



MONTHLY BUDGET REVIEW

Fiscal Year 2011

A Congressional Budget Office Analysis

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

November 7, 2011

The federal government recorded a total budget deficit of \$1.3 trillion in fiscal year 2011, almost identical to the deficit it incurred in 2010. As a share of the nation's gross domestic product (GDP), the deficit declined slightly—from 9.0 percent in 2010 to 8.7 percent in 2011—but was still the third-highest deficit as a share of GDP since 1945.

FISCAL YEAR TOTALS (Billions of dollars)

	2006	2007	2008	2009	2010	2011
Receipts	2,407	2,568	2,524	2,105	2,162	2,302
Outlays	2,655	2,729	2,983	3,518	3,456	3,601
Deficit (-)						
Amount	-248	-161	-459	-1,413	-1,294	-1,299
Percentage of GDP	-1.9	-1.2	-3.2	-10.1	-9.0	-8.7

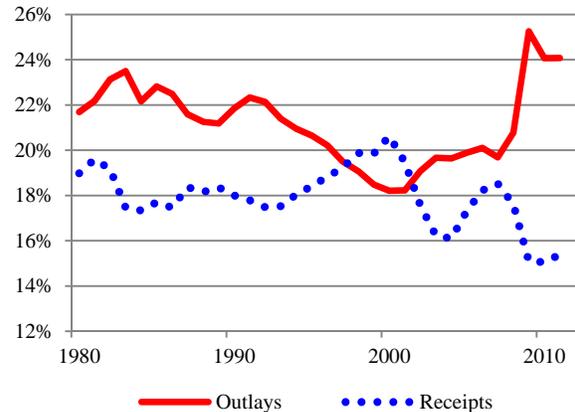
Sources: Department of the Treasury; Office of Management and Budget (OMB); CBO.

The deficit in 2011 would have been smaller than that in 2010 except for three unusual factors: First, about \$31 billion in payments that would ordinarily have been made on October 1, 2011 (that is, in fiscal year 2012), were made instead in September because October 1 fell on a weekend; second, in December 2009, banks were required to pay the deposit insurance premiums that would otherwise have been due over the following three years, thereby reducing net outlays for deposit insurance by \$37 billion in fiscal year 2010 and boosting them by \$13 billion in 2011; and third, the estimated costs of federal credit transactions made in earlier years (mostly those of the Troubled Asset Relief Program) were revised downward—by \$115 billion in 2010 and by \$51 billion in 2011—adding \$64 billion to the difference in outlays between the two years. Without those factors, the 2011 deficit would have been about \$140 billion less than the shortfall in 2010.

In 2011, the government's receipts increased for the second consecutive year, reaching \$2.3 trillion, which was \$141 billion (or 6.5 percent) more than in 2010 but still 10 percent below their peak in 2007. Receipts rose from 15.1 percent of GDP in 2009 and 2010 to 15.4 percent in 2011 but remained well below both the 2007 peak of 18.5 percent and the 40-year average of 18 percent of GDP.

Spending by the government was 24.1 percent of GDP in 2011, lower than the 25.2 percent recorded in 2009 and about the same share as in 2010 but well above the 40-year average of 20.8 percent.

RECEIPTS AND OUTLAYS AS A PERCENTAGE OF GDP



Sources: Department of the Treasury; CBO.

Individual income taxes accounted for most of the increase in revenues in 2011, rising by \$193 billion, or 21 percent, and increasing from 6.3 percent to 7.3 percent of GDP; they were, however, still 6 percent below the 2007 peak. Gains in 2011 from withheld and nonwithheld taxes can be attributed, at least in part, to increases in wage and nonwage income.

TOTAL RECEIPTS (Billions of dollars)

Major Source	2009	2010	2011	Percentage Change, 2010–2011
Individual Income	915	899	1,091	21.5
Corporate Income	138	191	181	-5.4
Social Insurance	891	865	819	-5.3
Other	161	207	211	2.0
Total	2,105	2,162	2,302	6.5
Percentage of GDP	15.1	15.1	15.4	

Sources: Department of the Treasury; OMB; CBO.

Receipts from corporate income taxes, after matching 2010 collections through August, fell \$10 billion short of the previous year's total in September. Until that

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.

point, revenue increases stemming from higher profits had offset revenue reductions resulting from legislation that allowed businesses to accelerate their deductions for depreciation. Despite the decline from 2010 to 2011, corporate receipts were more than 30 percent above the 2009 amount, although they were only about half the amounts recorded in 2006 and 2007.

