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Forecast: Deficits To Last Into '05

Tax Receipts Hit A 56-Year Low

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Wednesday, August 28, 2002; Page A01

The most dramatic drop in tax revenue since 1946 has put the government into deficit for the next three years and has shriveled the projected 10-year federal budget surplus by 60 percent in just five months, the Congressional Budget Office reported yesterday.

The CBO's influential midyear budget forecast underscores the deterioration of the government's fiscal health. As recently as March, congressional forecasters had predicted the government would run a much larger surplus -- $2.4 trillion -- than the $1 trillion total that the CBO now foresees between 2003 and 2012. That number has shrunk because of a plunge in tax receipts, the likes of which has not been seen since the repeal of World War II surtaxes 56 years ago, said CBO Director Dan L. Crippen.

Economists appeared to be at a loss to explain it. Crippen merely called it "astounding."

The report diverges significantly from the White House's forecast released last month. It comes as President Bush prepares to unveil a new round of tax cuts to stimulate the stock market and pushes Congress to make last year's 10-year, $1.35 trillion tax cut permanent. The CBO report may have undercut that campaign. According to its projections, nearly all the 10-year surplus will materialize after 2010, when the president's tax cut is scheduled to expire.

Democrats pounced on the new projections, accusing the White House of sugarcoating the burgeoning budget problem. Republicans said the CBO's numbers only underscore the need for Congress to control spending.

"The president believes the lesson from today's CBO numbers is that Congress needs to hold the line on spending," White House spokesman Ari Fleischer said from the president's ranch in Crawford, Tex. "And if Congress won't do it, the president will do it for Congress."

Despite partisan rhetoric, neither party played down the deterioration in the government's long-term financial position. Crippen pointedly did not attribute that decline simply to the economic slowdown or the Sept. 11 terrorist attacks. This year's $131 billion plunge in tax revenue was considerably sharper than the economy's own fall, just as the growth in tax receipts was more robust in the late 1990s than was the economy's growth.

Just last year, CBO projected a $5.6 trillion surplus between 2002 and 2011. That figure allowed Bush to say his 10-year, $1.35 trillion tax cut would leave room for a prescription drug benefit for seniors and a significant effort to reduce the federal debt.

Now, that $5.6 trillion projection has shrunk to $336 billion over the same period.

From 2003 to 2012, the CBO's surplus projection jumps to $1 trillion, but that figure is considerably more pessimistic that the administration's forecast of $2.5 trillion over the same timeframe. The White House forecast in July that if spending were strictly controlled in other areas, Congress could make last year's $1.35 trillion tax cut permanent, raise defense spending substantially, and pass legislation to pick up some of the cost of health insurance and senior citizens' prescription drugs -- and still squeak out a slim, $41 billion surplus through 2007.

Congressional forecasters -- and even White House officials -- now doubt those numbers. Of CBO's $1 trillion, 10-year surplus forecast, $845 billion would come after the tax cut expires after 2010. All of that money would come from surplus Social Security taxes. And that trillion-dollar figure does not include large military budget increases or a prescription drug benefit.

Besides, Crippen said, his agency was privy to important economic information -- including July's stock market swoon and a broad re-estimate of recent economic growth rates -- that the White House Office of Management and Budget did not have when OMB issued its forecast last month.

"They would probably change their estimate if they had that luxury," Crippen told reporters.

White House Budget Director Mitchell E. Daniels Jr. conceded the point. CBO's projections are based on new economic data and "more recent information on the decline in revenue collection," he said. "OMB and the Treasury Department face the same challenge in continuing to look for ways to achieve greater accuracy in forecasting."

Democrats were not so charitable. Senate Budget Committee Chairman Kent Conrad (D-N.D.) accused the White House of "Enron-type accounting." The administration's forecasts for economic growth and unemployment, both for this year and next, are more positive than either CBO's or the blue-chip consensus figures of private economists. The administration also predicts the government will receive $638 billion more in revenue through 2012 than CBO projects, and that spending will be $634 billion lower.

"President Bush still refuses to present any serious plan to get the nation's finances back in order," charged House Minority Leader Richard A. Gephardt (D-Mo.).

Referring to Bush's push to make last year's tax cuts permanent while passing more tax cuts, Conrad said, "He certainly has no plan to right the ship. In fact, he's punching more holes in the hull as the ship goes down."

But Conrad and his House counterpart, Rep. John M. Spratt Jr. (S.C.), the senior Democrat on the House Budget Committee, stopped short of calling for a repeal of the tax cut or specific spending cuts. Instead, Spratt said both parties should convene a budget summit, as Congress and President George H.W. Bush did in 1990, to make the difficult decisions together.

Rep. Jim Nussle (R-Iowa), chairman of the House Budget Committee, put the onus squarely on the spending side. "These numbers reinforce the need for Congress to control spending to get us back on the road to fiscal health," he said.

The White House didn't back off its economic agenda. OMB spokesman Trent Duffy said the lesson from the rapid erosion of the government's fiscal fortune is that economic growth creates budget surpluses. Making last year's tax cut permanent would provide businesses and individuals a measure of long-term certainty that will boost the nation's long-term economic prospects, he said. Tax cuts specifically aimed at restoring investor confidence in the stock market will help the economy in the short run, he said.

Duffy said that in some respects, CBO is probably overstating congressional spending trends. By law, CBO must assume that any emergency spending proposals this year will be repeated each subsequent year, even if such spending included such one-time expenses as the cleanup of Ground Zero in New York. Supplemental appropriations account for $268 billion in added spending through 2012, a figure that the White House does not include in its budget forecast.

But independent budget forecasters say CBO's forecast is probably optimistic. It does not include a prescription drug benefit for seniors, which would likely cost at least $300 billion over 10 years. It makes no room for a military strike on Iraq, nor does it include large increases in military and homeland defense spending that are expected to be twice as expensive as the supplemental spending CBO does include.