



MONTHLY BUDGET REVIEW

Fiscal Year 2001

A Congressional Budget Office Analysis

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

September 12, 2001

The federal government ran a surplus of about \$94 billion in the first 11 months of fiscal year 2001, CBO estimates. The September surplus should be substantial because quarterly payments of estimated individual income taxes are due and because Social Security benefits and certain other payments ordinarily made at the beginning of September were paid in August. CBO now projects a total surplus of \$153 billion for fiscal year 2001.

JULY RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	128	128	*
Outlays	130	125	-4
Surplus/Deficit (-)	-1	3	4

SOURCES: Department of the Treasury; CBO.

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

The Treasury reported a surplus of \$2.5 billion in July. That result was more favorable than the \$1 billion deficit CBO anticipated on the basis of the *Daily Treasury Statements* because outlays turned out to be \$4 billion lower than CBO expected. Spending by the departments of Housing and Urban Development, Justice, and Treasury and net outlays of the Postal Service were slightly less than CBO projected.

checks to taxpayers totaling about \$18 billion in August, representing advance refunds of 2001 taxes. (In July, the Treasury adjusted the withholding tables to reflect the new lower tax rates; that action reduced receipts by less than \$1 billion in August.) Second, because the first two days of September 2001 fell on a weekend and September 3 was a holiday (Labor Day), about \$40 billion in payments normally made at the beginning of September—including \$28 billion in Social Security benefits—were instead made at the end of August.

CBO's estimate for August also includes a \$4 billion reduction in outlays, reflecting an adjustment in the estimated subsidy costs of student loans previously issued or guaranteed by the government. The Administration indicated in its budget submissions that it would make this and other credit subsidy reestimates, which are required by the Federal Credit Reform Act of 1990. When this report was prepared, it was still uncertain whether the adjustment for student loans would appear in the *Monthly Treasury Statement* for August or September.

ESTIMATES FOR AUGUST (In billions of dollars)

	Actual FY2000	Preliminary FY2001	Estimated Change
Receipts	138	123	-16
Outlays	149	200	52
Deficit (-)	-10	-78	-68

SOURCES: Department of the Treasury; CBO.

The government recorded a deficit of about \$78 billion in August, CBO estimates, by far the largest deficit of any month in this fiscal year and much larger than the \$10 billion shortfall in August 2000.

Two unusual circumstances contributed significantly to the \$78 billion deficit. First, as part of the recently enacted tax cut (Public Law 107-16), the Treasury issued

BUDGET TOTALS THROUGH AUGUST (In billions of dollars)

	October-August		Estimated Change
	FY2000	FY2001	
Receipts	1,806	1,832	26
Outlays	1,634	1,738	104
Surplus	171	94	-78

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government recorded a total surplus of about \$94 billion during the first 11 months of fiscal year 2001. That amount is \$78 billion less than the surplus for the same period last year. Outlays have grown by \$104 billion compared with last year, but receipts have climbed by only \$26 billion. The tax refunds and payment shifts account for much of those differences, but the slowing economy has also contributed substantially.

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.

RECEIPTS THROUGH AUGUST
(In billions of dollars)

Major Source	October-August		Percentage Change
	FY2000	FY2001	
Individual Income	900	912	1.4
Corporate Income	164	144	-12.1
Social Insurance	597	638	6.9
Other	<u>145</u>	<u>138</u>	-5.2
Total	1,806	1,832	1.4

SOURCES: Department of the Treasury; CBO.

The growth in receipts has slowed significantly in 2001. Total receipts for the first 11 months of the year were only 1.4 percent higher than during the same period a year ago. Excluding the effects of the recent tax legislation, total receipts would have been about 3 percent higher in the first 11 months of 2001, still well below the 10.8 percent growth recorded from 1999 to 2000.

Social insurance taxes are the only revenue source showing substantial growth this year—up 6.9 percent compared with the first 11 months of fiscal year 2000. Receipts from individual income taxes were 1.4 percent higher; excluding the tax cuts and advance refunds, they would have grown by over 4 percent—still well below the 14 percent increase recorded last year. Receipts from corporate income taxes have been particularly low in recent months, reflecting very weak corporate profits. Those receipts fell by 12.1 percent in the first 11 months of 2001, after growing by more than 12 percent in 2000. Other receipts have fallen by 5.2 percent so far this year, mainly because of reduced payments by the Federal Reserve. (Legislation enacted in 1999 caused the Federal Reserve to increase its payments to the Treasury in 2000 and reduce them in 2001.)

CBO expects receipts in September to fall well short of those in September 2000 because of the weak economy and the recently enacted tax legislation. That law allows corporations to pay their estimated taxes on October 1, 2001, instead of September 15, the normal due date. Also, most of the remaining advance refunds will be mailed in September. As a result, CBO now estimates that total receipts in 2001 will be about 1 percent lower than they were last year.

OUTLAYS THROUGH AUGUST
(In billions of dollars)

Major Category	October-August		Percentage Change	
	FY2000	FY2001	Actual	Adjusted ^a
Defense—Military	254	267	5.3	5.3
Social Security				
Benefits	368	418	13.7	6.0
Medicare	201	222	10.3	8.7
Medicaid ^b	107	120	12.1	12.1
Other Programs and Activities	<u>489</u>	<u>511</u>	4.4	4.1
Subtotal	1,419	1,538	8.4	6.1
Net Interest on the Public Debt	<u>215</u>	<u>200</u>	-7.0	-7.0
Total	1,634	1,738	6.3	4.3

SOURCES: Department of the Treasury; CBO.

- a. Excludes the effects of payments that were shifted because of weekends or holidays.
- b. Excludes a one-time adjustment that shifted \$1.2 billion in outlays from Medicaid to the State Children's Health Insurance Program.

Outlays for the first 11 months of fiscal year 2001 were 6.3 percent higher than in the same period last year, CBO estimates. Adjusting for the payments that were shifted from October 2000 to September 2000 and from September 2001 to August 2001 because of weekends or holidays, the growth rate was about 4.3 percent.

Spending for the government's major health care programs continues to grow rapidly. Medicaid outlays are up by more than 12 percent so far this year, and Medicare spending has risen by almost 9 percent. Social Security benefits have grown by about 6 percent. Those three major entitlements account for more than 60 percent of this year's increase in federal spending (excluding debt service).

CURRENT ESTIMATE FOR FISCAL YEAR 2001

CBO has recently updated its estimate of the surplus for fiscal year 2001 to reflect economic trends, legislative action, and other developments. The surplus for the year is now projected to be about \$153 billion—down from the \$200 billion CBO estimated after the tax legislation was enacted. The weak economy accounts for about \$25 billion of the change (mostly because of lower revenues); farm legislation has added \$5.5 billion to outlays; and other changes in projected revenues and outlays have reduced the projected surplus by \$16 billion. More details on those projections are available in CBO's recent report, *The Budget and Economic Outlook—An Update* (which can be viewed at www.cbo.gov).