



MONTHLY BUDGET REVIEW

Fiscal Year 2005

A Congressional Budget Office Analysis

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

November 4, 2005

The federal government recorded a total budget deficit of \$319 billion in fiscal year 2005, \$94 billion less than the deficit incurred in 2004. The 2005 deficit was about \$2 billion higher than CBO had projected last month, primarily because of adjustments made to a number of agencies' August spending figures. As a share of the nation's gross domestic product (GDP), the 2005 deficit was 2.6 percent—down from the 3.6 percent share recorded in 2004.

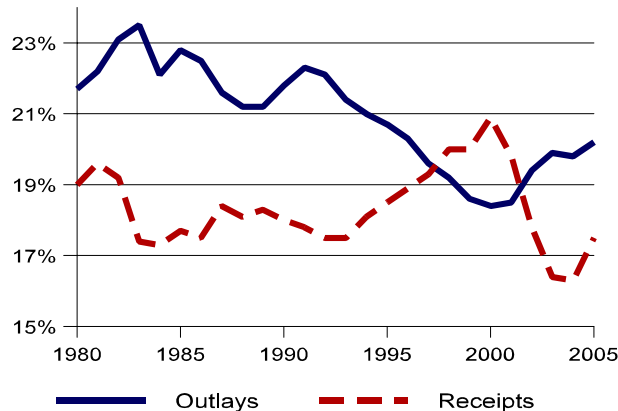
FISCAL YEAR TOTALS (Billions of dollars)

	2001	2002	2003	2004	2005
Receipts	1,991	1,853	1,782	1,880	2,154
Outlays	1,863	2,011	2,160	2,293	2,473
Surplus or Deficit (-)	128	-158	-378	-413	-319
Surplus or Deficit (-) as a Percentage of GDP	1.3	-1.5	-3.5	-3.6	-2.6

Sources: Department of the Treasury; CBO.

The federal budgetary situation improved in 2005 after worsening for four consecutive years. As a percentage of GDP, the 2005 deficit was about equal to the average for the past 25 years.

RECEIPTS AND OUTLAYS AS A PERCENTAGE OF GDP



Sources: Department of the Treasury; CBO.

Receipts in 2005 rose by 14.6 percent to \$2,154 billion. As a share of GDP, they increased for the first time since 2000, from 16.3 percent in 2004 to 17.5 percent in 2005 (see the figure above). The revenue share of GDP in 2005 was below the average of 18.2 percent experienced over the past 40 years, and similar to the share recorded in the

early 1990s, before the steady run-up to the postwar peak of 20.9 percent that was reached in 2000.

Outlays also rose in 2005, up by about \$180 billion (or nearly 8 percent) over their 2004 level. At 20.1 percent of GDP, outlays in 2005 were slightly under the average recorded between 1965 and 2004. They remain well below the levels recorded in the 1980s, when outlays averaged around 22 percent of GDP. Spending declined steadily as a percentage of GDP from 1991 to 2000, bottoming out at 18.4 percent in 2000, before rising again in the past few years.

TOTAL RECEIPTS (Billions of dollars)

Major Source	2000	2004	2005	Percentage Change, 2004-2005
Individual Income	1,004	809	927	14.6
Corporate Income	207	189	278	47.0
Social Insurance	653	733	795	8.4
Other	<u>161</u>	<u>148</u>	<u>154</u>	3.8
Total	2,025	1,880	2,154	14.6
Percentage of GDP	20.9	16.3	17.5	n.a.

Sources: Department of the Treasury; CBO.

Note: n.a. = not applicable.

Receipts of individual income taxes, the largest tax source, grew at the same rate as total receipts, 14.6 percent, in 2005. As a share of GDP, they rose from 7.0 percent in 2004 to 7.5 percent in 2005, close to the percentages of the early 1990s and well below those experienced from the mid-1990s through 2001. Most of the growth in those receipts in 2005 occurred in nonwithheld receipts, which increased by 32 percent. That large increase probably reflects strong growth in nonwage incomes as well as changes in tax laws that caused a one-time reduction in receipts in fiscal year 2004.

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.

Social insurance receipts rose by 8.4 percent in 2005, reaching 6.5 percent of GDP, about equal to the average for the past 25 years. In 2005, the growth in such receipts largely reflected growth in wages and salaries.

