



# MONTHLY BUDGET REVIEW

## Fiscal Year 2004

### A Congressional Budget Office Analysis

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

September 7, 2004

The federal government incurred a deficit of \$435 billion in the first 11 months of fiscal year 2004, CBO estimates, \$35 billion more than in the same period last year. CBO anticipates that a modest surplus in September, stemming from quarterly payments of estimated income taxes, will bring the deficit down to \$422 billion for the fiscal year ending September 30.

#### JULY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	134	134	*
Outlays	200	204	4
Deficit (-)	-66	-69	-4

Sources: Department of the Treasury; CBO.

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

The deficit in July was \$69 billion, \$4 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was almost entirely on the spending side of the budget. Outlays were higher than anticipated for a number of agencies, including the Departments of Education, Justice, Defense, Transportation, and Veterans Affairs.

#### ESTIMATES FOR AUGUST (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	114	138	23
Outlays	191	177	-14
Deficit (-)	-77	-40	37

Sources: Department of the Treasury; CBO.

The deficit in August of this year was substantially less than the shortfall in August 2003, largely because of the tax refunds issued in 2003 and shifts in the timing of certain payments.

Revenues were about \$23 billion, or 20 percent, higher than they were last August. About \$9.5 billion of that gain can be attributed to the advance refunds sent to taxpayers in August 2003 for the increased child tax credit enacted under the Jobs and Growth Tax Relief Reconciliation Act of 2003. In addition, withholding for

income and social insurance (payroll) taxes was more than \$9 billion higher than in August 2003. About \$3 billion of that difference occurred because this August had one more business day; the rest was due to the stronger economy. Receipts from unemployment insurance taxes grew by about \$2 billion, primarily because of increases in deposits of state unemployment taxes into the unemployment trust funds. Other receipts were also about \$2 billion higher.

Outlays in August were \$14 billion lower than in the same month last year, largely because of shifts in the timing of certain payments that reduced outlays by about \$23 billion relative to those in August 2003. Outlays in August 2004 were unusually low because the first day of the month fell on a weekend, shifting about \$12 billion in payments that ordinarily would have been made in August to the end of July. In contrast, spending in August was unusually high last year because September 1 was a holiday, which shifted about \$12 billion from September to August 2003. Excluding the effect of those payment shifts, outlays were about \$9 billion, or 5 percent, higher than in August 2003. Spending for defense, net interest on the public debt, Medicare, and Social Security account for most of that increase.

#### BUDGET TOTALS THROUGH AUGUST (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	1,590	1,672	82
Outlays	1,991	2,108	117
Deficit (-)	-401	-435	-35

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$435 billion for the first 11 months of fiscal year 2004, about \$35 billion more than the deficit recorded for the same period last year. Although receipts were about \$82 billion higher than in 2003, outlays grew even more, rising by \$117 billion.

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.

**RECEIPTS THROUGH AUGUST**  
(Billions of dollars)

Major Source	Actual FY2003	Preliminary FY2004	Percentage Change
Individual Income	704	720	2.2
Corporate Income	101	147	44.9
Social Insurance	655	672	2.6
Other	<u>130</u>	<u>133</u>	2.6
Total	1,590	1,672	5.1

Sources: Department of the Treasury; CBO.

Receipts for the first 11 months of fiscal year 2004 were about 5 percent above receipts for the same period in 2003, primarily because of economic growth. The strongest income growth has been in pretax corporate profits, which CBO now projects will rise by about 20 percent this year. As a result, receipts from corporate taxes have increased by \$46 billion, or 45 percent, providing more than half of the increase in total receipts so far this year.

Receipts from individual income taxes rose by \$16 billion, or 2.2 percent, in the first 11 months of the year. That increase was mostly the result of higher withheld receipts (up by \$19 billion, or 2.7 percent), primarily from economic growth that more than offset the effects of the tax cuts enacted last year. Receipts also increased because the advance refunds made in July and August 2003 were not repeated this year, contributing to the decrease in refunds in 2004 of \$5 billion, or 3 percent. Partially offsetting those revenue increases was a decline in nonwithheld receipts, which were lower by about \$8 billion (3.7 percent), mainly because the tax cuts reduced tax liabilities for 2003.

Receipts from social insurance taxes rose by \$17 billion. Withheld payroll taxes were up by \$6 billion due to economic growth, and unemployment insurance taxes, a component of social insurance receipts, increased by about \$7 billion, primarily because states have been replenishing their unemployment trust fund accounts. In addition, social insurance taxes paid by workers who are self-employed rose by about \$3 billion.

CBO expects revenues for fiscal year 2004 to total about \$1,871 billion, or about 5 percent more than in fiscal year 2003.

**OUTLAYS THROUGH AUGUST**  
(Billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	356	399	12.2	13.4
Social Security				
Benefits	427	446	4.4	4.4
Medicare	256	274	6.9	8.2
Medicaid	147	161	9.7	9.7
Other Programs and Activities	<u>656</u>	<u>673</u>	2.6	3.3
Subtotal	1,842	1,953	6.0	6.7
Net Interest on the Public Debt	<u>149</u>	<u>155</u>	3.9	3.9
Total	1,991	2,108	5.9	6.5

Sources: Department of the Treasury; CBO.

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

Outlays through August were 5.9 percent higher than in the same period last year, CBO estimates. Adjusted for the shifts in the dates of certain payments, that growth rate increases to 6.5 percent.

After adjusting for payment shifts, outlays of the Department of Defense have grown by more than 13 percent through August, CBO estimates, considerably more than the 5 percent growth in other spending (excluding net interest).

Medicaid outlays through August grew by about 9.7 percent, slightly higher than the 8.9 percent growth recorded in 2003. Some of that difference resulted from a temporary increase in the federal share of the program's costs, which expired at the end of June. CBO estimates that the rate of growth for the program, excluding the change in the federal share, is currently about 8 percent.

Outlays for other programs and activities grew by 3.3 percent after adjusting for payment shifts, well below the 8.2 percent growth recorded in 2003. That growth rate was moderated by a \$10 billion (or 19 percent) decline in spending for unemployment compensation through August. Spending by the Department of Justice led growth in this category, up by \$7 billion (or 36 percent) compared with spending in the same period last year, primarily because of outlays from the September 11th Victim Compensation Fund. Outlays for net interest on the public debt were about 4 percent higher than in the first 11 months of 2003, after six years in which falling interest costs offset some spending growth.