



MONTHLY BUDGET REVIEW

Fiscal Year 2001

A Congressional Budget Office Analysis

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

August 9, 2001

The federal government's total budget surplus for the first 10 months of fiscal year 2001 was \$168 billion, CBO estimates, about \$14 billion less than for the same period last year. The surplus for the full fiscal year will be well below the \$236 billion figure recorded last year because of continuing weakness in the economy and recently enacted legislation that reduced tax revenues and increased spending for agriculture and other programs. CBO will release updated budget estimates later this month.

JUNE RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	203	203	*
Outlays	173	171	-2
Surplus	30	32	2

SOURCES: Department of the Treasury; CBO.

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

The Treasury reported a surplus of \$31.9 billion in June, about \$2 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were about \$2 billion less than CBO had anticipated, with the difference spread among various agencies and programs.

ESTIMATES FOR JULY (In billions of dollars)

	Actual FY2000	Preliminary FY2001	Estimated Change
Receipts	134	128	-6
Outlays	129	130	1
Surplus/Deficit (-)	5	-1	-6

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government ran a small deficit in July—about \$1 billion—compared with a \$5 billion surplus in July 2000. Outlays were up by about \$1 billion, but receipts were \$6 billion below the level of last July.

The initial budgetary effects of the recently enacted tax cuts appeared in July. The Treasury issued checks totaling about \$7 billion to taxpayers for advance refunds of 2001 taxes. In addition, new withholding rates took effect, which reflect the newly lowered tax

rates; they reduced receipts by less than \$1 billion in July. Without the effects of the legislation, receipts would have been about \$2 billion higher this July than they were in July 2000, largely because there was one more business day this July. After accounting for the effects of the recent tax cuts and the differing number of business days, receipts this July were little changed from those in July 2000.

Outlays in July were particularly low for two reasons. Because July 1 fell on a weekend, about \$11 billion in payments ordinarily made on that date were instead made at the end of June. (A similar shift occurred in July 2000.) In addition, the Treasury recorded a \$12.5 billion offset against outlays to reflect the results of the January reaction of C-block licenses for use of the electromagnetic spectrum. That reaction is being challenged in court, however, and outlays will be adjusted upward in future years if the government does not prevail.

BUDGET TOTALS THROUGH JULY (In billions of dollars)

	October-July		Estimated Change
	FY2000	FY2001	
Receipts	1,667	1,710	42
Outlays	1,486	1,542	56
Surplus	182	168	-14

SOURCES: Department of the Treasury; CBO.

The government recorded a surplus of \$168 billion for the first 10 months of fiscal year 2001, CBO estimates—about \$14 billion less than for the same period last year. Although receipts in those 10 months were about \$42 billion higher than last year, outlays were about \$56 billion higher. The outlay figure for 2001 would have been even higher but for the spectrum reaction and the shift of \$7 billion in payments of

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.

wages and benefits from October to September (the previous fiscal year) because October 1 fell on a weekend.

RECEIPTS THROUGH JULY
(In billions of dollars)

Major Source	October-July		Percentage Change
	FY2000	FY2001	
Individual Income	832	862	3.6
Corporate Income	159	140	-12.0
Social Insurance	544	584	7.3
Other	<u>132</u>	<u>124</u>	-6.1
Total	1,667	1,710	2.5

SOURCES: Department of the Treasury; CBO.

Total receipts for the first 10 months of fiscal year 2001 were 2.5 percent higher than the amount collected during the same period last year. Without the effects in July of the tax cut, the growth would have been even higher—about 3 percent—but still well below the 10.8 percent increase experienced for all of fiscal year 2000.

Receipts that are based on personal income continue to grow. Payments of individual income taxes are up by 3.6 percent, and social insurance taxes have increased by 7.3 percent.

In contrast, receipts from corporate income taxes have been very weak in recent months. They fell by \$19 billion, or 12 percent, in the October-July period of fiscal year 2001, compared with the same period a year earlier. The decline has been even more pronounced for the February-July period; corporate receipts for those six months have fallen by about 25 percent, reflecting a sharp decline in corporate profits.

Other receipts have fallen by 6.1 percent so far this fiscal year. Payments from the Federal Reserve account for most of that decline. Legislation enacted in 1999 caused the Federal Reserve to increase its payments to the Treasury last year and reduce them this year.

OUTLAYS THROUGH JULY
(In billions of dollars)

Major Category	October-July		Percentage Change	
	FY2000	FY2001	Actual	Adjusted ^a
Defense—Military	230	239	3.8	5.0
Social Security				
Benefits	334	354	6.1	6.1
Medicare	181	197	8.4	8.4
Medicaid ^b	96	108	13.1	13.1
Other Programs and Activities	<u>450</u>	<u>462</u>	2.7	3.7
Subtotal	1,291	1,360	5.3	5.9
Net Interest on the Public Debt	<u>195</u>	<u>182</u>	-6.5	-6.5
Total	1,486	1,542	3.8	4.3

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted from October 2000 to September because October 1 was a Sunday.

b. Excludes a one-time adjustment, in May 2001, that shifted \$1.2 billion in outlays from Medicaid to the State Children's Health Insurance Program.

Outlays were 3.8 percent higher in the first 10 months of fiscal year 2001 than in the same period last year, CBO estimates. Adjusted for the payments that were shifted from October 2000 into September, the growth rate was about 4.3 percent.

Medicaid spending continues to grow very rapidly—up by over 13 percent so far this year, reflecting higher enrollment, increased spending on prescription drugs, and increased use by states of certain financing mechanisms (related to the Medicare upper payment limit) that generate additional federal payments.

Medicare spending has also risen, by 8.4 percent. That growth rate has been accelerating since increased payment rates to health care providers took effect in April. For the entire year, CBO anticipates that spending for Medicare will grow by about 10 percent.

Spending for a variety of other programs and activities has increased by less than 4 percent so far this year, after accounting for the shift in October payments. But program spending is growing more rapidly than that. Excluding revisions to spectrum auction estimates, spending for this broad category grew by more than 6 percent from October through July.