Receipts of corporate income taxes increased by 47 percent in 2005, following a similar growth of 44 percent in 2004. As a result of those two strong years, corporate receipts as a share of GDP have risen from 1.2 percent in 2003, their lowest point since 1983, to 2.3 percent of GDP in 2005, their highest percentage since 1980. Changes in corporate tax law in recent years have contributed to the swing, as investment tax incentives enacted in 2002 and 2003 reduced corporate receipts; those incentives expired at the end of calendar year 2004. Most of the strong growth in receipts in 2005, however, probably reflects robust economic activity in both 2004 and 2005.

TOTAL OUTLAYS (Billions of dollars)

Major Category	2000	2004	2005	Percentage Change, 2004-2005	
				Actual	Adjusted ^a
Defense—Military	281	437	474	8.5	7.7
Social Security					
Benefits	402	487	514	5.5	5.5
Medicare	218	300	336	11.7	10.2
Medicaid	118	176	182	3.1	3.1
Other Programs and Activities	<u>537</u>	<u>724</u>	<u>776</u>	7.2	6.4
Subtotal	1,556	2,125	2,282	7.4	6.7
Net Interest on the Public Debt	<u>233</u>	<u>168</u>	<u>191</u>	14.2	14.2
Total	1,789	2,293	2,473	7.9	7.3
Percentage of GDP	18.4	19.8	20.1	n.a.	n.a.

Sources: Department of the Treasury; CBO.

Note: n.a. = not applicable.

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

Outlays grew by about 7.9 percent in 2005, or about 7.3 percent after adjusting for the effects of shifts in payment dates. Spending has grown at an average annual rate of about 7 percent over the 2001-2005 period, twice as fast as in the previous five years.

Defense spending rose by 7.7 percent in 2005 (on an adjusted basis), after averaging 14 percent growth in the preceding three years. The increase in 2005 was concentrated in the Army, which is heavily involved in the operations in Iraq and Afghanistan (up by 17 percent); spending by the Navy and Air Force each rose by about 5 percent. Military spending has risen by almost 70 percent since 2000, growing from 2.9 percent of GDP in that year to 3.9 percent in 2005.

Medicare outlays increased by 10.2 percent in 2005, the fastest rate of growth since 1995. CBO estimates that Medicaid's underlying rate of growth was about 7 percent in 2005, but outlays were only 3.1 percent higher because of a temporary increase in the federal share of the program's costs in 2004. Spending for Medicare and Medicaid is now equal to 4.2 percent of GDP, up from 3.5 percent in 2000. Those two programs continue to grow much faster than Social Security, averaging annual increases of about 9 percent over the 2001-2005 period, compared with 5 percent for Social Security.

Outlays for other programs and activities grew by 6.4 percent in 2005, twice the 2004 pace but well below the 15 percent and 9 percent increases recorded in 2002 and 2003, respectively. Disaster assistance totaled \$12 billion in 2005, three times the average annual level of spending in the previous five years and mostly for events that occurred prior to Hurricane Katrina. Education spending remains one of the fastest growing areas, rising by 16 percent in 2005 and doubling since 2000. Outlays for unemployment benefits declined for the second year in a row (down by 18 percent in 2005), but they are still about 50 percent higher than in 2000 because of the higher unemployment rate and greater average benefit amounts.

Net interest on the public debt, which declined steadily from 1998 through 2003, grew by 14.2 percent in 2005. Net interest accounted for almost 8 percent of federal spending in 2005, higher than in the past two years but well below the peak of nearly 16 percent recorded in 1996.

ESTIMATES FOR OCTOBER (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	137	149	12
Outlays	194	199	5
Deficit (-)	-57	-50	7

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$50 billion in October, about \$7 billion less than the deficit recorded in the same month last year.

Receipts for October 2005 were about \$12 billion, or 9 percent, higher than receipts last October. The gains were concentrated in individual income tax receipts, which rose by \$11 billion. Outlays were \$5 billion larger this October than they were last October, CBO estimates. However, because October 1, 2005, fell on a weekend, about \$13 billion in payments that would ordinarily have been made in October were instead made in September. In the absence of those payment shifts, outlays would have risen by about \$18 billion (or 9 percent).