



# MONTHLY BUDGET REVIEW

## Fiscal Year 2004

### A Congressional Budget Office Analysis

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

October 6, 2004

The federal government incurred a total budget deficit of about \$415 billion in fiscal year 2004, CBO estimates—about \$41 billion more than the deficit recorded in 2003 but slightly less than the amount CBO projected last month. (The \$415 billion figure is a preliminary estimate; the Department of the Treasury will release the actual figure later this month.) At 3.6 percent of the nation’s gross domestic product (GDP), the deficit would be slightly larger, relative to the size of the economy, than last year’s shortfall (3.5 percent). It would be smaller than the average deficit from 1980 through 1995 (3.8 percent) but a contrast to the surpluses, averaging 1.5 percent of GDP, recorded between 1998 and 2001.

#### AUGUST RESULTS

The Treasury Department reported a deficit of \$41 billion in August, about \$2 billion higher than CBO’s projection based on the *Daily Treasury Statements*. Although revenues were the same as CBO had anticipated, outlays were greater than expected for a number of agencies, including the Departments of Agriculture, Justice, Health and Human Services, and the Treasury.

#### ESTIMATES FOR SEPTEMBER

(Billions of dollars)

|          | Actual<br>FY2003 | Preliminary<br>FY2004 | Estimated<br>Change |
|----------|------------------|-----------------------|---------------------|
| Receipts | 192              | 208                   | 16                  |
| Outlays  | 165              | 186                   | 21                  |
| Surplus  | 26               | 22                    | -4                  |

Sources: Department of the Treasury; CBO.

The surplus in September 2004 was about \$22 billion—\$4 billion smaller than the surplus recorded in the same month last year. (The government typically runs a surplus in September because of quarterly tax payments.) Calendar-related shifts in the timing of certain 2003 outlays contributed to the decline. If the surplus in September 2003 had been adjusted for those shifts, this year’s September surplus would have been about \$7 billion bigger than last year’s.

Of the \$21 billion increase in outlays, over half occurred because September 1, 2003, was a holiday. Last year, about \$11 billion in payments that ordinarily would have been made on the first day of the month were instead made at the end of August. In the absence of that payment shift, outlays this September would have been about \$9 billion (or 5 percent) higher than in September 2003.

Receipts for September 2004 were about \$16 billion greater than they were last September. Increases in corporate receipts of almost \$12 billion and gains of \$5 billion in withheld individual income and social insurance taxes explain nearly all of the growth.

#### FISCAL YEAR TOTALS

(Billions of dollars)

|             | Actual<br>FY2003 | Preliminary<br>FY2004 | Estimated<br>Change |
|-------------|------------------|-----------------------|---------------------|
| Receipts    | 1,782            | 1,881                 | 98                  |
| Outlays     | 2,156            | 2,295                 | 139                 |
| Deficit (-) | -374             | -415                  | -41                 |

Sources: Department of the Treasury; CBO.

CBO estimates that the federal deficit totaled about \$415 billion in 2004, up by \$41 billion from the deficit of \$374 billion recorded in 2003. The estimated shortfall is about \$7 billion less than the amount CBO projected last month. Higher revenues account for most of that change, primarily because receipts of corporate income taxes were \$7 billion higher than expected.

#### TOTAL RECEIPTS

(Billions of dollars)

| Major Source      | Actual<br>FY2003 | Preliminary<br>FY2004 | Percentage<br>Change |
|-------------------|------------------|-----------------------|----------------------|
| Individual Income | 794              | 810                   | 2.0                  |
| Corporate Income  | 132              | 189                   | 43.5                 |
| Social Insurance  | 713              | 734                   | 2.9                  |
| Other             | 144              | 148                   | 3.0                  |
| Total             | 1,782            | 1,881                 | 5.5                  |

Sources: Department of the Treasury; CBO.

In CBO’s estimation, receipts in 2004 rose by about 5.5 percent, or \$98 billion, to \$1,881 billion. That increase is the first after three consecutive years of decline. Nevertheless, receipts remain about 7 percent below their peak level in 2000. As a share of GDP, receipts in 2004 were about 16.3 percent—below their average of more than 18 percent from 1975 through 2000 and their peak of 20.9 percent in 2000.

