



# MONTHLY BUDGET REVIEW

## Fiscal Year 2002

### A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for August and the *Daily Treasury Statements* for September

October 9, 2002

As a result of the largest percentage drop in revenues in over 50 years and the largest percentage growth in spending on programs and activities in 20 years, the federal government will record a total budget deficit of about \$157 billion for fiscal year 2002, CBO estimates. That result is the first unified budget deficit since 1997 and a net change of \$284 billion from the \$127 billion surplus recorded last year. At about 1.5 percent of gross domestic product (GDP), the 2002 deficit is the largest since 1995 but well below the 5 percent to 6 percent of GDP recorded in the mid-1980s.

#### AUGUST RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	124	125	*
Outlays	179	179	*
Deficit (-)	-55	-55	*

NOTE: \* = between zero and \$500 million.

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$55 billion in August, the same as CBO's projection based on the *Daily Treasury Statements*.

#### ESTIMATES FOR SEPTEMBER (In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	159	194	35
Outlays	123	151	28
Surplus	35	43	7

SOURCES: Department of the Treasury; CBO.

The budget surplus was about \$43 billion in September, CBO estimates, \$7 billion higher than in the same month last year. Both receipts and outlays were about 22 percent above the September 2001 levels.

Income tax payments from corporations and individuals accounted for virtually all of the estimated \$35 billion increase in receipts. Three factors unrelated to economic performance affected those increases substantially. First, corporate receipts in September 2001 were unusually low because \$23 billion of those payments were shifted by legislation to October 2001. Those payments were back on a normal schedule this year. Second, individual income tax rebates paid in September 2001,

totaling about \$10 billion, were not repeated this September. In addition, September 2002 contained one more business day, probably adding more than \$5 billion to receipts. On the other hand, the business and individual tax cuts enacted in the past two years held down growth in receipts during this September compared with September 2001, probably by more than \$10 billion.

About half of the increase in outlays was due to the timing of certain payments. Outlays in September 2001 were lower than usual, largely because Social Security benefits of about \$29 billion were paid in August instead of September. Some of that reduction was offset, however, by legislative action that shifted certain Medicare payments from fiscal year 2002 to 2001 (increasing 2001 outlays by \$3.2 billion) and administrative actions that reversed previously recorded credit subsidies for loans associated with licenses to use the electromagnetic spectrum (increasing September 2001 outlays by \$11.6 billion). In the absence of such adjustments, September outlays would have increased by about \$13 billion (up 8.8 percent) from 2001 to 2002.

#### FISCAL YEAR TOTALS (In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	1,991	1,855	-137
Outlays	1,864	2,012	148
Surplus/Deficit (-)	127	-157	-284

SOURCES: Department of the Treasury; CBO.

CBO estimates that the federal deficit was \$157 billion in 2002, ending four consecutive years of budget surpluses. Both spending and revenues contributed to the reversal. Outlays rose by an estimated \$148 billion compared with last year (up 7.9 percent), while receipts fell by \$137 billion (down 6.9 percent). The decline in revenues was the largest year-over-year percentage drop since 1946.

NOTE: Unless otherwise indicated, the figures in this report include the Social Security trust funds and the Postal Service fund, which are off-budget. Numbers may not add up to totals because of rounding.

**TOTAL RECEIPTS**  
(In billions of dollars)

Major Source	Actual FY2001	Preliminary FY2002	Percentage Change
Individual Income	994	860	-13.5
Corporate Income	151	148	-1.9
Social Insurance	694	700	0.9
Other	<u>152</u>	<u>147</u>	-3.2
Total	1,991	1,855	-6.9

SOURCES: Department of the Treasury; CBO.

Individual income taxes, which declined by \$135 billion, or 13.5 percent, in 2002, accounted for almost all of the decrease in receipts. About \$105 billion of that decline occurred in nonwithheld receipts and refunds during the tax filing season (February through May) and thus is largely related to 2001 tax liabilities. Information is currently not adequate to indicate which types of income in 2001 were responsible for that drop in tax receipts. Capital gains are expected to be an important factor in the decline; other types of income likely fell as well. Changes in the distribution of income may also have played a role in the revenue decline. The other \$30 billion of the drop in individual receipts was largely a result of the impact of last year's tax cuts on withholding tax receipts.

Receipts in 2002 from sources other than individual income taxes were generally very similar to their levels of 2001. Corporate receipts fell by \$3 billion, or 1.9 percent. Gross payments by corporations were up by \$25 billion for the year, aided substantially by the legislated shift of payments from September 2001 to October 2001. That increase was more than offset by a strong jump in corporate refunds, however, which were up by \$28 billion in 2002. Refunds were boosted substantially by the effects of the economic downturn and by the tax cuts enacted in March as a part of the economic stimulus package, which allowed firms to claim refunds of previous taxes paid.

Social insurance receipts in fiscal year 2002 exceeded the prior year's level by \$6 billion, or less than 1 percent. Wages and salaries, which are the major component of the tax base for those receipts, grew by a similar percentage in 2002, CBO estimates. Other sources of revenue declined by \$5 billion, or 3.2 percent. About half of that drop was caused by lower receipts from the Federal Reserve, which earned less interest income on its portfolio of assets because interest rates fell.

**TOTAL OUTLAYS**  
(In billions of dollars)

Major Category	Actual FY2001	Preliminary FY2002	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	291	332	14.2	13.0
Social Security				
Benefits	426	448	5.2	5.2
Medicare	241	256	5.9	8.7
Medicaid	130	148	13.2	13.2
Unemployment				
Insurance	32	55	72.4	72.4
Other Programs				
and Activities	<u>528</u>	<u>595</u>	12.6	11.7
Subtotal	1,648	1,833	11.2	11.1
Net Interest on the				
Public Debt	<u>216</u>	<u>179</u>	-16.9	-16.9
Total	1,864	2,012	7.9	7.9

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, or legislative action.

CBO estimates that total federal outlays increased by about 7.9 percent in fiscal year 2002. Excluding the decrease in outlays for net interest on the public debt, CBO estimates that spending increased by about 11 percent in 2002, the fastest rate of growth in 20 years.

Defense outlays drove much of that increase, rising 13 percent for the year (after adjusting for shifts in military pay dates). This was the fastest rate of growth since the early 1980s and more than double the rate recorded in 2001. Defense spending grew by 8.5 percent in the first quarter of the year and then accelerated, growing at a rate of about 15 percent over the past nine months.

Spending was unusually high in other areas as well. The spike in unemployment outlays (up 72 percent relative to 2001) was the largest one-year increase since 1980. Medicaid spending climbed by about 13.2 percent this year, the fastest rate of increase since 1992. The 11.7 percent growth in outlays for "other" activities—which include various discretionary and mandatory programs—was the fastest since 1990.

Outlays for other major entitlement programs also rose, but at rates more in line with recent trends. Medicare outlays grew more slowly than in 2001, rising 8.7 percent in 2002 compared with 9.2 percent last year (adjusted for shifts in payment dates). The 5.2 percent increase in Social Security outlays was also below last year's pace. Outlays for net interest continued a five-year decline, down 16.9 percent from last year's level.