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White House shelved deficit report

Study commissioned by O'Neill sees \$44 trillion in red ink

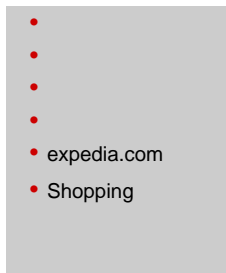
By Peronet Despeignes
FINANCIAL TIMES

WASHINGTON, May 29 — The Bush administration has shelved a report commissioned by the Treasury that shows the U.S. currently faces a future of chronic federal budget deficits totaling at least \$44 trillion in current U.S. dollars.

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THE STUDY, the most comprehensive assessment of how the U.S. government is at risk of being overwhelmed by the “baby boom” generation’s future healthcare and retirement costs, was commissioned by then-Treasury secretary Paul O’Neill.

But the Bush administration chose to keep the findings out of the annual budget report for fiscal year 2004, published in February, as the White House campaigned for a tax-cut package that critics claim will expand future deficits.



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The study asserts that sharp tax increases, massive spending cuts or a painful mix of both are unavoidable if the U.S. is to

meet benefit promises to future generations. It estimates that closing the gap would require the equivalent of an immediate and permanent 66 percent across-the-board income tax increase.

The study was being circulated as an independent working paper among Washington think-tanks as President George W. Bush on Wednesday signed into law a 10-year, \$350 billion tax-cut package he welcomed as a victory for hard-working Americans and the economy.

The analysis was spearheaded by Kent Smetters, then-Treasury deputy assistant secretary for economic policy, and Jagdeesh Gokhale, then a consultant to the Treasury. Mr. Gokhale, now an economist for the Cleveland Federal Reserve, said: "When we were conducting the study, my impression was that it was slated to appear [in the Budget]. At some point, the momentum builds and you think everything is a go, and then the decision came down that we weren't part of the prospective budget."

Mr. O'Neill, who was fired last December, refused to comment.

The study's analysis of future deficits dwarfs previous estimates of the financial challenge facing Washington. It is roughly equivalent to 10 times the publicly held national debt, four years of U.S. economic output or more than 94 percent of all U.S. household assets. Alan Greenspan, Federal Reserve chairman, last week bemoaned what he called Washington's "deafening" silence about the future crunch.

President Bush signed into law a \$350 billion tax-cut package on Wednesday saying: "We can say loud and clear to the American people: You got more of your own money to spend so that this economy can get a good wind behind it."

The estimates reflect the extent to which the annual deficit, the national debt and other widely reported, backward-looking data are becoming archaic and misleading as measures of the government's solvency. Mr. Smetters, now a University of Pennsylvania finance professor, said tax cuts were only a fraction of the imbalance, and that the bigger problem "is the whole [budget] language we're using."

Laurence Kotlikoff, an expert on long-term budget accounting, alleged in a recent Boston Globe editorial that the Bush administration suppressed the research to ease passage of the tax-cut plan.

An administration official said the study was designed as a thought-piece for internal discussion — one among many left every year on the cutting-room floor — and noted the budget's extensive discussion of projected, 75-year Social Security and Medicare shortfalls.

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