



MONTHLY BUDGET REVIEW

Fiscal Year 2010

A Congressional Budget Office Analysis

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

November 5, 2010

The federal government recorded a total budget deficit of \$1.3 trillion in fiscal year 2010, \$122 billion less than the deficit incurred in 2009. The federal deficit fell as a share of the nation's gross domestic product (GDP) from 10.0 percent in 2009 to 8.9 percent in 2010—the second-highest deficit as a share of GDP since 1945 and about four times the average deficit as a share of GDP recorded between 2005 and 2008.

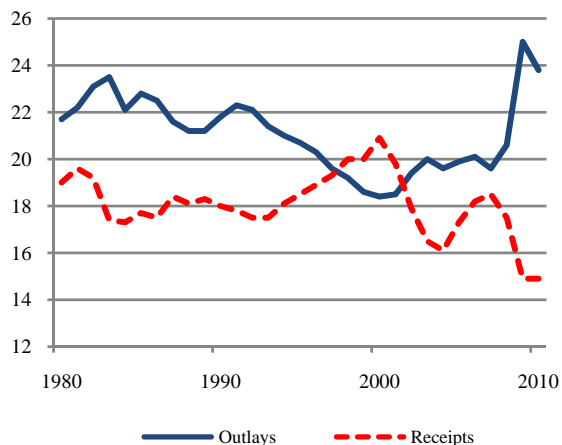
FISCAL YEAR TOTALS (Billions of dollars)

	2005	2006	2007	2008	2009	2010
Receipts	2,154	2,407	2,568	2,524	2,104	2,162
Outlays	2,472	2,655	2,729	2,983	3,520	3,456
Deficit (-)						
Amount	-318	-248	-161	-459	-1,416	-1,294
Percentage of GDP	-2.6	-1.9	-1.2	-3.2	-10.0	-8.9

Sources: Department of the Treasury; CBO.

The large deficits in 2009 and 2010 reflect a combination of factors: an imbalance between revenues and spending that predates the recent recession, sharply lower revenues and elevated spending associated with those economic conditions, and the costs of federal policies implemented in response to those conditions. The deficit was smaller in 2010 than in 2009 because revenues increased and spending declined.

RECEIPTS AND OUTLAYS AS A PERCENTAGE OF GDP



Sources: Department of the Treasury; CBO.

Receipts in 2010 rose for the first time in three years, reaching \$2,162 billion, an increase of \$58 billion, or 3 percent, from 2009. Nevertheless, revenues were 16 percent below the peak amount reached in fiscal year 2007 and only slightly above the amount collected in

2005. Total revenues in both 2009 and 2010 were 14.9 percent of GDP, the lowest share since 1950.

Corporate income tax receipts showed the largest gain in dollar terms from 2009 to 2010—\$53 billion (or 38 percent). Despite the gain, those receipts were just over half as large as in 2007 and 37 percent below the amount collected in 2008. The gain in corporate income tax receipts can be attributed to higher taxable profits resulting from both improved economic conditions and the temporary lapse of provisions that allowed taxpayers to take higher depreciation charges in 2009. Receipts from the Federal Reserve also rose substantially, increasing by almost \$42 billion to an amount more than double the 2009 receipts. The central bank's increased profits resulted from an enlarged portfolio and a shift to riskier and thus higher-yielding investments.

Those gains in 2010 receipts were partially offset by declines in receipts from social insurance (payroll) taxes of \$26 billion (or 3 percent) and individual income taxes of \$17 billion (or 2 percent). Receipts during the first several months of the fiscal year were below those during the same period in 2009. But in the last five months of fiscal year 2010, collections of withheld and nonwithheld taxes, which were based on taxable incomes in 2010, were 4 percent higher than in the same period in 2009.

TOTAL RECEIPTS (Billions of dollars)

Major Source	2008	2009	2010	Percentage Change, 2009-2010
Individual Income	1,146	915	899	-1.8
Corporate Income	304	138	191	38.5
Social Insurance	900	891	865	-2.9
Federal Reserve	34	34	76	121.0
Other	<u>140</u>	<u>126</u>	<u>131</u>	4.2
Total	2,524	2,104	2,162	2.7
Percentage of GDP	17.5	14.9	14.9	n.a.

