



MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

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

October 9, 2003

The federal government incurred a total budget deficit of about \$374 billion for fiscal year 2003, CBO estimates, more than twice the deficit recorded in 2002, although less than both CBO and the Office of Management and Budget projected this summer. In dollar terms, that shortfall represents the largest deficit in U.S. history—well above the \$290 billion deficit of 1992. However, at about 3.5 percent of gross domestic product (GDP), it would still be smaller than the deficits of the mid-1980s and early 1990s relative to the size of the economy.

AUGUST RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	114	114	*
Outlays	192	191	-1
Deficit (-)	-78	-76	1

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

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$76 billion in August, about \$1 billion less than CBO's projection based on the *Daily Treasury Statements*.

ESTIMATES FOR SEPTEMBER (In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	193	192	-1
Outlays	150	166	15
Surplus	42	26	-16

SOURCES: Department of the Treasury; CBO.

The budget surplus was about \$26 billion in September, CBO estimates, \$16 billion lower than in the same month last year. Revenues were about \$1 billion lower, and outlays were about \$15 billion higher, than the levels of last September. The government typically runs a surplus in September because of the surge in revenues from quarterly tax payments.

Most sources of revenue remained close to last September's levels. Corporate receipts (net of refunds) were only about \$1 billion lower despite provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) that delayed about \$5 billion of September payments to October 1 and reduced corporate taxes on certain investments starting in May.

Outlays were about \$15 billion (or 10 percent) higher this September than they were last September, CBO estimates. More than \$6 billion of that increase is attributable to higher defense spending. Outlays in September 2002 included a net reduction of \$2.4 billion to reflect changes in agencies' estimates of the subsidy cost of loans or loan guarantees. Without those accounting adjustments, outlays for the month would have grown by about 9 percent from 2002 to 2003.

FISCAL YEAR TOTALS (In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	1,853	1,783	-70
Outlays	2,011	2,157	146
Deficit (-)	-158	-374	-216

SOURCES: Department of the Treasury; CBO.

CBO estimates that the federal deficit was about \$374 billion in 2003, up from \$158 billion in the previous year. The estimated deficit is about \$27 billion lower than CBO projected this summer. Higher revenues account for about \$13 billion of the change, including \$7 billion from unexpectedly strong receipts of corporate income taxes. Lower outlays account for about \$14 billion of the change, primarily because of lower-than-anticipated spending by the Departments of Defense and Education, and for Medicaid, unemployment benefits, Temporary Assistance for Needy Families, and net interest.

Receipts ended fiscal year 2003 down by \$70 billion, or 3.8 percent, CBO estimates. Receipts have now fallen in three consecutive years, dropping from 20.8 percent of GDP in 2000 (their peak level) to an estimated 16.6 percent in 2003. (Receipts averaged more than 18 percent of GDP from 1975 through 2000.)

Outlays increased by about \$146 billion from 2002 to 2003, CBO estimates. After bottoming out at 18.4 percent of GDP in 2000, outlays grew to about 20.1 percent

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.

of GDP in 2003. (Spending averaged more than 21 percent of GDP from 1975 through 2000.)

TOTAL RECEIPTS
(In billions of dollars)

Major Source	Actual FY2002	Preliminary FY2003	Percentage Change
Individual Income	858	794	-7.5
Corporate Income	148	132	-11.1
Social Insurance	701	713	1.7
Other	<u>146</u>	<u>144</u>	-1.4
Total	1,853	1,783	-3.8

SOURCES: Department of the Treasury; CBO.

Most of the revenue decline in 2003 was in receipts from individual income taxes, which fell by \$64 billion (or 7.5 percent), after dropping by \$136 billion (or 14 percent) in 2002. Nonwithheld receipts accounted for \$35 billion of the decline in 2003, largely representing liabilities for tax year 2002. The specific types of income responsible for the weakness in liabilities in 2002 will be understood fully when information from tax returns becomes available later this year and next year.

Refunds of individual taxes increased in 2003 by \$14 billion, roughly the amount disbursed to taxpayers in July and August as a result of JGTRRA. In addition, individual income tax withholding declined by \$15 billion, held down by weak income growth and tax cuts.

Corporate tax receipts fell by \$16 billion (or 11.1 percent) in fiscal year 2003, after dropping by \$3 billion in 2002. Those receipts would have risen by about \$12 billion in 2003 if not for the enactment of two delays in payment dates, including the one specified in JGTRRA. Adjusted for recent changes in law, corporate receipts were especially strong in the last four months of the fiscal year, consistent with national income account data showing recent strengthening of profits.

Social insurance receipts rose by \$12 billion (or 1.7 percent) in fiscal year 2003. Those receipts have continued to grow while others have fallen, but the rate of increase is well below the 6 percent to 7 percent annual growth experienced from 1997 through 2001. Payroll tax withholding in 2003 rose by \$7 billion as a result of growth in wages and salaries. In addition, states replenished their depleted unemployment insurance trust funds, boosting social insurance receipts by \$6 billion. Other tax receipts fell by \$2 billion.

TOTAL OUTLAYS
(In billions of dollars)

Major Category	Actual FY2002	Preliminary FY2003	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	332	389	17.2	16.0
Social Security				
Benefits	448	466	4.0	4.0
Medicare	256	277	8.1	6.8
Medicaid	148	161	9.0	9.0
Unemployment				
Insurance	55	59	7.3	7.3
Other Programs				
and Activities	<u>593</u>	<u>643</u>	8.4	9.0
Subtotal	1,832	1,995	8.9	8.7
Net Interest on the				
Public Debt	<u>179</u>	<u>162</u>	-9.7	-9.7
Total	2,011	2,157	7.3	7.1

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of legislative action or changes in the accounting of certain health payments of the Department of Defense.

CBO estimates that total federal outlays grew by about 7 percent in fiscal year 2003. Excluding the decline in outlays for net interest on the public debt, spending increased by about 8.7 percent in 2003, CBO estimates. That increase is smaller than the 11 percent growth recorded in 2002 but more than double the 4 percent average annual increase in outlays experienced during the 1990s.

Defense spending grew by an estimated 16 percent, adjusted for accounting changes. This was the fastest rate of growth in 20 years and more than double the average growth in nondefense programs (7 percent).

Medicaid spending spiked in the fourth quarter, pushing outlays for the year 9 percent above their 2002 level. Fourth-quarter spending was about 14 percent higher than for the same period last year, largely because of additional payments to states mandated by JGTRRA. For the second year in a row, Medicare outlays rose by nearly 7 percent (adjusted for timing shifts).

Spending for unemployment benefits moderated in the second half of fiscal year 2003, ending the year about 7 percent above its 2002 level. Outlays for other programs and activities were about 9 percent higher than in 2002. The largest increases occurred at the Departments of Education and Homeland Security.