The New York Times
nytimes.com

August 28, 2002

Budget Office Forecasts Shift From Surplus to Big Deficits

By EDMUND L. ANDREWS

WASHINGTON, Aug. 27 — The Congressional Budget Office predicted today that the federal government would run big budget deficits through 2005, and those estimates do not include the impact of President Bush's proposals for higher military spending and his ideas for additional tax cuts.

The bipartisan office also estimated that tax revenues this year are about $131 billion, or 6.6 percent, lower than last year, the biggest one-year drop in nearly half a century.

The forecast is considerably more pessimistic than what the Bush administration has predicted, and it virtually wipes out the trillion-dollar surpluses that the White House and the Congress had foreseen over the next decade.

The new estimates point to a sharp reversal in the government's fiscal position, which shifted from a sizeable overall surplus last year to an even bigger overall deficit this year.

They were immediately seized as fodder by Democrats and Republicans alike in the battle over extending the tax cuts that Mr. Bush pushed through Congress last year.

Democrats said Mr. Bush's tax cuts were the main culprit behind the abrupt lurch into the red, and they used today's report to attack the president's plan to make those tax cuts permanent.

"The president is taking us down the path of soaring budget deficits, and he wants to dig the hole even deeper," said Senator Kent Conrad, Democrat of North Dakota and chairman of the Senate Budget Committee.

But White House officials and Congressional Republicans argued that the new deficits merely reflected the recent economic slowdown, the price of the war in Afghanistan and the costs of beefing up domestic security against terrorism.

Dan L. Crippen, the director of the budget office, said the recession and the plunging stock markets appeared to have played a bigger role than the tax cuts in reducing tax revenues.

But Mr. Crippen also said that the magnitude of the drop remained somewhat of a mystery. Tax revenues have declined faster than the economy itself, and nobody knows why.

Much of it may stem from huge stock-market losses, but it may also reflect deeper changes in tax-paying behavior that endure beyond today's bear market.

By law, the Congressional Budget Office cannot base its estimates on proposals by the White House or Congress. It assumes that the tax laws remain unchanged and that spending continues on the same trend over the next 10 years.

Inevitably, the forecasts diverge with reality as both the laws and the nation's economy evolve.

Perhaps the most striking trend in the latest forecast is the long string of deficits that would occur under almost any situation.

When excluding the "off-budget" surpluses accumulating in the Social Security trust funds, which are supposed to be reserved for the baby-boom generation's retirement, the new forecast estimates that the deficit will stretch until 2010 and be followed by small surpluses in the next two years.

But even those modest surpluses assume that Mr. Bush's tax cuts last year expire in 2010, as scheduled. The president is pushing hard for Congress to make them permanent.

If he is successful, then tax revenues would decline by an additional $350 billion in 2011 and 2012 and even the modest non-Social Security budget surpluses in 2011 and 2012 would evaporate.

The other element not included in today's forecast are Mr. Bush's ideas for some incremental tax cuts next year as well as large additional spending increases for the military and domestic security.

Republican analysts on the Senate Budget Committee said the combined impact of those changes would increase next year's total budget deficit to $180 billion.

All of that adds up to considerably higher deficits over the next several years than the White House Office of Management and Budget predicted in July. At that time, the administration said the total deficit would shrink to $71 billion next year and disappear in 2004.

In a historical perspective, the bickering about deficits over the next year or two is probably less important than the much longer-term outlook. Even the pessimistic plans envision a federal deficit that would be less than 2 percent of the American gross domestic product and would decline over the next few years.