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Deficit Delusions

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NEXT YEAR'S DEFICIT is on course toward an ugly milestone -- nearly half a trillion dollars -- but that's not the bad news. The bad news, as a report from the Congressional Budget Office makes clear, is that budget deficits -- big ones -- are here to stay under the Bush administration's economic plan. The administration would have everyone stop worrying because, it assures us, spending discipline and robust economic growth will cut the deficit in half by 2008. But a close look at the CBO estimates shows that the more likely picture is annual deficits around $400 billion for the next decade, piling on more than $4 trillion in debt through 2013.

These numbers don't appear explicitly in the CBO report, which projects that the budget will show a deficit of $197 billion by 2008 and a $211 billion surplus by 2013. That is because budgetary rules require CBO to conduct its analysis in a way that ignores reality. CBO's new director, Douglas Holtz-Eakin, who arrived earlier this year from the White House Council of Economic Advisers, deserves applause for candidly explaining those limitations and presenting a series of build-your-own-deficit alternative scenarios. As CBO summarized the situation with characteristic mildness, "Various combinations of possible actions could easily lead to a prolonged period of budget deficits, although other scenarios could be more favorable."

By law, the budget office can't include in its official estimates legislative proposals that haven't yet been enacted -- for example, the $400 billion Medicare prescription drug bill, or the need to fix the alternative minimum tax (at least $400 billion, according to CBO, and possibly much more). Similarly, CBO must assume that current law will continue as written, including that the 2001 and 2003 tax cuts will expire as scheduled. But the Bush administration intends for the cuts to be made permanent, as budget director Joshua B. Bolten reaffirmed during a visit to The Post last week. That would cost another $1.1 trillion through 2013 (CBO puts the figure at $1.6 trillion but that includes an equipment depreciation provision that the administration hasn't advocated extending).

CBO's spending estimates must, likewise, be divorced from history: They assume that discretionary spending grows only at the rate of inflation (projected to average 2.7 percent during the next 10 years), though in fact discretionary spending has grown by an annual average of 7.7 percent during the past five years. At the same time, though, CBO must assume that the $79 billion in emergency spending approved by Congress this year to pay for the war in Iraq will be repeated (and grow with inflation) during the next 10 years, for a total of $818 billion. For our calculation, to give the administration the benefit of every doubt, we've taken all those Iraq costs out -- though they will clearly amount to many billions.

Additions to Deficit

(in billions)

2008

2013

2004-13Extend 2001, 2003 tax cuts $50 $330 $1,133Fix alternative minimum tax 46 49 400Medicare prescription drugs 43 64 400Grow discretionary spending 121 279 1,392Additional interest 22 137 427 (Subtract Iraq costs) (-86) (-98) (-818)Total addition to deficit 196 761 2,934CBO projection 197 (-211) 1,397Possible deficit 393 550 4,331

The above chart shows how this could all add up. It assumes extension of the tax cuts, a prescription drug bill and a fix for the alternative minimum tax -- all three of which the administration favors. It also assumes a rate of discretionary spending increase equal only to the growth in the economy (more than the administration says it wants but less than past practice).

And the result? Cumulative deficits of $4.3 trillion through 2013 -- three times the CBO's official projection. To look at it another way, in 2008 -- the point at which the administration insists the deficit will be cut in half -- the deficit would be just under $400 billion. By 2013, it would be $550 billion. This, remember, envisions only policy changes favored by the administration plus a remarkable level of spending discipline; if spending were to continue to grow at the rate of the past five years, the deficit would exceed $1 trillion by 2013. Indeed, even if the administration could hold discretionary spending to its stated goal of 4 percent growth, the cumulative deficit would total $3.3 trillion through 2013. Manageable? For President Bush, sure. For the next generation, by no means.