



MONTHLY BUDGET REVIEW

Fiscal Year 1999

A Congressional Budget Office Analysis

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

November 10, 1999

Fiscal year 1999 ended with a total surplus of about \$123 billion—reflecting an off-budget surplus of \$124 billion and an on-budget deficit of only \$1 billion. It marked the seventh consecutive year of improvement in the government's budget results since 1992, when the total deficit peaked at \$290 billion (the result of an off-budget surplus of \$50 billion and an on-budget deficit of \$340 billion).

SEPTEMBER RESULTS

(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	200.0	200.4	0.4
Outlays	142.0	144.0	2.0
Surplus	58.0	56.4	-1.6

SOURCES: Department of the Treasury and Congressional Budget Office.

The surplus in September was \$56.4 billion, or \$1.6 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Revenues were only slightly higher than anticipated, but outlays were \$2 billion more than CBO had expected. A \$1.4 billion adjustment in the credit subsidies recorded for auctions of licenses to use the electromagnetic spectrum accounted for much of the difference in outlays.

FISCAL YEAR TOTALS

(In billions of dollars)

	Actual 1998	Actual 1999	Change
Receipts	1,721	1,827	106
Outlays	1,652	1,705	52
Surplus	69	123	53
On-budget deficit (-)	-30	-1	29
Off-budget surplus	99	124	24
Social Security surplus	99	125	25
Postal Service deficit (-)	a	-1	-1

SOURCE: Department of the Treasury.

a. Less than \$500 million.

The total surplus for fiscal year 1999 was about \$123 billion, up from a surplus of \$69 billion the previous year. Receipts grew by \$106 billion in 1999, while outlays increased by only \$52 billion. The Social Security

trust funds recorded a surplus of nearly \$125 billion. Including the Postal Service, which is also off-budget, the off-budget surplus grew from \$99 billion in 1998 to almost \$124 billion in 1999, the largest such surplus ever recorded. The improvement in the on-budget total was slightly greater, going from a deficit of \$30 billion in 1998 to a deficit of just \$1 billion in 1999, the smallest on-budget deficit in 30 years.

TOTAL RECEIPTS

(In billions of dollars)

Major Source	Actual 1998	Actual 1999	Percentage Change
Individual Income	829	879	6.1
Corporate Income	189	185	-2.1
Social Insurance	572	612	7.0
Other	<u>132</u>	<u>151</u>	14.3
Total	1,721	1,827	6.1

SOURCE: Department of the Treasury.

Revenues increased by 6.1 percent in fiscal year 1999, the lowest rate of growth since 1993. (Over the 1993-1998 period, revenues increased by an average of more than 8 percent a year.) Receipts from individual income taxes also grew by 6.1 percent in 1999 after three years in a row of double-digit growth (averaging about 12 percent a year). Receipts from social insurance taxes grew by 7 percent, but those receipts include adjustments for underestimates of payroll taxes during 1998. About \$7 billion was shifted from individual income taxes to social insurance taxes to correct those earlier errors. (The figures that appear in the *Monthly Treasury Statement* are based on Treasury estimates of payroll taxes for the current month and incorporate adjustments for errors in previous months that are made once data about actual payroll taxes become available.) Without those adjustments of the 1998 results, receipts from individual income taxes would have grown by almost 7 percent in 1999 and receipts from social insurance taxes by less than 6 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.

Despite increases in the last two months of fiscal year 1999, receipts from corporate income taxes fell by 2 percent that year—the first decline since 1990. Excise tax receipts grew by 22 percent, but they would have grown by only 6 percent without a shift in payments caused by the Taxpayer Relief Act of 1997. That act moved payments of airport and highway taxes from August and September 1998 into the first week of October (fiscal year 1999). Receipts from estate and gift taxes rose by 15.4 percent in 1999; the value of estates grew by more than enough to offset the increase in the part of estates that is excluded from taxes.

Total revenues in fiscal year 1999 were \$6.2 billion higher than CBO had forecast in July. Receipts from corporate income taxes turned out to be more than \$7 billion higher than estimated because CBO did not anticipate the upturn in corporate tax payments that occurred in August and September. In those months, corporate tax payments were up by 15 percent compared with a year earlier, whereas in the first 10 months of the year they fell by 6 percent.

TOTAL OUTLAYS (In billions of dollars)

Major Category	Actual 1998	Actual 1999	Percentage Change
Defense—Military	256	261	2.1
Social Security			
Benefits	372	383	2.9
Medicare	213	211	-0.8
Medicaid	101	108	6.7
Net Interest on the			
Public Debt	250	235	-6.0
Other	<u>460</u>	<u>506</u>	10.0
Total	1,652	1,705	3.2

SOURCE: Department of the Treasury.

Outlays were 3.2 percent higher in fiscal year 1999 than in 1998, slightly more than CBO's preliminary estimate reported last month. That growth rate is very close to the 2.9 percent rate experienced during the 1995-1998 period.

The biggest surprise over the course of the year was the decline in spending for Medicare. In July 1998, CBO projected that Medicare outlays would total \$232 billion in 1999. But spending for the program was only \$211 billion in 1999—nearly \$2 billion less than Medicare spent in 1998. Greater compliance with the program's payment rules, a drop in the use of home health services, and longer time for processing claims probably account for much of the decline.

The government's interest costs also dropped in 1999—by about \$15 billion—because of the growing

surplus and lower interest rates. But spending for all other programs and activities increased by almost 6 percent, compared with an average growth rate of less than 3 percent a year from 1995 through 1998. CBO's estimates for Social Security, Medicaid, and defense spending were quite close to actual outlays, but projections for "Other" spending were a bit too low.

ESTIMATES FOR OCTOBER (In billions of dollars)

	Actual 1998	Preliminary 1999	Estimated Change
Receipts	120.0	121.0	1.0
Outlays	152.4	147.0	-5.4
Deficit (-)	-32.4	-26.0	6.4

SOURCES: Department of the Treasury and Congressional Budget Office.

Revenues were less than 1 percent higher in October 1999 than they were in October 1998. Two factors produced that unusually low growth rate. First, as noted above, excise tax payments a year ago included an extra \$5 billion that had been postponed from August and September. This year, those taxes had already been paid on their normal schedule. Second, October 1999 contained one fewer business day than October 1998. Compared with last year, that difference in the calendar moved about \$2 billion in revenues from October to November.

Preliminary figures indicate that outlays were lower in October 1999 than in October 1998. But in 1998, November 1 fell on a weekend, so about \$10 billion in payments normally made on the first day of the month were instead disbursed at the end of October. After adjusting for that calendar effect, outlays were higher this October than they were last October, largely because of substantial payments to farmers. Medicare spending, however, was below the October 1998 level.

CURRENT PROJECTIONS FOR FISCAL YEAR 2000

In its July 1 budget update, CBO projected the budget results for fiscal year 2000, assuming that current laws affecting revenues and entitlement programs do not change and that outlays for discretionary spending equal their statutory caps. Under those baseline assumptions, CBO estimated a budget surplus of \$161 billion for 2000, including an on-budget surplus of \$14 billion. Although the first session of the 106th Congress is not over yet, Congressional action to date on the appropriation bills for fiscal year 2000 indicates that discretionary spending is likely to exceed CBO's July estimate of the caps by a significant amount. As a result, the total surplus in 2000 is likely to fall short of CBO's baseline projection.