



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

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

November 7, 2008

The federal government recorded a total budget deficit of \$455 billion in fiscal year 2008, \$293 billion more than the deficit incurred in 2007. The federal deficit rose as a share of the nation's gross domestic product (GDP) from 1.2 percent in 2007 to 3.2 percent in 2008.

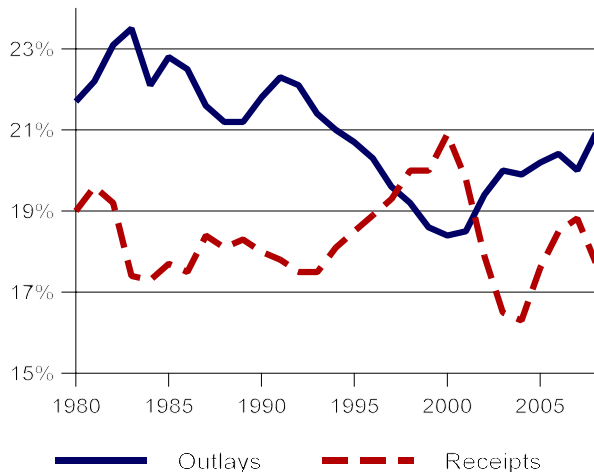
FISCAL YEAR TOTALS (Billions of dollars)

	2003	2004	2005	2006	2007	2008
Receipts	1,783	1,880	2,154	2,407	2,568	2,524
Outlays	2,160	2,293	2,472	2,655	2,729	2,979
Deficit (-)	-378	-413	-318	-248	-162	-455
Deficit (-) as a Percentage of GDP	-3.5	-3.6	-2.6	-1.9	-1.2	-3.2

Sources: Department of the Treasury; CBO.

The increase in the deficit of 2 percentage points of GDP reflected both a reduction in revenue (which declined by 1.1 percent of GDP) and an increase in spending (which rose by 0.9 percent of GDP).

RECEIPTS AND OUTLAYS AS A PERCENTAGE OF GDP



Sources: Department of the Treasury; CBO.

Receipts in 2008 fell to \$2,524 billion, a decrease of \$44 billion, or 1.7 percent, from 2007. That year-over-year decline was the first since revenues fell for three consecutive years through 2003. Total revenues fell from 18.8 percent of GDP in 2007 to 17.7 percent of GDP in 2008; receipts from corporate income taxes fell the most—from 2.7 percent to 2.1 percent of GDP.

By contrast, outlays rose by 9 percent, or \$249 billion, relative to spending in 2007, increasing as a percentage of GDP from 20.0 percent last year to 20.9 percent in 2008. That level of spending was slightly higher than the 20.8 percent share averaged over the past 25 years.

TOTAL RECEIPTS (Billions of dollars)

Major Source	2006	2007	2008	Percentage Change, 2007-2008
Individual Income	1,044	1,163	1,146	-1.5
Corporate Income	354	370	304	-17.8
Social Insurance	838	870	900	3.5
Other	171	164	173	5.5
Total	2,407	2,568	2,524	-1.7
Percentage of GDP	18.5	18.8	17.7	n.a.

Sources: Department of the Treasury; CBO.

Note: n.a. = not applicable.

The decline in receipts in 2008 was largest for corporate income taxes, which fell by \$66 billion, or 18 percent. That decline primarily reflects weakness in corporate earnings. The decline in corporate receipts in 2008 followed a significant run-up in those receipts from 2003 to 2006, when they rose from 1.2 percent of GDP to 2.7 percent of GDP.

The Treasury Department estimates that individual income tax receipts, the largest tax source, fell by \$18 billion (or 1.5 percent) in 2008, while social insurance (payroll) tax receipts, the second-largest source, rose by \$31 billion, or 3.5 percent. (Because of the way the data are collected, the breakdown of receipts between individual income and payroll taxes is estimated initially and corrected later.) Other receipts rose by about \$9 billion, or 5.5 percent.

Individual income tax receipts fell because increases in refunds of \$77 billion (of which \$62 billion represents rebate payments that began in late April) more than offset increases in payments of individual income taxes. Excluding rebates, refunds increased by about 7 percent; in 2007, they grew by about 5 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.

