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CORRECTION TO THIS ARTICLE

The projected \$521 billion deficit in President Bush's budget is for the 2004 fiscal year. The words "this year" were incorrectly dropped from a Feb. 2 article on the budget, thus implying that the deficit was for fiscal 2005. A headline on the article contained the same error.

Deficit Is \$521 Billion In Bush Budget

By Jonathan Weisman
Washington Post Staff Writer
Monday, February 2, 2004; Page A01

President Bush's \$2.4 trillion budget for the fiscal year that begins in October will leave the government \$521 billion in the red. But by trimming domestic spending and eliminating up to 65 federal programs, the White House expects to cut the deficit to \$237 billion by 2009, White House officials said yesterday.

White House and congressional Republicans say the 2005 budget, being released today, will be asking a lot of lawmakers in an election year. Meeting privately with congressional Republicans in Philadelphia on Saturday, Bush said, "It will be a tough budget," according to one of the participants.

In all, Bush will request spending at the annual discretion of Congress to be held to \$818 billion in fiscal 2005, a 4.1 percent increase over this year, White House and congressional officials said. But if emergency spending in Iraq and Afghanistan are included in this year's spending level, the Bush request will actually be a 6.3 percent cut, from \$873 billion.

"It was bound to be a tough year because of the election," a senior Republican Senate aide said yesterday. "It was bound to be a tough year because of the deficit. And now we're seeing how tough it's going to be."

Bush's budget will include no additional funding for operations in Iraq and Afghanistan beyond Sept. 30, an omission that both Democrats and Republicans are questioning.

The most expensive proposal of Bush's reelection campaign -- making three years of tax cuts permanent -- will largely have no impact on the president's budget deficit forecast, which extends out five years rather than 10, as was customary in the 1990s.

The true cost of extending the tax cuts would not come until 2011, long after Bush has left office. In 2012 alone, extending the president's 2001 and 2003 tax cuts would cost the Treasury \$275 billion, the nonpartisan Congressional Budget Office said last week.

"The bottom line is, his budget is going to be like Swiss cheese," said Thomas

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Kahn, Democratic staff director of the House Budget Committee. "It's not only the programs he has [in the budget] but what he doesn't have to mask the size of the deficit."

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Both Republican and Democratic congressional experts say Bush's biggest challenge is tackling rising deficits while he increases spending on defense and homeland security and rules out tax increases. His budget also does not propose any cuts to the majority of federal spending: entitlement programs such as Medicare, Medicaid and Social Security that are funded by congressionally mandated formulas, not by annual spending bills.

The one entitlement cut the president proposed last year has been dropped from this year's request, a Republican congressional aide said. Last year, Bush had proposed turning many federal welfare programs into a block grant to the states, which would save money in the long run.

That means any cuts in spending are confined to the \$362 billion currently going to programs not related to defense or homeland security, less than 18 percent of the total budget, a Senate Republican budget expert said. That block of money funds health research, education, housing, law enforcement, the State Department, environmental restoration and veterans programs, to name a few entities. If all such domestic programs were eliminated, the government would still have a significant budget deficit, Kahn noted.

White House officials declined to say which programs were slated for elimination, and White House budget director Joshua B. Bolten did not offer any examples when he met with GOP leaders last week. But congressional sources said they expect Bush to request deep cuts in energy, agricultural and environmental programs.

The budget will propose a modest, one-year tax change to keep millions of Americans from facing the alternative minimum tax, a parallel income tax system originally designed to ensure the rich pay taxes but increasingly ensnaring the middle class. Bush's one-year "patch" for that would cost \$23 billion and avoid longer-term costs that would thwart pledges to cut the deficit in half, congressional officials said.

Instead of proposing a long-term solution, Bolten told GOP lawmakers, "We will be focusing on fundamental tax reform," a participant said.

CBO has said a modest 10-year fix would cost \$469 billion.

The budget will include a \$1 billion increase for special education, a \$1 billion addition for poor school districts and an \$18 million increase for the National Endowment for Arts, a request that has infuriated some conservatives.

But Bush will ask for \$256 billion for transportation programs, considerably less than the \$318 billion that Senate Republicans hope to spend on a major transportation bill due to be completed this year, and far less than the \$375 billion House Transportation Committee leaders want. Indeed, the most heated debate at the Philadelphia retreat came over the transportation funding, participants said.

Bush indicated to lawmakers that he would not accept an increase in the federal gasoline tax that the House is seeking, nor will he allow federal money not generated by the gas tax to fund the transportation bill, one participant said.

The Senate intends to take up its version of the bill tonight, meaning the first clash of the budget season could come in weeks.

Bush will renew his proposal to establish new retirement and tax-favored savings accounts, a proposal that would eliminate taxation on interest, capital gains and dividends for most Americans. But, congressional aides say, the primary motivation for keeping the proposals in the budget is the short-run deficit picture. Under the proposal, the Treasury Department expects millions of savers would close their traditional Individual Retirement Accounts to open the new accounts, paying taxes on the withdrawals now rather than later, when they retire. That would cost the government tax revenue in the future but would provide a \$15 billion increase in revenue over the next three years, thus brightening Bush's bottom line.

The White House's \$521 billion deficit forecast for 2004 is considerably higher than the \$477 billion deficit projected by CBO, but Bush's \$237 billion deficit for 2009 is mostly consistent with CBO's \$239 billion forecast for that year. A White House official dismissed the discrepancy, saying, "It's not at all unusual for projections to be different."

But budget aides in both parties noted that the higher number makes it easier to say the deficit would be cut in half in five years. A higher deficit forecast now could also

help Bush show progress when his budget office delivers its updated projection in July, congressional aides said.

"These numbers are not real," said Kahn, of the House Budget Committee. "The real numbers are that we're headed toward far bigger deficits as far as the eye can see. He's taken a bad situation and made it really bad."

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