



MONTHLY BUDGET REVIEW

Fiscal Year 2002

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for December and the *Daily Treasury Statements* for January

February 11, 2002

Individuals made their first big estimated tax payments of the fiscal year in January, which brought the budget for the first four months of fiscal year 2002 into a small surplus, CBO estimates. But that small surplus (about \$2 billion) is well below the figure for the same period last year (a surplus of \$74 billion). CBO now estimates that if no further tax or spending legislation is enacted this year, the government will end 2002 with a deficit of \$21 billion.

DECEMBER RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	186	188	2
Outlays	162	161	-1
Surplus	24	27	3

SOURCES: Department of the Treasury; CBO.

The Treasury reported a surplus of \$26.6 billion for December, about \$3 billion more than CBO had anticipated on the basis of the *Daily Treasury Statements*. Outlays were about \$1 billion less than CBO had projected, and receipts from individual income taxes were higher than CBO had expected.

ESTIMATES FOR JANUARY (In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	219	204	-15
Outlays	143	165	22
Surplus	76	39	-37

SOURCES: Department of the Treasury; CBO.

This past January, receipts were lower and outlays higher than they were in January 2001. As a result, this year's surplus for the month was about half the size of last year's.

Overall, receipts in January were lower than those recorded in January 2001 by \$15 billion (nearly 7 percent), CBO estimates. That weakness occurred largely in withheld receipts for individual income and payroll taxes, which were about \$17 billion below last January's

level. Cuts in statutory tax rates—including the new 10 percent tax bracket for individuals that took effect in January—reduced withheld receipts by roughly \$5 billion from their level in January 2001. Differences that affected the timing of payments lowered withheld receipts by another \$6 billion. The remaining \$6 billion decline in withholding resulted from other factors, presumably the weak economy.

Other receipts were temporarily boosted in January by payments deferred because of the September 11 terrorist attacks. CBO estimates that at least \$5 billion was paid by taxpayers who were given extensions until January 15 for their payments of excise taxes and of corporate and nonwithheld individual income taxes.

Outlays were \$22 billion greater this January than last January, CBO estimates. Higher spending for defense, international aid, unemployment benefits, Social Security, Medicare, and Medicaid accounted for much of that increase.

BUDGET TOTALS THROUGH JANUARY (In billions of dollars)

	October-January		Estimated Change
	FY2001	FY2002	
Receipts	681	671	-11
Outlays	607	668	61
Surplus	74	2	-72

SOURCES: Department of the Treasury; CBO.

The budget ended the first four months of the fiscal year close to balance—with an estimated surplus of about \$2 billion. In contrast, the surplus for the same period last year was \$74 billion. Revenues are \$11 billion lower than at this point last year, while outlays are about \$61 billion higher.

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 JANUARY
(In billions of dollars)

Major Source	October-January		Percentage Change
	FY2001	FY2002	
Individual Income	356	340	-4.4
Corporate Income	61	64	5.4
Social Insurance	216	219	1.1
Other	<u>48</u>	<u>48</u>	-0.4
Total	681	671	-1.6

SOURCES: Department of the Treasury; CBO.

Total receipts in the first four months of fiscal year 2002 were down by \$11 billion (1.6 percent) compared with the same period a year ago. The largest decline occurred in individual income tax receipts, which fell by \$16 billion (4.4 percent). Roughly \$10 billion of that decline resulted from cuts in income tax rates. Corporate income tax receipts, by contrast, rose by \$3 billion (5.4 percent) in the first four months of 2002. However, those receipts were boosted by \$23 billion in payments that were delayed from September into October (and thus into the current fiscal year), as allowed by tax legislation enacted last year. Without that boost, corporate receipts would have fallen by about \$20 billion over the first four months of the fiscal year.

OUTLAYS THROUGH JANUARY
(In billions of dollars)

Major Category	October-January		Percentage Change	
	FY2001	FY2002	Actual	Adjusted ^a
	Defense—Military	92	104	13.3
Social Security				
Benefits	138	146	5.7	5.7
Medicare	76	81	7.6	11.9
Medicaid	41	49	18.4	18.4
Unemployment				
Benefits	8	14	77.4	77.4
Other Programs and Activities	<u>176</u>	<u>213</u>	21.0	18.2
Subtotal	531	607	14.3	13.4
Net Interest on the Public Debt	<u>76</u>	<u>61</u>	-19.5	-19.5
Total	607	668	10.1	9.3

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of week-ends, holidays, or legislative action.

Outlays were about 10 percent higher in the first four months of fiscal year 2002 than in the same period last year, CBO estimates. But some of that increase resulted from shifts in payment dates. Last year, October 1 fell on a weekend, and certain payments ordinarily made on the first of the month were shifted into September. This year, about \$3 billion in Medicare payments to health maintenance organizations were paid in September instead of on October 1. Adjusted for those shifts in timing, the growth of outlays so far this year was about 9 percent. (In comparison, outlays grew by about 5 percent in 2001, taking into account effects of the calendar.)

Adjusted for payment shifts, spending for Medicare and Medicaid has risen by about 14 percent so far this year, and defense outlays have grown by an estimated 10 percent. Spending for a variety of other federal programs and activities is up by about 20 percent, led by an increase of more than 75 percent (\$6 billion) in unemployment benefits.

**CURRENT PROJECTIONS
FOR FISCAL YEAR 2002**
(In billions of dollars)

	CBO	OMB
Receipts	1,983	2,011
Outlays	2,003	2,020
Deficit	-21	-9
On-budget deficit	-181	-165
Off-budget surplus	160	155

SOURCES: Office of Management and Budget; CBO.

Both CBO and the Office of Management and Budget (OMB) recently released new estimates of the budget outlook for 2002. (See CBO's *The Budget and Economic Outlook: Fiscal Years 2003-2012*, January 2002.) Both agencies now project a small deficit for the year, in the absence of additional legislation that would affect spending or revenues. CBO estimates a deficit of about \$21 billion; OMB's estimate is \$9 billion.

For the full year, CBO expects receipts to fall about \$8 billion (0.4 percent) below the level recorded in 2001—similar to the \$11 billion decline that has already occurred this year. (That decline would be much bigger but for the deferral of corporate tax payments from September 2001 until October.) CBO projects that outlays for the year will increase by about 7.5 percent. OMB's estimates of both revenues and outlays are higher.