

Federal Deficit Narrows; Spending Fight Continues

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WASHINGTON -- The federal deficit narrowed in fiscal 2007, the third straight annual reduction, as the continued economic recovery helped the growth of tax receipts outpace the growth of government spending.

For the fiscal year ended Sept. 30, the U.S. recorded a deficit of \$162.8 billion, about 34% smaller than the \$248 billion gap in fiscal 2006. Spending rose 2.8% to \$2.73 trillion, compared with revenue of \$2.57 trillion, a 6.7% increase from fiscal 2006.

Individual income-tax receipts grew 12% to \$1.163 trillion and corporate tax receipts were up 4.6% to \$370.2 billion. Employment taxes rose 4.3% to \$824.3 billion.

The 2007 deficit came in slightly above the Congressional Budget Office's recent forecast of \$161 billion, but below the White House's estimate of \$205 billion released in July.

"This year's budget results demonstrate the remarkable strength of the U.S. economy," Treasury Secretary Henry Paulson said. "This strength has translated into record-breaking revenues flowing into the U.S. Treasury and a continued decline in the federal budget deficit. President Bush's fiscal policies have helped promote economic growth and steady job creation."

The narrower numbers come as the White House and Congress are fighting over spending for fiscal 2008, with President Bush threatening to veto Democrat-led spending bills that would increase discretionary spending by \$22 billion above what the president called for in the budget he sent to Congress in February. Democrats continue to accuse Mr. Bush and Republicans in general of overspending.

"As we approach the end of President Bush's term in office, he is desperately trying to remake his image as a fiscal conservative," Sen. Kent Conrad (D., N.D.) said. "But it is too little, too late. He will go down in history as the most fiscally irresponsible president ever."

The two sides did agree that while the short-term deficit is improving, long-term challenges remain as the baby boomers begin to retire and collect Social Security and Medicare benefits.

Jim Nussle, director of the Office of Management and Budget, said the problems are daunting and urged Congress to pass the proposals that Mr. Bush has suggested for Social Security and Medicare.

"The president has proposed reasonable changes that begin to fix this serious problem," Mr. Nussle said. "For the sake of our children and grandchildren, Congress should begin to take action to prevent this fiscal train wreck."