Payments of individual income and payroll taxes are made by employers who withhold amounts from pay (withheld receipts) and by individuals (non-withheld receipts). Those payments grew by about \$91 billion in 2008, with both withheld and nonwithheld receipts growing by about 4 percent. Withheld taxes grew more slowly than the nearly 7 percent growth recorded in both 2006 and 2007, consistent with slower growth in the economy. Growth in nonwithheld receipts in 2008 slowed substantially from the double-digit rates recorded from 2005 through 2007.

TOTAL OUTLAYS (Billions of dollars)

Major Category	2006	2007	2008	Percentage Change, 2007-2008	
				Actual	Adjusted ^a
Defense—Military	499	529	595	12.5	11.6
Social Security					
Benefits	545	577	607	5.3	5.3
Medicare ^b	329	374	389	4.0	5.3
Medicaid	181	191	201	5.7	5.7
Other Programs and Activities	864	807	926	14.8	14.0
Subtotal	2,418	2,477	2,719	9.8	9.5
Net Interest on the Public Debt	237	252	260	3.0	3.0
Total	2,655	2,729	2,979	9.1	8.9
Percentage of GDP	20.4	20.0	20.9	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.

b. Medicare outlays are net of proprietary receipts.

The 9 percent increase in outlays was the highest rate of growth since 1990. Over the previous five-year period, outlays increased at an average annual rate of 6 percent.

Excluding the effects of timing shifts, defense spending increased by 11.6 percent in 2008, the highest rate of growth since 2004 but below the 14.5 percent average growth experienced in 2002 and 2003 after the onset of the wars in Afghanistan and Iraq. CBO estimates that almost one-fourth of the military's 2008 outlays were for war-related costs. As a share of GDP, defense spending increased from 2.9 percent in 2001 to 4.2 percent in 2008.

Outlays for the largest entitlement programs—Social Security, Medicare, and Medicaid—rose by 5.4 percent in 2008, slightly below the 6.5 percent annual gains averaged over the 2003-2007 period. Medicare and Medicaid grew in relation to the economy, accounting for 4.2 percent of GDP in 2008 compared with 3.8 percent in 2003. Social Security outlays increased slightly to 4.3 percent of GDP from an average of 4.2 percent for the previous five years.

“Other programs” accounted for almost half of the increase in outlays in 2008, rising by \$114 billion, or 14 percent, on an adjusted basis. Most of that growth stems from the recent economic slowdown, reflecting stimulus rebates paid to individuals whose rebates exceeded their income taxes (\$32 billion); payments to cover insured deposits at failed financial institutions (up \$23 billion, which should be offset by future proceeds from asset sales and insurance premiums); outlays for unemployment benefits (up \$11 billion); and spending for food and nutrition programs (up \$6 billion).

ESTIMATES FOR OCTOBER (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
CBO Estimate			
Receipts	178	165	-13
TARP Outlays	0	17	17
Other Outlays	235	282	46
Deficit (-)	-57	-134	-77
Treasury Cash Basis			
Deficit (-)	-57	-232	-175

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Assets Relief Program.

In October, under the Troubled Assets Relief Program (TARP), the government disbursed \$115 billion to purchase preferred stock in eight large U.S. banks. In CBO's view, the stock investment and associated warrants should not be recorded on a cash basis but on a net present value basis, accounting for market risk, as specified in the Emergency Economic Stabilization Act. CBO's preliminary estimate of \$17 billion for the present value cost is included in its estimate of \$134 billion for the October deficit. However, CBO anticipates that the Treasury will report the stock purchases on a cash basis. As a result, CBO estimates that the Treasury will report the October deficit at \$232 billion.

Federal revenues totaled \$165 billion in October, CBO estimates, \$13 billion, or 7.5 percent, less than in the same month last year. Receipts from individual income and payroll (social insurance) taxes fell by about \$7 billion relative to October 2007; about \$5 billion of the decline resulted from effects of the calendar (mainly, one fewer Monday this October). In addition, receipts from corporate income taxes fell by \$5 billion.

Spending other than the TARP payments was roughly \$46 billion higher than last October. About \$22 billion of that total was due to calendar-related shifts in the timing of certain payments. Higher spending for defense, Social Security, Medicare, Medicaid, and unemployment benefits account for much of the remaining increase.