Over half of the increase in receipts for 2004 came from corporate income taxes, which surged by about 43 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.

or \$57 billion, above their 2003 level. That growth came from both a substantial increase in gross payments and a sharp reduction in refunds. National income data show that profits have strengthened in recent months, boosting receipts. From a historical perspective, corporate income tax receipts remain almost 10 percent below their peak in 2000.

Receipts from the individual income tax were up by about 2 percent, or \$16 billion, in 2004. Withholding grew by about \$19 billion (less than 3 percent), largely as a result of growth in wages and employment. Nonwithheld receipts net of refunds, which to a large extent represent liabilities from tax year 2003, fell by about \$9 billion. Individual income tax receipts remain almost 25 percent below their peak in 2000—before the recent recession, the decline in the stock market, and the tax cuts of the past few years.

Social insurance receipts rose by about 3 percent, or \$21 billion, in 2004, lifted in large part by sustained growth in wages and salaries. Collections of payroll taxes from withholding on employees' wages made up about half of that increase, for a gain of over \$10 billion; collections of payroll taxes from self-employed workers also rose, showing a \$4 billion increase. Receipts from unemployment taxes climbed by about \$6 billion in 2004, principally because states have been replenishing their unemployment insurance trust funds. Collections of social insurance taxes are at an all-time high. The changes in tax law since 2000 did not affect them, and they continued to grow in recent years, even during the 2001 recession.

Other receipts rose by about \$4 billion, led by increased collections from estate and gift taxes and excise taxes.

CBO estimates that total federal outlays grew by about 6.4 percent in fiscal year 2004, a slower pace than the increases of 7.2 percent in 2003 and 7.9 percent in 2002 but still faster than the 3.5 percent average rate for the preceding 10 years. Although spending has accelerated in the past few years, outlays as a share of the economy in 2004—at slightly less than 20 percent of GDP—were still below their average of over 21 percent from 1975 through 2000.

Defense spending ended the year about 12 percent above its level in 2003, CBO estimates. Outlays surged in the fourth quarter, averaging \$38 billion a month—about 6 percent (\$2 billion) higher than the average amount spent per month in the previous three quarters of 2004.

After posting double-digit growth in the first nine months of 2004, Medicaid spending dipped in the fourth quarter, reflecting the expiration of the temporary increase in the federal matching rate that had been in effect through June. Outlays for the program ended the year about 9.7 percent above their level in 2003. Outlays for Medicare in 2004 were 8.4 percent higher than in 2003. That growth is slightly above last year's rise of 6.9 percent.

Outlays for other programs and activities grew more slowly in 2004 than in 2003, increasing by an average of about 3.7 percent versus 9 percent. That slowdown is largely attributable to less spending for unemployment benefits and for agricultural price and income support programs—which fell by about 20 percent and 35 percent, respectively. Excluding those two programs, outlays for other activities rose by about 7 percent in 2004, which is slightly below last year's increase of 9 percent.

Finally, the government's net interest costs rose by 3.5 percent in 2004, the first yearly increase since 1997.

**TOTAL OUTLAYS**  
(Billions of dollars)

| Major Category                     | Actual<br>FY2003 | Preliminary<br>FY2004 | Percentage<br>Change |
|------------------------------------|------------------|-----------------------|----------------------|
| Defense—Military                   | 389              | 437                   | 12.3                 |
| Social Security                    |                  |                       |                      |
| Benefits                           | 467              | 488                   | 4.5                  |
| Medicare                           | 277              | 300                   | 8.4                  |
| Medicaid                           | 161              | 176                   | 9.7                  |
| Other Programs<br>and Activities   | <u>701</u>       | <u>727</u>            | 3.7                  |
| Subtotal                           | 1,994            | 2,128                 | 6.7                  |
| Net Interest on the<br>Public Debt | <u>162</u>       | <u>168</u>            | 3.5                  |
| Total                              | 2,156            | 2,295                 | 6.4                  |

Sources: Department of the Treasury; CBO.