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1. White House Forecasts Often Miss The Mark

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President Bush last week caused a stir when he declined to endorse a projection, made by his own Council of Economic Advisers, that the economy would add 2.6 million jobs this year. But that forecast, derided as wildly optimistic, was one of the more modest predictions the administration has made about the economy over the past three years.

Two years ago, the administration forecast that there would be 3.4 million more jobs in 2003 than there were in 2000. And it predicted a budget deficit for fiscal 2004 of $14 billion. The economy ended up losing 1.7 million jobs over that period, and the budget deficit for this year is on course to be $521 billion.

These are not isolated cases. Over three years, the administration has repeatedly and significantly overstated the government's fiscal health and the number of jobs the economy would create, but economists and politicians disagree about why.

The president, though not addressing the predictions directly, regularly points to four events that altered economic expectations: the recession; the Sept. 11, 2001, attacks; the corporate governance scandals; and war in Iraq. "We've been through a lot," Bush said in an economics speech Thursday. "But we acted, here in Washington. I led."

The opposition has sought to portray the economic forecasts as evidence of Bush's dishonesty, similar to the claims of weapons of mass destruction in Iraq that have not materialized. "Every day, this administration's credibility gap grows wider," Sen. John F. Kerry (D-Mass.), the leading prospect to challenge Bush in November, said Friday. "They didn't tell Americans the truth about Iraq. They didn't tell Americans the truth about the economy. And now they're trying to manufacture the 2.6 million manufacturing jobs they've destroyed."

Economists agree that economic forecasts are often unreliable, but they say there is at least one plausible explanation for the discrepancies of recent years: The Bush administration, like the Clinton administration before it and like most private economists, assumed that tax revenue and jobs would rise or fall with the gross domestic product in the same proportions as they had in previous recoveries.

But, because of structural changes in the economy such as soaring gains in productivity, the historical patterns have not held. Job growth and tax receipts were badly underestimated in the boom of the late 1990s, and overestimated since 2000, even as the economy has begun to improve.

Robert D. Reischauer, a former director of the Congressional Budget Office, said that the administration has been "a little exuberant" in its forecasts but that the problem is more a statistical one. "The patterns that prevailed before don't seem to be holding in this current recovery," Reischauer said.

Figures released by the White House show that its overestimate of job creation in 2003 was the largest forecast error made in at least 15 years, and its 2002 underestimate of the deficit was the largest in at least 21 years. But the statistics show that forecast errors began to increase considerably around 1997, under the Clinton administration. By contrast, the Bush administration's GDP forecasts have been relatively accurate, indicating job growth and tax receipts have shed their historical correlation to GDP growth.

"The old theories on predicting revenue proved themselves wildly wrong in the late 1990s and early 2000s," said White House spokesman Trent Duffy. "Nobody saw this happening -- not Wall Street, not Vegas, not Poor Richard, not Nostradamus."

Democrats agree that in 2001, when Congress passed Bush's first tax cut, there was no concrete evidence that there was an unusual decline in tax receipts. But Thomas S. Kahn, Democratic staff director of the House Budget Committee, faults the administration for continuing to rely on upbeat forecasts to pass new tax cuts even after it became obvious there was a problem.

In June 2001, the Treasury Department announced a sharper-than-expected drop in tax revenue. In January 2002, the Congressional Budget Office observed that tax receipts were lower "for reasons that are not entirely understood," and it warned that part of the phenomenon "will remain." The White House Office of Management and Budget, in July 2002, acknowledged that "the precise causes of this year's income tax drop-off will not be known for some time." Yet the administration continued to push for more tax cuts, as Bush promised that the deficit "will be small and short-term."

On employment, the administration continued to make optimistic forecasts even after it became clear that historical patterns were not holding. A year ago, for example, the Council of Economic Advisers predicted that the tax cut package alone that Bush was promoting would generate 510,000 jobs in 2003 and 891,000 in 2004. Even without the tax cut, the council was predicting that average employment would grow by 1.7 million jobs from 2002 to 2003, and 2.7 million jobs between 2003 and 2004.

"They ought to be held accountable for not taking seriously what happened to the jobs numbers," said Lee Price, research director for the Economic Policy Institute, a liberal think tank. Although Bush's jobs forecasts were plausible in 2002, before the extent of productivity gains were known, he said, the continually optimistic jobs forecasts "start to seem outlandish."

The administration used job-creation predictions to justify its 2001 and 2002 tax cuts, as well. In 2002, the economic advisers argued that failure to enact the stimulus package Bush proposed would cost the economy "about 300,000 jobs." The president's economists said that Bush's 2001 tax cuts would create an additional 800,000 jobs by the end of 2002.

In reality, the United States went from an average of 131.9 million jobs in 2001 to 130.4 million in 2002, and to an estimated 130.1 million in 2003. And it will need an extraordinary change to reach the 132.7 million jobs for 2004 that the economic advisers predicted -- the figure Bush declined to endorse.

The administration's budget forecasts have followed a similar pattern. A confident president proclaimed in March 2001: "We can proceed with tax relief without fear of budget deficits, even if the economy softens." About that same time, the administration projected a budget surplus of $281 billion for 2001, $231 billion for 2002, $246 billion for 2003, $268 billion for 2004 and $273 billion for 2005.

Bush has since said that his optimism about budget deficits was based on the assumption that the economy would not hit a "trifecta" of trouble: recession, national emergency and war. But in February 2002 -- after the recession was declared, the terrorist attacks had occurred and war had begun in Afghanistan -- the administration continued to have upbeat predictions. Although it forecast a $106 billion deficit in 2002, it saw the deficit shrinking to $80 billion in 2003, $14 billion in 2004, and becoming a surplus of $61 billion in 2005. Those figures, too, quickly became seen as overly optimistic, as tax receipts continued to come in lower than expected. A year later, in 2003, the administration predicted a deficit of $304 billion for 2003 and $307 billion for 2004. In reality, the 2003 deficit was $375 billion, and the White House now expects a deficit of $521 billion for 2004.

Staff writer Jonathan Weisman contributed to this report.