Medicaid and Medicare — will explode. Without radical changes in tax policy and retirement spending, the deficit will make up more than 24 percent of the economy by 2050, Walker said.

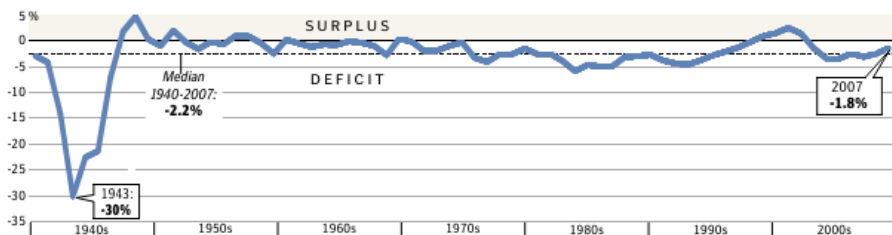
This month, Bush cited the "challenges" of entitlement spending as a factor in his decision to offer a balanced budget plan. Analysts said forcing the government to live within its means in the short term would lend credibility to the president's campaign to address the entitlement problem during his final years in office.

Bush has given two newcomers, Tre-

Putting It In Context

By historical standards, the U.S. budget deficit is not particularly large, compared with the overall economy.

Budget surplus or deficit as a percentage of gross domestic product



SOURCE: White House Office of Management and Budget

BY KAREN YOURISSE — THE WASHINGTON POST

Among them was Isabel V. Sawhill, a senior fellow at the Brookings Institution, who welcomed Portman's participation. Sawhill said she believed Portman and Paulson were responsible for the president's new enthusiasm for deficit reduction.

"I'm quite sure they want to get the word out about entitlements and educate the public. This could be a new way of putting Social Security and Medicare at the top of the agenda," Sawhill said. "I have this sense that these guys like Portman and Paulson have been unleashed."

In an interview, Portman said entitlements factored in to the administration's budget planning. But the primary reason Bush decided to offer a plan for erasing the deficit, Portman said, is "because we can."

When Bush took office in 2001, he inherited a budget from the Clinton administration

Bush's own Treasury Department.

"We have managed to work our way through some tough budget and economic challenges over the past six years ... which caused revenue to decline dramatically," Portman said. Now, he said, "the economy is back on its feet and has generated record levels of revenue in the last two years," making balancing the budget a realistic goal for the first time in Bush's presidency.

Budget analysts on the right and left are skeptical. In past years, Bush has proposed spending cuts that the GOP-controlled Congress refused to support. Also, any five-year plan could put off much of the hard work of cutting spending and raising revenue until after Bush leaves office in 2009.

"I get the impression they're trying to beef up his reputation for fiscal responsibility, not by doing heavy lifting and actu-

ating technology stock bubble, as well the "peace dividend" of reduced defense spending that accompanied the end of the Cold War.

Today, forecasts show the economy growing by a moderate 2.4 percent in 2007. War costs, which have topped \$500 billion since 2001, are heading higher. In their most recent official projections, the White House and the nonpartisan Congressional Budget Office said they expected the deficit to rise in the fiscal year that ends in September.

Politically, the White House and Democratic leaders are far apart. Bush has said he would balance the budget without raising taxes. House Speaker Nancy Pelosi (D-Calif.) said Sunday on CBS's "Face the Nation" that though she wants to make permanent the Bush tax cuts that benefit the middle class, House leaders are considering repealing those that benefit "people making over half a million dollars a year."

By insisting that all of his tax cuts be extended, Bush is inviting a battle with Con-