Sources: Department of the Treasury; CBO.

Note: n.a. = not applicable.

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.

Spending by the federal government represented 23.8 percent of GDP in 2010, the second-highest amount since 1946, but lower than the 25.0 percent of GDP recorded last year. Expenditures decreased by \$64 billion (or 2 percent) from 2009 to 2010.

TOTAL OUTLAYS
(Billions of dollars)

Major Category	2008	2009	2010	Percentage Change, 2009-2010
Defense–Military	595	637	667	4.7
Social Security				
Benefits	607	660	696	5.4
Medicare ^a	390	429	450	5.0
Medicaid	201	251	273	8.7
Unemployment				
Benefits	47	120	162	35.2
Other Activities	<u>879</u>	<u>977</u>	<u>1,048</u>	7.2
Subtotal	2,719	3,073	3,295	7.2
Net Interest on the				
Public Debt	260	202	228	13.2
TARP	0	154	-108	-170.0
Payments to GSEs	<u>0</u>	<u>91</u>	<u>40</u>	-55.7
Total	2,978	3,520	3,456	-1.8
Percentage of GDP	20.6	25.0	23.8	n.a.

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise; n.a. = not applicable.

a. Medicare outlays are net of proprietary receipts.

Net outlays recorded for the Troubled Asset Relief Program (TARP), federal deposit insurance, and Treasury payments to Fannie Mae and Freddie Mac were \$367 billion lower in 2010 than in 2009, because of reduced spending, additional receipts, and adjustments to previous estimates of the costs of credit programs. Conversely, spending associated with the American Recovery and Reinvestment Act (ARRA) rose by approximately \$110 billion to a total of roughly \$225 billion; that total included \$42 billion for the State Fiscal Stabilization Fund and education programs, \$40 billion for increased Medicaid payments to states, and \$35 billion for refundable tax credits.

Outlays for defense rose by 4.7 percent in 2010, lower than the previous year's increase of 7.1 percent and about half the average annual growth rate of 8.8 percent over the past decade. The 3.4 percent rise in spending for procurement was markedly lower than recent double-digit growth, and spending on research and development declined by 2.6 percent—the first drop since 1999. Nearly one-quarter of military spending in 2010 was associated with operations in Iraq and Afghanistan—about the same portion as in 2008 and 2009, CBO estimates.

Outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid (not including spending from ARRA)—rose by 5.4 percent in 2010. That increase was significantly less than the 9.1 percent growth recorded in 2009, and also smaller than the 7.0 percent average annual growth over the past five years. Nevertheless, Social Security outlays as a share of the economy grew for the fifth consecutive year, rising from 4.1 percent of GDP in 2006 to 4.8 percent of GDP in 2010. Spending for Medicare and Medicaid (excluding the effects of ARRA) represented 4.7 percent of GDP, compared with an annual average of 4.1 percent of GDP experienced over the past five years.

Payments for unemployment benefits were one-third greater in 2010 than in 2009. Those payments totaled \$162 billion (or 1.1 percent of GDP), more than triple the amount paid in 2008. Spending for net interest on the public debt also increased to 1.6 percent of GDP, up from 1.4 percent of GDP in 2009.

Spending in the broad category “Other Activities” (which includes programs such as veterans’ benefits, food and nutrition assistance, and transportation grants) was \$1.0 trillion in 2010, an increase of about 7.2 percent from last year’s total. Outlays for that category accounted for 7.2 percent of GDP, slightly more than spending in 2009 and the average over the past five years.

FISCAL YEAR 2011:
ESTIMATES FOR OCTOBER
(Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	135	145	10
Outlays	312	285	-27
Deficit (-)	-176	-140	37

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$140 billion in October, about \$37 billion less than the shortfall recorded in the same month last year. Withholding for income and payroll taxes was \$7 billion higher than in October 2009, reflecting the continued strengthening of wages; refunds of individual taxes were about \$3 billion lower. Outlays were \$27 billion lower this October, primarily because a calendar-related shift in payments increased outlays in October 2009 by about \$27 billion.