



MONTHLY BUDGET REVIEW

Fiscal Year 2001

A Congressional Budget Office Analysis

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

July 11, 2001

The total budget surplus for the first nine months of fiscal year 2001 was \$167 billion, CBO estimates, about \$10 billion less than for the same period last year. Because receipts from corporate income taxes were very low in June, the surplus for the full fiscal year is likely to be less than \$200 billion.

MAY RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	125	125	*
Outlays	156	153	-2
Deficit (-)	-30	-28	2

SOURCES: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$27.9 billion in May, about \$2 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was largely attributable to a downward revision in the Administration's estimate of the subsidy costs for certain loans and guarantees made by the Export-Import Bank.

ESTIMATES FOR JUNE (In billions of dollars)

	Actual FY2000	Preliminary FY2001	Estimated Change
Receipts	215	203	-12
Outlays	159	173	14
Surplus	56	30	-26

SOURCES: Department of the Treasury; CBO.

CBO estimates that the surplus in June 2001 was about \$30 billion—\$26 billion less than in June 2000. Receipts fell by \$12 billion, while outlays rose by about \$14 billion.

Most of the decline in revenues occurred because receipts from corporate income taxes fell by about \$11 billion, or 26 percent, from the amount in June 2000. Most corporations make a quarterly payment of estimated income taxes in June, reflecting their

profits during the April-June quarter and their expectations of profits for the calendar year. The quarterly payments of corporate income taxes this June exhibited the largest percentage decline of any quarterly payments since 1983, when receipts were weakened by the 1981-1982 recession and tax cuts enacted in 1981. The decline in corporate income tax receipts is consistent with recent trends in measures of profits from the national income and product accounts, which showed substantial weakness for the fourth quarter of 2000 and the first quarter of 2001.

More than \$4 billion of the increase in outlays was for major entitlement programs—Social Security, Medicare, Medicaid, and unemployment compensation. Another \$3 billion resulted from differing revisions in estimates of credit subsidies. (Last June, the Treasury recorded a \$1.8 billion reduction in subsidy costs associated with the auction of licenses to use the electromagnetic spectrum; this June, it recorded an increase of \$0.9 billion in the subsidy costs of certain loans and guarantees of the Export-Import Bank.)

BUDGET TOTALS THROUGH JUNE (In billions of dollars)

	October-June		Estimated Change
	FY2000	FY2001	
Receipts	1,533	1,581	47
Outlays	1,357	1,414	57
Surplus	177	167	-10

SOURCES: Department of the Treasury; CBO.

CBO estimates that the surplus for the first nine months of fiscal year 2001 was \$167 billion—about \$10 billion less than for the same period last year. For the first time this fiscal year, the cumulative surplus or deficit is less favorable than it was at the corresponding time in fiscal year 2000.

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.

Although receipts were about \$47 billion higher than at the same time last year, outlays climbed an estimated \$57 billion. The outlays in 2001 reflect the fact that \$7 billion in wages and benefits normally paid on October 1 were instead disbursed in September (the previous fiscal year) because October 1 fell on a weekend.

RECEIPTS THROUGH JUNE
(In billions of dollars)

Major Source	October-June		Percentage Change
	FY2000	FY2001	
Individual Income	766	802	4.7
Corporate Income	154	140	-9.2
Social Insurance	495	528	6.6
Other	<u>119</u>	<u>111</u>	-6.6
Total	1,533	1,581	3.1

SOURCES: Department of the Treasury; CBO.

For the first nine months of fiscal year 2001, receipts were up by about 3.1 percent over the same period a year ago. Receipts from individual income taxes and social insurance taxes rose during the first nine months of the fiscal year by 4.7 percent and 6.6 percent, respectively, compared with the same period a year ago. Some of that increase, however, represents nonwithheld payments of liabilities from tax year 2000. Nonwithheld receipts of individual income and social insurance taxes increased by more than 9 percent during the first nine months of fiscal year 2001, boosted by strong payments from taxpayers' filings of 2000 tax returns.

Receipts that reflect recent economic activity have not been as strong. Compared with the same period a year ago, total withholding for individual income taxes and social insurance taxes rose by only 3.3 percent in the April-June quarter, after growing by 5.9 percent from October through March of this fiscal year. Over the entire October-June period, total withholding rose by 5.1 percent. In contrast, corporate income tax receipts fell by 9.2 percent, despite starting the fiscal year relatively strongly. Since February, they have fallen by 21 percent compared with the amount of receipts in February-June 2000.

Other receipts dropped by 6.6 percent, or about \$8 billion, in the first nine months of this fiscal year, compared with the first nine months of fiscal year 2000. That decline occurred mainly because legislation enacted in 1999 caused the Federal Reserve to accelerate \$3.8 billion in payments from fiscal year 2001 into fiscal year 2000. Other sources of receipts either fell slightly (excises, estate and gift taxes, and miscel-

laneous fees and fines) or remained just about at last year's level (customs duties).

The tax cuts recently enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 begin to reduce receipts this month. New withholding tables went into effect on July 1, and the Internal Revenue Service begins mailing rebate checks to taxpayers based on their 2000 tax liability later in the month.

OUTLAYS THROUGH JUNE
(In billions of dollars)

Major Category	October-June		Percentage Change	
	FY2000	FY2001	Actual	Adjusted ^a
Defense—Military	212	219	3.6	5.0
Social Security				
Benefits	300	317	5.8	5.8
Medicare	166	179	7.5	7.5
Medicaid	87	96	11.3	11.3
Other Programs and Activities	<u>417</u>	<u>436</u>	4.7	5.7
Subtotal	1,181	1,248	5.7	6.3
Net Interest on the Public Debt	<u>176</u>	<u>165</u>	-5.8	-5.8
Total	1,357	1,414	4.2	4.7

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.

CBO estimates that outlays for the first nine months of the fiscal year were 4.2 percent higher than in the same period last year. Adjusted for the payments that were shifted from October 2000 into September, the growth rate was about 4.7 percent.

Social Security, Medicare, and Medicaid accounted for over two-thirds of the increase in outlays. Spending for those programs in the first nine months of fiscal year 2001 was more than 7 percent higher than outlays during the same period last year. Spending for a number of other agencies and programs grew even more rapidly. In total, net outlays for the departments of Education, Energy, Health and Human Services (other than Medicare and Medicaid), State, and Transportation, unemployment benefits, international security assistance, the Universal Service Fund, and the Federal Deposit Insurance Corporation were up by about 19 percent over last year's levels. In contrast, spending for farm programs of the Commodity Credit Corporation was several billion dollars below last year's figure.