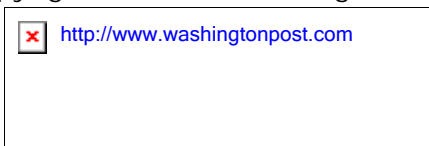




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May 31, 2003, Saturday, Final Edition**SECTION:** A SECTION; Pg. A04**LENGTH:** 734 words**HEADLINE:** Democrats Expect Record Debts; Federal Deficit Is Forecast to Approach \$500 Billion Next Year**BYLINE:** Jonathan Weisman, Washington Post Staff Writer**BODY:**

A new round of tax cuts, coupled with a continuing U.S. occupation of Iraq, will push the federal budget deficit to nearly \$ 500 billion next year and could help drive up the federal debt by \$ 3.6 trillion through 2011, according to new forecasts by House Budget Committee Democrats.

The numbers, while compiled by partisan staff members, are in line with private sector estimates from Wall Street. They also reflect deteriorating fiscal conditions noted early this month by the nonpartisan Congressional Budget Office, well before the tax cut was signed into law.

"Those are all sensible numbers," said Douglas Holtz-Eakin, CBO's director and a former Bush administration economist.

The Democrats predict the deficit this year will top out at \$ 416 billion, a figure that would shatter the \$ 290 billion record set in 1992, even after it is adjusted for inflation. The projected deficit next year would reach \$ 489 billion. In February, the White House forecast a \$ 307 billion deficit for next year, even with all of President Bush's policy proposals included.

Between 2002 and 2011, the government is forecast to accumulate \$ 3.6 trillion in new debt. That is a swing of more than \$ 9 trillion from the \$ 5.6 trillion surplus predicted for that time period in 2001, when Bush pushed through a 10-year, \$ 1.35 trillion tax cut in part to send that surplus out of Washington. By 2013, the Democrats say the publicly held debt will have reached \$ 7.9 trillion, just as baby boomers begin to retire.

"This is becoming more than a fiscal issue," said Rep. John M. Spratt Jr. (S.C.), the ranking Democrat on the House Budget Committee. "It's become a moral issue."

Independent analysts say the Democrats' numbers do not appear excessive. Last week, Goldman Sachs, the Wall Street investment bank, forecast a similar deficit of \$ 416 billion for 2003, rising to \$ 450 billion next year. But William Dudley, a Goldman Sachs economist, said the firm will likely boost its 2004 deficit forecast to reflect a larger-than-expected tax cut for this year and next. "The tax bill is pretty steep in '04," he said.

Although its total \$ 350 billion price tag through 2013 is less than half Bush's \$ 726 billion

proposal, the tax cut signed into law on Wednesday will cost the Treasury more through 2004 than Bush originally anticipated. Through 2004, tax cuts and aid to state and local governments will total nearly \$ 210 billion, compared with the president's \$ 154 billion plan.

The Democratic staff also added \$ 57 billion in war-related costs next year, a number that may be too low, Holtz-Eakin said.

Democrats rely on anticipated budget changes that are far from enactment to reach their long-term deficit forecast. Those include a \$ 3.6 billion partial repeal of the alternative minimum tax, which will increasingly ensnare middle-income taxpayers, and the extension of Bush tax cuts now scheduled to expire over the next decade.

With those assumptions, the new forecast anticipates deficits in excess of \$ 300 billion through the rest of the decade. By 2013, when the first baby boomers are expected to begin retiring, the deficit for that year would stand at \$ 476 billion. The **national debt** held by the public would have reached \$ 7.9 trillion by then, or 44 percent of the overall economy. That is about where it stood in the 1990s when deficit reduction became a dominant political issue.

Republicans yesterday did not quibble with the forecasts, but they fired back at the forecasters.

"These are the same people who are not even willing to look for wasteful spending in the government," said Kyle Downey, the House Budget Committee's communications director. "They want to complain about a problem, but they don't want to work for a solution."

The government's reversal of fiscal fortunes over the past two years is one of the most dramatic measurements of the flagging economy and the policies the administration has pursued. But the growing deficit has yet to become a political liability, in large part because it has had no tangible impact on individual wealth.

That could begin to change as the economy emerges from the doldrums, Dudley suggested. By 2005, the Federal Reserve will probably begin raising short-term interest rates, and long-term rates will likely follow suit, he said. "That's when this will all come back and haunt us," Dudley said.

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