



MONTHLY BUDGET REVIEW

Fiscal Year 2001

A Congressional Budget Office Analysis

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

November 14, 2001

Fiscal year 2001 ended with a total budget surplus of \$127 billion. This marks the fifth consecutive year in which the federal government has run a surplus. The surplus, however, was \$110 billion less than the amount recorded in 2000—marking the end of eight consecutive years of improvement in the government's bottom line. The off-budget surplus, which encompasses transactions of the Social Security trust funds and the Postal Service, continued to grow, reaching \$161 billion, but the government's on-budget accounts recorded a deficit of \$34 billion, after showing surpluses for the past two years.

FISCAL YEAR TOTALS

(In billions of dollars)

	Actual 2000	Actual 2001	Change
Receipts	2,025	1,990	-35
Outlays	1,788	1,863	75
Surplus	237	127	-110
On-budget surplus or deficit (-)	87	-34	-121
Off-budget surplus	150	161	11

TOTAL RECEIPTS

(In billions of dollars)

Major Source	Actual FY2000	Actual FY2001	Percentage Change
Individual Income	1,004	994	-1.0
Corporate Income	207	151	-27.1
Social Insurance	653	694	6.3
Other	<u>160</u>	<u>151</u>	-6.0
Total	2,025	1,990	-1.7

SOURCE: Department of the Treasury.

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The total surplus for fiscal year 2001 was \$127 billion, compared with a surplus of \$237 billion recorded for fiscal year 2000. Receipts fell by \$35 billion from 2000 to 2001, after increasing by \$198 billion in the previous year. The revenue decline of 1.7 percent followed strong 10.8 percent growth in 2000 and average annual growth of 7.8 percent over the 1995-1999 period. That decline, the first since 1983, was caused by a combination of factors: the slowing economy, tax reductions, and shifts in the timing of tax payments. Even without the recent tax changes (mainly the tax cuts and timing shifts enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001), revenues would have grown by only about 1.5 percent. Outlays climbed by \$75 billion, less than the \$85 billion increase experienced in 2000.

In 2001 the Social Security trust funds recorded a surplus of \$163 billion. That amount was slightly offset by net spending of the Postal Service, resulting in an off-budget surplus of \$161 billion, the largest ever recorded. The on-budget surplus, however, turned out to be short-lived. After growing from \$1 billion in 1999 to \$87 billion in 2000, it turned into a deficit of \$34 billion in 2001.

The decline in receipts in fiscal year 2001 resulted largely from a drop in corporate income taxes of \$56 billion, or 27 percent. That decline would have been smaller except for legislation that delayed the payment of estimated taxes from September 15 to October 1. Without that delay, those receipts would have fallen by an estimated \$33 billion, or 16 percent. That drop followed a strong year for corporate receipts in 2000, when they rose by 12 percent.

Individual income tax receipts fell by \$10 billion, or 1.0 percent, in fiscal year 2001. Those receipts would have increased by roughly 3 percent without the \$35 billion in tax rebates and smaller reductions from other tax cuts. Even that rate of increase represents a substantial slowdown in growth—in four of the five previous fiscal years, annual revenue growth exceeded 11 percent.

Of the major revenue sources, only social insurance receipts grew in 2001—by \$41 billion, or 6.3 percent. That was just a bit less than the 8.1 percent growth in 2000. Other sources of receipts fell by almost \$10 billion, or 6 percent. Most of that decline resulted from legislation enacted in 1999 that shifted payments made by the Federal Reserve to the Treasury from 2001 into 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.

TOTAL OUTLAYS
(In billions of dollars)

Major Category	Actual FY2000	Actual FY2001	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	281	291	3.5	5.5
Social Security				
Benefits	402	426	5.9	5.9
Medicare	218	241	10.7	10.7
Medicaid ^b	118	130	10.5	10.5
Other Programs and Activities	<u>535</u>	<u>559</u>	4.4	6.0
Subtotal	1,555	1,647	6.0	6.9
Net Interest on the Public Debt	<u>233</u>	<u>216</u>	-7.6	-7.6
Total	1,788	1,863	4.2	5.0

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 grew by 4.2 percent in 2001, less than the 5.0 percent growth recorded in fiscal year 2000. But that comparison is distorted by a shift of about \$7 billion in payments from October 1, 2000, to September 29, 2000, because October 1 fell on a weekend. Adjusting for that shift, the increase in outlays from 1999 to 2000 was 4.6 percent, while the increase in 2001 was 5.0 percent, both well above the 3.0 percent average annual growth in outlays during the previous several years.

Medicare, Medicaid, and Social Security were major sources of growth, accounting for \$59 billion of the increase in outlays. Medicare spending—which increased by 3.3 percent in 2000 and did not rise at all from 1997 to 1999—shot up by 10.7 percent. Much of that growth is attributable to higher payment rates to health care providers, which took effect in April 2001. Outlays for Medicaid rose by 10.5 percent, even higher than the 9.1 percent rate of growth in 2000, because of rising enrollment, higher spending on prescription drugs, and increased use by states of certain financing mechanisms that generate additional federal payments. Spending for Social Security benefits was up by 5.9 percent (after growing by 5.0 percent in 2000). About half of that increase in benefit payments resulted from cost-of-living adjustments; rising caseloads and the effect of wage growth on initial benefit payments each added between 1 percent and 2 percent to Social Security outlays.

Without the shift in the October 1 pay date, defense spending would have grown by about 5.5 percent in

2001. That increase is the result of appropriations for defense that, prior to September 11, had increased by about 5 percent a year over the past two years.

Among other agencies and programs, the Department of Transportation accounted for the largest increase in spending—\$8 billion, or 18 percent. Transit, aviation, and highway spending accounted for most of that increase, including \$2.3 billion in aid to airlines in the wake of the September terrorist attacks. (Another \$2.7 billion will be paid in fiscal year 2002.) Spending for unemployment compensation also rose sharply—by about \$7 billion—as a result of the weakening economy. Substantial increases in outlays were also recorded by the Public Health Service (\$4 billion, or 16 percent) and for Temporary Assistance for Needy Families (\$3 billion, or 20 percent). In contrast, assistance to farmers by the Department of Agriculture's Commodity Credit Corporation declined by about \$10 billion. That drop-off, however, reflects a shift in the timing of payments rather than a significant policy change.

ESTIMATES FOR OCTOBER
(In billions of dollars)

	Actual 2000	Preliminary 2001	Estimated Change
Receipts	135	159	23
Outlays	146	169	23
Deficit (-)	-11	-11	*

SOURCES: Department of the Treasury; CBO.

NOTE: * = less than \$500 million.

At \$11 billion, the deficit in October 2001 was about the same as the one in October 2000, CBO estimates. Although revenues in October were about \$23 billion, or 17 percent, higher than in the same month a year ago, that increase occurred mainly because of the legislated delay in estimated payments of corporate income taxes. On October 1, corporations paid over \$23 billion, virtually all of it from the timing shift. In addition, an extra business day in October of this fiscal year, compared with October of a year ago, added roughly \$5 billion to receipts. However, those increases were partially offset by higher corporate refunds, which doubled from about \$5 billion in 2000 to \$10 billion in 2001.

Outlays in October were also about \$23 billion higher than in the same month last year, CBO estimates. Higher spending for defense, Medicaid, unemployment compensation, and Social Security accounted for much of the increase. In addition, outlays in October 2000 were unusually low because of the \$7 billion in payments that were shifted into September.