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CBO Says '04 Deficit Will Rise to \$477 Billion

Extending Tax Cuts Could Double Debt

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The federal deficit will reach \$477 billion this year, up sharply from last year's \$375 billion level, and the government is on track to accumulate nearly \$2.4 trillion in additional debt over the next decade, the nonpartisan Congressional Budget Office said yesterday.

The government's \$4 trillion debt could more than double if President Bush succeeds in making permanent an array of tax cuts that are set to expire by 2011, the CBO's annual budget report added.

Measured against the size of the economy, this year's deficit -- a record in dollar terms -- will still be smaller than those in six deficit years under Presidents Ronald Reagan and George H.W. Bush. CBO officials acknowledged that the cumulative deficit would shrink dramatically from 2005 to 2014 -- from \$1.9 trillion to \$785 billion -- if all spending in Iraq and Afghanistan were to end this year. That is a scenario the White House and Congress do not envision.

Where the deficit goes from here, the CBO said, will depend in part on a major decision facing Congress: whether to follow Bush's admonitions and make permanent the \$1.7 trillion in tax cuts passed in 2001 and 2003, or to let them expire by 2011.

If they do expire, the 2004 peak deficit would gradually decline until the books balance in 2014. But if they are extended, the government would continue to run large deficits well into the next decade.

"If you look forward, sustained, large deficits in the face of a fully operating economy will have economic consequences," warned CBO Director Douglas Holtz-Eakin, a former economist in the Bush White House.

Regardless of those future decisions, the government's long-term finances have worsened considerably in the past six months, largely because of the war in Iraq and passage of the \$400 billion law adding a prescription drug benefit to Medicare. In August, congressional forecasters predicted a 10-year deficit of \$1.4 trillion through 2013. That figure has jumped nearly a trillion dollars since then.

And those deficits will persist, even though the CBO forecasts robust economic growth of 4.8 percent this year and 4.2 percent in 2005.

"CBO's projections confirm that deficits loom far into the future," said Rep. John M. Spratt Jr. (S.C.), ranking Democrat on the House Budget Committee.

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Treasury Secretary John W. Snow, in a speech delivered via satellite to a conference in London, said the administration remains committed to cutting the deficit in half over the next five years. "Make no mistake, President Bush is serious about the deficit," Snow said.

Under the CBO's forecast, the \$477 billion deficit of 2004 would reach \$268 billion in 2009, not quite half the 2004 level.

White House officials cautioned that the CBO may have inflated its long-term deficit figure. By law, the agency had to assume that this year's \$87 billion spending in Iraq and Afghanistan would continue at that level through the next 10 years.

A White House official said the president's own deficit forecast will look "substantially different" when he releases his 2005 budget on Monday. That forecast will go out only five years, in effect omitting the cost of extending the tax cuts. But the official said longer-range forecasts are more difficult.

By most measures, the prospects appear bleak, and Holtz-Eakin has put the future of the Bush tax cuts at the center of the budget battle. Maintaining the tax cuts would improve the labor market and increase business investment, he said, but the attendant budget deficits would lower national savings, reduce economic productivity and ultimately curtail economic growth.

"The cumulative corrosive impacts of sustained deficits in the face of a full-employment economy" would, on balance, make the extension of the tax cuts "a modestly negative" policy choice, he said.

Even some Republicans are increasingly nervous about the tide of red ink. The chairmen of the House and Senate budget committees underscored the CBO's optimistic assessment of the economy, but they also said more would have to be done about the deficit.

"Last year, we invested in two priorities, winning the war on terrorism and strengthening the economy," said Senate Budget Committee Chairman Don Nickles (R-Okla.). "But Congress must show fiscal discipline moving forward. The deficit projection for this year is expected, but not acceptable."

Bush has said he will tackle the deficit by controlling spending of programs not related to defense or homeland security. But with his planned increases in security spending, Bush anticipates total spending to increase by 4 percent next year, a larger increase than the CBO is anticipating. Even if all spending at Congress's discretion were to be frozen at this year's levels, the government would still run a \$776 billion deficit over the next 10 years. If spending were frozen and the tax cuts were extended, that deficit would top \$2.3 trillion.

And by 2014, the retiring baby boom generation will be affecting the deficit in earnest. Medicare alone will grow by an average rate of 9 percent each year over the next decade. By 2014, Social Security, Medicare and Medicaid will consume half the federal budget, up from 40 percent this year.

Snow again yesterday blamed the sluggish economy, the Sept. 11, 2001, terrorist attacks and the wars in Iraq and Afghanistan for the dramatic turnaround. But the CBO's new forecasts make it clear that economic growth alone will not bring the budget into balance, when coupled with the president's tax policies.

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