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# POLITICS

## Bush heralds improved deficit figures

### Annual deficit to come in at \$296 billion, below original estimates

Tuesday, July 11, 2006; Posted: 9:54 p.m. EDT (01:54 GMT)

**WASHINGTON (AP) -- President Bush touted new deficit figures Tuesday showing considerable improvement upon earlier administration predictions, saying it shows the wisdom of his tax cuts.**



**President Bush said Tuesday that the improving deficit numbers valid his tax-cutting policies.**

Bush himself announced the figures -- a task that for the most part has been left to lower-ranking administration officials in the past. The new figures show the deficit for the budget year ending September 30 will be \$296 billion -- much better than the \$423 billion that Bush predicted in February and a slight improvement over 2005.

Bush said the improvement is due to tax cuts he pushed in 2001 and 2003 and his clampdown on domestic agencies funded by Congress. ([Watch critic warn of 'fiscal train wreck' -- 1:53](#))

"These tax cuts left nearly \$1.1 trillion in the hands of American workers and families and small business owners. And they used this money to help fuel an economic resurgence that's now in its 18th quarter," Bush said. "Economic growth fueled by tax relief has sent our tax revenues soaring."

Impressive profits and big income gains by the wealthy are largely responsible for the surge in revenues and, in turn, the deficit drop.

### Democrats: Deficit still too high

However, the results are less impressive when compared to the \$318 billion deficit posted last fall for fiscal 2005. Despite strong revenues, the high costs of the Iraq war and Gulf Coast hurricane relief have weighed on the deficit -- as have higher interest payments paid on the national debt.

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But when measured against the size of the economy -- at 2.3 percent of gross domestic product -- the 2006 deficit would be lower than the deficits of 17 of the past 25 years. And if recent patterns hold, this year's deficit figure should improve even more by the time final figures are announced in October.

The deficit for next year would ease back up to \$339 billion, reflecting war costs and cautious revenue projections. The White House predicts it will drop to \$188 billion in 2008, but that assumes a sharp slowdown in spending on the Iraq war.

"The 2006 deficit may be a bit lower, but it represents a \$600 billion swing from the surplus projected in 2001. And a deficit of \$296 billion is still a large deficit. In nominal terms, it's one of the four largest in history," said Rep. John Spratt Jr. of South Carolina, top Democrat on the Budget Committee.

"Let's not boast about a \$300 billion deficit," said Senate Minority Leader Harry Reid, D-Nevada. "Any statistic you look at recognizes the rich in America are getting richer, the poor are getting poorer and the middle class is getting squeezed."

Revenues are running \$115 billion greater than expected earlier this year, the White House said, reflecting particularly strong growth in taxes paid on corporate profits and income taxes paid by wealthier people and small businessmen who pay taxes quarterly instead of having them withheld by employers.

Taxes paid by individuals are growing at a 15 percent rate, the White House says, while corporate taxes are rising at a 19 percent rate.

"Bold pro-growth tax policies enacted by Congress and the president have sparked unprecedented economic growth," said Senate Budget Committee Chairman Judd Gregg, R-New Hampshire.

But Gregg and budget experts across the spectrum say the real challenge lies ahead, when the retirement of the baby boomers threatens to swamp Social Security and the Medicare health plan for the aged.

The economy is estimated to grow at a 3.5 percent rate in real terms, a slight slowdown from the 5.6 percent rate of the first quarter of the year.

Diane Swonk, chief economist for Mesirov Financial, a Chicago-based financial services firm, predicted that the unexpected revenue surge would ease around the end of the year as profits peak.

### Estimated surplus never materialized

Bush has had few opportunities to boast about the deficit over the course of his time in office. He inherited in 2001 a surplus estimated by both White House and congressional forecasters at \$5.6 trillion over the subsequent decade, and it quickly dwindled. ([Watch Bush explain how he has 'good news for the American taxpayer' -- 2:30](#))

**Critic: Mission not accomplished on deficit** (1:53)



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Those faulty estimates assumed the late-1990s revenue boom -- fueled by the stock market and dot.com booms -- would continue. But that bubble burst, and a recession and the Sept. 11, 2001, terrorist attacks started a flow of red ink. Several rounds of tax cuts, including Bush's signature \$1.35 trillion tax cut in 2001, also contributed to the return to deficits four years ago after four years of budget surpluses.

Some budget experts say the steep rise in tax receipts looks more impressive than it really is since revenues are bouncing back from a three-year decline during Bush's first term, drops not seen since the Great Depression.

Still, the new figures allowed Bush to claim that he will meet his promise, made in early 2004, that he will cut the deficit in half by the end of his second term. Bush's deficit-halving promise was based on 2004 estimates projecting a \$521 billion deficit for the 2004 budget year, setting the goal of \$260 billion.

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