



MONTHLY BUDGET REVIEW

Fiscal Year 2002

A Congressional Budget Office Analysis

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

September 10, 2002

The federal government ran a deficit of about \$202 billion in the first 11 months of fiscal year 2002, CBO estimates, compared with a surplus of \$92 billion in the same period last year. CBO anticipates a substantial surplus for September because quarterly estimated payments of income taxes are due and certain payments ordinarily made at the beginning of September were instead made in August. CBO now projects a total deficit of \$157 billion for fiscal year 2002.

JULY RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	135	134	-1
Outlays	167	164	-3
Deficit (-)	-32	-29	2

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$29.2 billion in July. That result was more favorable than the \$31.5 billion deficit CBO anticipated on the basis of the *Daily Treasury Statements*, largely because outlays were about \$3 billion lower than CBO expected. Net outlays for the Postal Service were \$1.3 billion less than CBO projected. Also, spending by the departments of Agriculture, the Treasury, Health and Human Services, and Justice was slightly less than CBO projected.

ESTIMATES FOR AUGUST (In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	123	124	2
Outlays	203	179	-23
Deficit (-)	-80	-55	25

SOURCES: Department of the Treasury; CBO.

The government recorded a deficit of about \$55 billion in August, CBO estimates, \$25 billion lower than the \$80 billion deficit recorded in August 2001. Outlays fell by about \$23 billion, and receipts were \$2 billion above the level of last August.

The main reason for the revenue increase was the rebate checks sent to taxpayers last summer, which reduced

receipts last August by about \$18 billion. Those rebates have not been repeated this year but instead have been converted (since January) into reduced withholding over the course of the year. The increase in receipts this August was tempered substantially because the month contained one fewer business day, compared with August 2001, and because of declines in corporate and individual income tax receipts unrelated to the number of business days.

Outlays in August 2001 were unusually high because \$40 billion in Social Security benefits and other payments were disbursed at the end of August instead of in September. A similar shift occurred this year, but it did not include Social Security payments. Without those payment shifts, August outlays would have increased by about \$6 billion, or 4 percent, from 2001 to 2002. The year-over-year difference in outlays for August is the smallest for any month this year (after adjusting for timing shifts), in part because more than \$5 billion in emergency payments were made to agricultural producers in August 2001. No such payments were made this year.

BUDGET TOTALS THROUGH AUGUST (In billions of dollars)

	October-August		Estimated Change
	FY2001	FY2002	
Receipts	1,832	1,660	-172
Outlays	1,741	1,862	122
Surplus/Deficit (-)	92	-202	-294

SOURCES: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a total deficit of about \$202 billion during the first 11 months of fiscal year 2002. That amount is a net reversal of \$294 billion from the \$92 billion surplus recorded for the same period last year. Outlays have grown by \$122 billion compared with last year, and receipts have declined by \$172 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
(In billions of dollars)

Major Source	October-August		Percentage Change
	FY2001	FY2002	
Individual Income	913	767	-16.0
Corporate Income	144	117	-18.8
Social Insurance	638	643	0.8
Other	<u>138</u>	<u>134</u>	-3.1
Total	1,832	1,660	-9.4

SOURCES: Department of the Treasury; CBO.

Total receipts for the first 11 months of the fiscal year are \$172 billion (9.4 percent) lower than during the same period a year ago. The decline is almost entirely in receipts of individual income taxes (which fell by \$146 billion) and corporate income taxes. About \$105 billion of the \$146 billion drop occurred in nonwithheld receipts and refunds during the tax filing season of February through May and thus are related largely to 2001 tax liabilities. The remaining decline of about \$40 billion in individual receipts mainly reflects a reduction in withheld tax receipts, largely consistent with the effects of last year's tax cuts on withholding rates.

Corporate receipts over the October-August period were \$27 billion lower than during the same period last year. Although receipts were boosted early in the year by legislation enacted in 2001 that shifted \$23 billion in estimated payments from September to October 2001, CBO estimates that the business tax cuts enacted in March reduced corporate receipts by more than that amount. Reductions in taxable profits unrelated to recent legislation also contributed substantially to this year's decline.

CBO projects that receipts for the entire fiscal year will be down by \$131 billion (6.6 percent) compared with receipts from the previous year. That reduction is substantially less than the \$172 billion decline seen in the first 11 months because certain factors from last September will not be repeated this month. First, corporate estimated payments are back on their normal schedule this September. Second, the rebates paid in September 2001 will not be repeated this month. Third, this September contains an extra business day.

OUTLAYS THROUGH AUGUST
(In billions of dollars)

Major Category	October-August		Percentage Change	
	FY2001	FY2002	Actual	Adjusted ^a
Defense—Military	268	305	13.8	12.7
Social Security				
Benefits	419	410	-2.0	5.2
Medicare	222	238	7.1	8.7
Medicaid	120	135	12.3	12.3
Unemployment				
Insurance	29	50	72.7	72.7
Other Programs and Activities	<u>483</u>	<u>560</u>	16.0	12.4
Subtotal	1,540	1,697	10.2	11.2
Net Interest on the Public Debt	<u>201</u>	<u>165</u>	-17.7	-17.7
Total	1,741	1,862	7.0	7.8

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of week-ends, holidays, or legislative action. Also excludes the July 2001 credit reestimate for spectrum loans, which was largely reversed last September.

Outlays for the first 11 months of fiscal year 2002 were 7.0 percent higher than in the same period last year, CBO estimates. Adjusted for shifts in the dates of certain payments, that rate of growth was 7.8 percent. Excluding the nearly 18 percent decline in net interest on the public debt, which occurred largely as a result of lower interest rates, adjusted outlays have increased by about 11 percent.

More than one percentage point of the 7.8 percent growth in outlays results from the \$21 billion increase in unemployment compensation. Defense spending has also grown rapidly, now about 13 percent higher than at the same time last year (after adjusting for payment shifts). That rate of increase is the fastest since the early 1980s.

Medicare spending is up by close to 9 percent. The rate of growth was higher early in the year, reflecting the substantial increase in the rates paid to providers that took effect in the spring of 2001. Over the past eight months, the rate of increase has been about 7 percent.

Growth in Medicaid spending has also tapered off during the year. After growing by almost 19 percent in the first four months of the fiscal year, Medicaid outlays in the succeeding seven months have been about 9 percent higher than in the same period last year.