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U.S. Deficit Seen as Rising Fast

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WASHINGTON, March 4 — The federal deficit is growing much more quickly than expected, even before Congress takes up President Bush's tax-cutting proposals and without factoring in the costs of a war in Iraq, Congressional analysts have concluded.

Analysts for the Republican-controlled House Budget Committee have raised their estimates of this year's budget shortfall by about \$30 billion, some 15 percent beyond the forecast that the nonpartisan Congressional Budget Office issued only five weeks ago.

The budget office itself has reached conclusions similar to the committee's, House Republicans say, and is expected to reflect them in its regularly scheduled reassessment of the budget outlook to be issued this Friday.

The deterioration appears to stem from the continued weakness of the economy and the stock market, and those problems could remain for a while: many economists predict anemic growth for at least the first half of 2003.

The new projections mean that the government's 2003 shortfall could soar to \$400 billion if Mr. Bush's tax cuts are approved and if war costs this year run into the tens of billions of dollars.

They also mean that Mr. Bush will face new pressure either to scale back his proposals for cutting taxes by \$1.5 trillion over 10 years, or to rein in favored programs like a military buildup, domestic security and prescription drugs for the elderly.

The White House has already estimated that the budget deficit this year will hit a record \$304 billion, a calculation that includes the effect of the administration's tax-cutting proposals, though not the costs of a war with Iraq.

But Congressional analysts say the outlook has grown considerably worse in the last few months. From October through January, the first four months of the current fiscal year, tax revenue plunged, and the deficit ballooned to \$94 billion.

By contrast, the government ran a surplus of \$8 billion in the corresponding period last year. That adds up to a \$102 billion deterioration from last year to this, and last year proved to be a bad year in its own right.

Democrats are accusing Mr. Bush daily of being reckless in pushing tax cuts so large and in his lack of concern about running deficits for at least the next decade. But Republican lawmakers contend that the yawning budget gap reflects the weak economy and so actually increases the urgency of stimulating that economy with tax cuts.

"The tax code is not performing, and it's making a mess out of the budget," said Representative Jim Nussle of Iowa, chairman of the House Budget Committee. "Unless we get the economy growing again, we're going to keep getting these kinds of corrections."

In testimony today before the House Ways and Means Committee, Treasury Secretary John W. Snow reiterated the administration's argument that budget deficits over the next several years posed little danger. The deficits envisioned by the administration, Mr. Snow said as the committee opened hearings on the tax-cut proposals, "are really modest and clearly manageable and will not have any impact on long-term interest rates, which is the real concern."

But some independent analysts say the administration and Congress alike may be overly optimistic. Asked about House analysts' increasing their estimate of this year's deficit by \$30 billion, Edward McKelvey, an economist at Goldman Sachs, said he thought the figure was too small. Beyond the revenue shortfall from October through January, Mr. McKelvey said, tax refunds during February ran about 10.9 percent higher than in February of last year.

Administration officials know they face resistance from Democrats as well as some moderate Senate Republicans to Mr. Bush's "jobs and growth" package of tax cuts. The main fight is over the plan's proposal to eliminate taxes on most stock dividends, a provision that the administration estimates would cost the Treasury about \$385 billion over 10 years.

To shore up wavering Republicans and bring at least a handful of Democrats to the White House's side, top administration officials are lobbying lawmakers, organizing business groups to lobby on their behalf and barnstorming around the country.

The budget issues are already intensifying a behind-the-scenes battle in Congress about the best way to calculate the cost of tax cuts. Republican lawmakers want at least some projections based on "dynamic scoring," under which tax cuts can be portrayed as partly paying for themselves by stimulating faster economic growth. Democrats generally oppose that effort.

In its report this Friday, the Congressional Budget Office is expected to evaluate the president's tax proposals the traditional way. But in the next week or so the agency, headed by a new Republican director, Douglas Holtz-Eakin, will also provide "dynamic" analyses of parts of Mr. Bush's plan.

Mr. Nussle, chairman of the House Budget Committee, voiced some skepticism on dynamic scoring.

"I'd rather be conservative in my projections," he said, "and be surprised by the positive rather than by the negative."