



MONTHLY BUDGET REVIEW

Fiscal Year 2004

A Congressional Budget Office Analysis

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

November 4, 2004

The federal government recorded a total budget deficit of \$413 billion in fiscal year 2004, \$35 billion more than the \$377 billion deficit recorded in 2003 (a recently revised figure). As a share of the nation's gross domestic product (GDP), the 2004 deficit was 3.6 percent—slightly more than the 3.5 percent share recorded in 2003.

FISCAL YEAR TOTALS (Billions of dollars)

	2000	2001	2002	2003	2004
Receipts	2,025	1,991	1,853	1,782	1,880
Outlays	1,789	1,864	2,011	2,159	2,292
Surplus or Deficit (-)	236	127	-158	-377	-413
On-budget	87	-33	-317	-538	-568
Off-budget	150	161	160	161	155
Surplus or Deficit (-) as a Percentage of GDP	2.4	1.3	-1.5	-3.5	-3.6

Sources: Department of the Treasury; CBO.

The federal budgetary situation worsened for the fourth consecutive year, moving from a surplus of \$236 billion in 2000 to a deficit of \$413 billion in 2004. Receipts ended a three-year decline in 2004 and grew by \$98 billion, but outlays outstripped them, rising by \$133 billion over their 2003 level.

TOTAL RECEIPTS (Billions of dollars)

Major Source	2000	2003	2004	Percentage Change, 2003-2004
Individual Income	1,004	794	809	1.9
Corporate Income	207	132	189	43.7
Social Insurance	653	713	733	2.9
Other	161	144	148	3.1
Total	2,025	1,782	1,880	5.5
Percentage of GDP	20.9	16.4	16.3	n.a.

Sources: Department of the Treasury; CBO.

Receipts in 2004 rose by 5.5 percent, to \$1,880 billion. Nevertheless, they remained about 7 percent below their peak level in 2000. As a share of GDP, they accounted for the smallest proportion since 1959—about 16.3 percent.

Strong growth in profits was the main reason that receipts from corporate income taxes grew by about \$58 billion, or 44 percent. That growth accounted for almost 60 percent of the increase in total receipts, a significant amount for a source that contributes only about 10 percent of federal revenues. About \$6 billion of the increase in corporate tax receipts resulted from legislated delays in payments rather than from economic developments. Yet despite the sharp increase in those receipts in 2004, they were still about 9 percent below their peak in 2000, in large part because of the tax incentives for business investment enacted in 2002 and 2003.

Boosted by greater withholding and fewer refunds, receipts from individual income taxes rose by about 2 percent, or \$15 billion, in 2004. Growth in wages and salaries generated increases in income tax withholding of \$19 billion (2.5 percent), and nonwithheld receipts net of refunds fell by about \$3 billion (almost 6 percent), largely reflecting lower tax liabilities for 2003. Individual income tax receipts remained about 20 percent below their peak in 2000—before the recession in 2001, the tax cuts of recent years, and the decline in the stock market.

Social insurance receipts increased by about 3 percent, or \$20 billion, primarily because wages and salaries grew and the states replenished their unemployment insurance trust funds. Social insurance receipts are the only major source of revenues to grow each year since 2000.

Other receipts rose by about \$4 billion, or 3 percent, as a result of increased collections of estate and gift taxes, excise taxes, and customs duties. Those larger collections were partially offset by reduced receipts from the Federal Reserve.

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.

TOTAL OUTLAYS
(Billions of dollars)

Major Category	2000	2003	2004	Percentage Change, 2003-2004
Defense—Military	281	389	437	12.4
Social Security				
Benefits	402	467	487	4.5
Medicare	218	277	300	8.5
Medicaid	118	161	176	9.7
Other Programs and Activities	<u>537</u>	<u>704</u>	<u>724</u>	2.7
Subtotal	1,556	1,997	2,125	6.4
Net Interest on the Public Debt	<u>233</u>	<u>162</u>	<u>168</u>	3.4
Total	1,789	2,159	2,292	6.2
Percentage of GDP	18.4	19.9	19.8	n.a.

Sources: Department of the Treasury; CBO.

Outlays grew by 6.2 percent in 2004, more slowly than in the previous two years but well above the annual pace during the 1990s of less than 4 percent. Total outlays as a percentage of GDP, which declined from 1991 through 2000, have risen since then—from 18.4 percent in 2000 to 19.8 percent in 2004.

Growth in the government's spending on programs and activities (which excludes net interest on the public debt) moderated in 2004: spending rose by 6.4 percent compared with an average annual rise of 10 percent in the previous two years. In contrast, mounting federal debt, coupled with an uptick in interest rates, drove net interest costs up by 3.4 percent, the first increase since 1997.

Military spending remained the fastest-growing component of the budget in 2004, but its rate of increase slowed somewhat. Defense outlays rose at an average annual rate of 15 percent as the military ramped up operations in 2002 and 2003, and spending in the first six months of 2004 was about 18 percent above the prewar levels recorded in the first half of 2003. Spending in the second half of 2004 was about 8 percent greater than in the same period in 2003, resulting in a year-over-year increase of 12 percent. Defense outlays in 2004 were 55 percent higher than in 2000.

Spending for the three major entitlement programs—Social Security, Medicare, and Medicaid—has grown steadily in recent years. Total outlays for those programs grew by 6.6 percent in 2004, slightly faster than the 5.8 percent gain in 2003 but below the 7.6 percent increase recorded in 2002. Outlays for Medicaid, which have grown the fastest, were 49 percent greater in 2004 than in 2000.

Overall, nondefense outlays in 2004 rose by about 5 percent, a rate consistent with trends in the 1990s but significantly below the 9 percent average increase in the previous two years. The slower growth last year resulted in part because outlays fell for a number of programs—notably unemployment compensation (down 21 percent as a result of fewer beneficiaries and the expiration of extended benefits); agricultural price and income supports (down 39 percent, largely because of higher market prices); and the Universal Service Fund (down 56 percent owing to the liquidation of certain investments and some accounting adjustments that affected outlays for 2003). Spending by the Department of Homeland Security fell in 2004, in part because special payments were made in 2003 to reimburse air carriers for security-related expenses.

In contrast to those declines, spending in other areas rose significantly. Boosting outlays in 2004 were \$6.3 billion in one-time payments for victims of the September 11, 2001, terrorist attacks and adjustments in the estimated cost of outstanding loans and loan guarantees. In addition, outlays for education, for food and nutrition programs, and for refundable tax credits each climbed by about 9 percent. Outlays for Iraq relief and reconstruction, which got underway late in 2003, totaled \$3 billion in 2004.

ESTIMATES FOR OCTOBER
(Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	136	135	*
Outlays	205	193	-12
Deficit (-)	-70	-58	11

Sources: Department of the Treasury; CBO.

Note: * = between zero and -\$500 million.

CBO estimates that the government recorded a deficit of \$58 billion last month—\$11 billion less than the shortfall it posted in the same month last year. Receipts in October 2004 were slightly below those in October 2003, and most sources of receipts showed little or no change from the prior year. However, this year October had two fewer working days than it had last year, which lowered revenues by about \$5 billion. Outlays in October were \$12 billion lower than in the same month last year, CBO estimates. Most of that decline stemmed from a payment shift. In 2003, November 1 fell on a weekend, and about \$11 billion in payments that would ordinarily have been made in November were instead made at the end of October. In addition, last October's outlays included \$5 billion in grants to states for emergency relief. Excluding those payments and the effects of the calendar on both receipts and outlays would leave the October deficit this year about the same as the deficit last October.