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ECONOMIC VIEW

Managing the Deficit With Plans to Spend

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FOR the most concise description of how fiscal self-restraint has changed in the last decade, look no further than the bill adopted last week by the House Budget Committee.

Strongly supported by President Bush, the bill would technically reinstate what was originally called the Balanced Budget and Emergency Deficit Control Act of 1985. As modified in 1990, when the first President Bush reluctantly broke his no-new-taxes pledge, the law required that Congress offset the cost of new spending and new tax cuts with savings in other areas.

But the House bill makes one basic switch: where the old law attacked measures that would lead to a "net deficit increase," the new one attacks measures that lead to "an increase in direct spending."

Put another way, the prime concern is not a balanced budget. It is growth in government spending. Unlike the "pay as you go" rules of the 1990's, Congress would not have to offset the costs of new tax cuts.

The distinction is central in the battle over the current President Bush's economic agenda, because tax cuts are likely to be the biggest new contributor by far to federal budget deficits over the next decade.

Mr. Bush's top economic priority is to extend permanently most of the tax cuts adopted in 2001 and 2003, along with other expiring provisions like the tax credit for research and development. The cost of extending the tax breaks would be about \$1.3 trillion over the next 10 years, according to the Congressional Budget Office.


The administration, along with lawmakers in both parties, also wants to overhaul the alternative minimum tax, a part of the law that was created to prevent rich taxpayers from taking too much advantage of tax breaks. The A.M.T. is not adjusted for inflation, and it is expected to ensnare 31.6 million taxpayers by 2010 and saddle them with tax increases.

But fixing that tax is expected to cost the Treasury at least \$400 billion between now and 2014.

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Adding the interest expense from borrowing the money to pay for all that tax relief would lead to a total drain on the Treasury of nearly \$2 trillion through 2014.

Tax cuts are not the only thing that Republicans would keep off the table as they try to reduce the deficit. Though Mr. Bush and the House Republicans would impose "pay as you go" rules for any expansion in federal entitlements, those restrictions would not apply to the new Medicare prescription drug legislation, signed into law last December, that could cost \$534 billion over the next 10 years and as much as \$2 trillion in the decade after that.

Nor would the new budget controls make it harder for Congress to pass big supplemental spending for the war in Iraq or for national security.

At first blush, the House bill appears to impose a surprisingly tight leash on the Bush administration's ability to justify big increases in emergency responses. The bill warns that an emergency must be something "sudden" and "unforeseen" as well as something temporary, not permanent.

That would almost seem to raise questions about future spending in Iraq, which Mr. Bush's critics could argue is increasingly less temporary and more foreseeable. But Republican Congressional aides said last week that the language would impose no obstacles for future spending in Iraq, adding that the White House was comfortable with the wording.

If the full House of Representatives passes the budget bill, it will be on a collision course with the Senate, which passed a budget resolution this month that would require a 60-vote majority to make President Bush's tax cuts permanent.

The Senate provision was adopted over the opposition of the Senate's Republican majority, after four Republicans broke ranks and voted with Democrats.

IF Mr. Bush and Republican Congressional leaders prevail, the burden of reducing the federal budget deficit will fall primarily on domestic discretionary programs - housing vouchers for low-income families and public housing, grants to local police and fire departments and block grants for child care assistance.

Robert Greenstein, director of the Center on Budget and Policy Priorities, a liberal research group, contends that the House Budget Committee's blueprint would cut domestic discretionary spending by \$120 billion below the levels needed to keep up with inflation. If true, those would amount to very deep cuts through 2009. But domestic discretionary programs account for only about 17 percent of the federal budget. Even if Mr. Bush gets everything he wants, the Congressional Budget Office has estimated that federal spending would climb to \$2.7 trillion in 2009 from \$2.3 trillion in 2004.

All of which makes one wonder: Do Republicans have a secret plan to keep the government big?

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