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White House Sees a $455 Billion Gap in '03 Budget

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WASHINGTON, July 15 — The White House today projected a $455 billion budget deficit in the current fiscal year, by far the government's largest deficit ever and $150 billion higher than what the administration predicted just five months ago.

Democratic lawmakers said the new calculations showed the folly of President Bush's tax cuts and demonstrated that he was mismanaging the economy.

But Joshua B. Bolten, Mr. Bush's new budget director, said a deficit of this magnitude was "manageable if we continue pro-growth economic policies and exercise serious spending discipline."

In dollar terms, the expected deficit would be substantially higher than the previous record, $290 billion in the fiscal year 1992, the last full year of the first Bush administration.

Using what economists say is the most reliable measurement, the $455 billion represents 4.2 percent of the total economy, somewhat less than the 1983 deficit in the administration of President Ronald Reagan, which was 6 percent.

But in only six years since 1946 has the deficit been larger than 4.2 percent of the gross domestic product. Not counting the current surplus in the Social Security fund, the deficit would be 5.7 percent of the total economy, the largest since World War II except for 1983, when there was no Social Security surplus.

The projections released today by the White House's Office of Management and Budget in its midyear review showed the deficit rising to $475 billion in the 2004 fiscal year, which begins Oct. 1, then declining somewhat as a result of the stronger economy that the administration is forecasting. The deficit was also forecast to be $304 billion in 2005, $238 billion in 2006, $213 billion in 2007 and $226 billion in 2008. In all, that would be about $1.9 trillion in new debt through 2008, making for a total national debt of $8.6 trillion.

The spending side of the budget equation for next year and afterward are almost sure to be higher than those shown in the documents, since the budget office's calculations for the fiscal years after the current one do not include the cost of maintaining troops in Iraq and Afghanistan or rebuilding those nations. Mr. Bolten said those expenses were impossible to predict. The latest Pentagon estimate is that the military costs alone in those countries are running about $5 billion a month.

"You can be sure that the president will ask Congress to spend whatever is necessary to protect our troops," Mr. Bolten said.

So far, the military campaign in Iraq has cost $48 billion, Dov Zakheim, the Pentagon comptroller, told The Associated Press today.

The deficits in future years include the president's proposal to spend $400 billion during the next decade to provide prescription drug benefits under Medicare.

The budget was in surplus by $127 billion in fiscal year 2001, the last budget prepared by the Clinton administration and the fourth consecutive year with a surplus. In April 2001, shortly after taking office, the Bush administration forecast a surplus of $334 billion in 2003.

Since then, the economy has faltered, taxes have been cut, and government spending has risen, mostly for the military and domestic security in the aftermath of Sept. 11. As a result, the deficit picture has worsened by $789 billion, from a surplus of $334 billion to a deficit of $455 billion, in just two years.

The budget office calculated that 53 percent of the deterioration was caused by the weak economy and the resulting lower tax receipts, 23 percent by tax cuts and 24 percent by higher spending for the war, domestic security and other items.

As recently as February, the White House's deficit forecast for this fiscal year was limited to $304 billion. Since then, tax revenues have been $66 billion lower than expected, Congress approved $47 billion for war costs in Iraq, taxes were cut by $13 billion and other legislation raised spending by $26 billion.

Mr. Bush did not speak about the budget today. His spokesman, Scott McClellan, said the deficit posed no threat to the economy and would be dealt with as the economy improved and the threat of terrorism subsided. He noted that the deficits projected for after 2004 were half what they are expected to be this year and next.

"The president's highest priorities will always be winning the war on terrorism, protecting the American people and getting our economy growing stronger and faster, and that's where his focus is," Mr. McClellan said.

But Democrats focused on the tax cuts Mr. Bush has pushed through Congress the last three years. Representative John B. Spratt Jr. of South Carolina, the top Democrat on the Budget Committee, estimated that the total deficits projected through 2011 would amount to $3.6 trillion and that the total revenue expected to be lost to tax cuts would be $3.7 trillion.

Representative Charles B. Rangel of New York, the ranking Democrat on the Ways and Means Committee, said: "There is no excuse for a $450 billion record deficit this year. Sept. 11 didn't give us that deficit. The poor people didn't give us that deficit. The deficit is the result mainly of massive, irresponsible tax cuts for the richest Americans and the lack of any real plan to boost the economy and put people back to work."

If not for the tax cuts, the deficit this year would be $278 billion, according to the White House.

Alan Greenspan, the chairman of the Federal Reserve Board, told Congress this morning that to meet the challenge of the deficit, it was important for lawmakers to reinstate lapsed budget rules requiring tax cuts to be offset by spending reductions or other tax increases.

Democratic presidential candidates clearly hope to make the deficit a campaign issue. "The president's economic policies are like quicksand," Senator John Edwards of North Carolina declared. "They keep sucking the nation deeper and deeper into debt."

Republicans in Congress expressed concern about the high deficits but said they were determined to hold spending down.

"The deficits forecast in today's report are uncomfortable," said Representative Jim Nussle of Iowa, chairman of the Budget Committee. But he told reporters, "Tax cuts do not cause deficits. When you reduce taxes, taxes stay in the pocket of people that earn it. We do not have to borrow money in order to reduce taxes. You only borrow money in Washington for spending."

The political consequences of the large deficit are difficult to weigh. Running against the first President Bush in 1992, Bill Clinton managed to make the high deficit a proxy for a weak economy, and that was doubtless a factor in his election.

Until then, no politician had found the budget deficit to be the kind of issue that got voters exercised.

In terms of the economy, deficits are important mostly to the extent they drive up interest rates. Mr. Bolten, who replaced Mitchell E. Daniels Jr. as budget director late last month, said today that with interest rates the lowest in decades, it was clear that so far the deficit had not been bad for the economy.

Mr. Bolten conceded that if steps were not taken, problems would arise early in the next decade when the boomer generation begins to retire and government spending must increase to pay for their Social Security and Medicare programs. But the budget projections he released today cover only five years, through 2008.