Receipts from social insurance (payroll) taxes declined by \$46 billion (or 5 percent) because the tax rate applicable to employees was reduced starting on January 1, 2011. Without that reduction, those receipts would have risen by roughly \$35 billion, CBO estimates.

TOTAL OUTLAYS (Billions of dollars)					
Major Category	2009	2010	2011 Actual	Percentage Change, 2010–2011	
				Adjusted ^a	
Defense–Military	637	667	678	1.7	1.1
Social Security					
Benefits	660	696	720	3.5	3.5
Medicare ^b	429	450	483	7.3	4.0
Medicaid	251	273	275	0.8	0.8
Unemployment					
Benefits	120	162	126	-22.2	-22.2
Other Activities	<u>975</u>	<u>1,048</u>	<u>1,087</u>	3.7	-2.2
Subtotal	3,071	3,295	3,369	2.2	-0.2
Net Interest on the					
Public Debt	202	228	266	16.6	16.6
TARP	154	-108	-39	-63.9	-63.9
Payments to GSEs	<u>91</u>	<u>40</u>	<u>5</u>	-87.2	-87.2
Total	3,518	3,456	3,601	4.2	1.8
Percentage of GDP	25.2	24.1	24.1	n.a.	n.a.

Sources: Department of the Treasury; OMB; CBO.

Notes: TARP = Troubled Asset Relief Program; GSEs = government-sponsored enterprises, Fannie Mae and Freddie Mac; n.a. = not applicable.

a. Excludes the effects of payments shifted because of weekends or holidays and of prepayments of deposit insurance premiums.

b. Medicare outlays are net of proprietary receipts.

Overall, expenditures increased by \$145 billion (or 4.2 percent) from 2010 to 2011. Excluding the shift to September 2011 of certain payments that ordinarily would have been made in October and prepayments of deposit insurance premiums in 2010, outlays in 2011 would have been \$64 billion (or 1.8 percent) higher than in 2010.

Adjusted for payment shifts, defense spending increased by \$7 billion (or about 1 percent) in 2011, less than last year's increase of nearly 5 percent and below the 9 percent annual average rate of growth over the past decade. Spending on operation and maintenance—which funds many of the Pentagon's day-to-day

activities—increased by \$15 billion, but outlays for procurement and for research and development declined by \$6 billion and \$2 billion, respectively. Spending by the Army declined for the first time since the mid-1990s; that \$3 billion decrease reflected a nearly \$7 billion drop in procurement spending.

Outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—rose by just over 3 percent in 2011, after an adjustment for payment shifts. That increase was well below the growth of 6 percent recorded in 2010 and the roughly 7 percent average annual growth over the past five years—partly because previously legislated increases in the federal share of Medicaid's costs expired; for the second year in a row, there was no cost-of-living adjustment for Social Security beneficiaries. Outlays for the three programs equaled 9.8 percent of GDP, about the same as in 2010.

Spending for net interest on the public debt rose by almost 17 percent in 2011, primarily because of growth in that debt over the past year. Net interest costs increased to 1.8 percent of GDP, up from 1.6 percent in 2010.

Spending for some activities declined in 2011. Treasury payments to Fannie Mae and Freddie Mac were \$35 billion lower, and unemployment benefits fell by nearly a quarter (\$36 billion). Spending for the broad category "Other Activities" decreased by 2.2 percent (after an adjustment for payment shifts), in part because adjustments to the estimated costs of student loans made in previous years reduced education outlays by \$30 billion in 2011. Outlays for that category were equal to 7.3 percent of GDP, slightly less than in 2010 and slightly more than the average over the past five years.

FISCAL YEAR 2012 ESTIMATES FOR OCTOBER

(Billions of dollars)

	Actual FY 2011	Preliminary FY 2012	Estimated Change
Receipts	146	163	17
Outlays	286	257	-29
Deficit (-)	-140	-95	46

Sources: Department of the Treasury; CBO.

The government recorded a deficit of \$95 billion in October, CBO estimates, about \$46 billion less than the shortfall recorded in the same month last year. After adjusting for shifts in the timing of certain payments, the deficit for October 2011 would have been \$15 billion less than it was in October 2010, mostly because of an increase in receipts.