

Tax Decisions Could Affect Deficit Outlook

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WASHINGTON -- Congressional budget experts said the fiscal 2007 deficit could fall to \$172 billion if current policies remain in place, down from \$248 billion in 2006, but the gap could worsen depending on how Congress addresses several looming tax-policy decisions.

The Congressional Budget Office projections exclude the cost of an anticipated \$100 billion war supplemental-spending bill. If that money is approved, CBO expects about \$25 billion of it will be spent in 2007, bringing the year's deficit to about \$200 billion, according to new CBO Director Peter Orszag. Fiscal year 2007 began Oct. 1, 2006.

Office of Management and Budget Director Rob Portman said the president's budget will likely result in a higher deficit for fiscal year 2007 than predicted by CBO. "Our number will be a little higher than theirs," Mr. Portman told reporters. "But, it will be consistent with the broad theme of reducing deficits and [reaching] balance by 2012," Mr. Portman said. President Bush will continue a U.S. military buildup while offering a package of entitlement cuts as part of a plan to balance the budget by 2012, a senior administration official said yesterday.

CBO sees the deficit dropping to \$98 billion in 2008 and, after a brief increase in 2009 and 2010, leveling out in 2012 and turning into a surplus. Aiding the decline is that revenue is projected to grow an average of 5.2% over the next 10 years and as much as 7% in 2007.

However, CBO's deficit projections assume that the tax cuts enacted by Mr. Bush are allowed to expire in 2010 and that the alternative minimum tax, which is expected to ensnare 33 million Americans by 2010, isn't fixed. Making the tax cuts permanent, which Mr. Bush has requested, would inflate the deficit by about \$1.9 trillion over 10 years, according to CBO. Fixing the AMT, which was intended to capture high-income earners but has begun to hit the middle class because it wasn't indexed for inflation, would increase the deficit by \$569 billion over that same period.

Mr. Orszag also warned that the favorable outlook suggested by the 10-year projections "doesn't alter the long-term fiscal imbalance" caused by the ballooning costs of entitlement programs such as Medicare and Social Security. Medicare and Medicaid alone are expected to grow from 4.5% of gross domestic product to 20% by 2050, as health-care costs increase and an aging work force begins collecting benefits.

CBO said either a substantial reduction in the growth of spending, a significant increase in tax revenue or some combination of both would be "necessary to promote long-term fiscal stability."