

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

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### **The Federal Budget: Surplus to Deficit, A Five-Year Journey** by Gary S. Olson, Director

On September 30, 2000, the Federal government closed the fiscal year (FY) 2000 with a \$236 billion budget surplus. This surplus marked the largest Federal budget surplus ever recorded in the nation's history. Five years later, the Congressional Budget Office (CBO) is currently estimating that when the accounting of FY 2004 Federal receipts and outlays is complete, the Federal budget will close with a \$477 billion deficit. This deficit will mark the largest Federal budget deficit in the nation's history. This article attempts to analyze the factors that have led to this remarkable five-fiscal year change in the condition of the Federal budget.

Table 1 provides a summary of Federal receipts and outlays for the period FY 2000 through January 2004, when the CBO issued its estimates for FY 2004. The \$236 billion budget surplus recorded in FY 2000 was quickly reduced to a \$127 billion surplus in FY 2001. Beginning in FY 2002, the Federal budget fell into deficit and has remained in deficit through the current fiscal year, with an expected shortfall of \$477 billion. This change in the fiscal condition of the Federal budget primarily can be attributed to three principal factors: the performance of the national economy, reductions in Federal taxes, and Federal spending increases largely driven by increases in defense spending.

**Table 1**

<b>Federal Government Budget Receipts, Outlays, and Year-End Balance (billions of dollars)</b>			
<b>Fiscal Year</b>	<b>Receipts</b>	<b>Outlays</b>	<b>Surplus/(Deficit)</b>
2000	\$2,025	\$1,789	\$236
2001	1,991	1,864	127
2002	1,853	2,011	(158)
2003	1,782	2,158	(376)
2004	1,817	2,294	(477)
Change FY 2004 from FY 2000	\$(208)	\$505	\$(713)

**Source:** Congressional Budget Office, January 2004

Perhaps the most accurate way to analyze the condition of the Federal budget is to review Federal receipts, outlays, and the year-end budget balance as a percentage of Gross Domestic Product (GDP). This analysis provides a historical review of the budget adjusted for the size of the United States economy. Table 2 provides a summary of Federal receipts, outlays, and the year-end budget balance as a percentage of GDP for the period FY 2000 through FY 2004. Several important points can be taken from the data. First, Federal receipts totaled 20.9% of GDP in FY 2000, but fell to 15.8% of GDP by FY 2004. The 20.9 % of GDP that Federal receipts totaled in FY 2000 represented the highest level of Federal receipts as a percentage of GDP since FY 1944, when spending on World War II pushed Federal receipts to 20.9% of GDP. On the other hand, the 15.8% of GDP that Federal receipts will total in FY 2004 marks the lowest level of Federal receipts as a percentage of GDP since FY 1950, when Federal receipts equaled 14.4% of GDP. The combination of an



economic slowdown, which had a major impact on Federal personal income tax receipts, and enacted tax reductions has led to this large decline in the level of Federal receipts over the past five fiscal years.

**Table 2**

<b>Federal Government Receipts, Outlays and Surplus/(Deficit) as a Percentage of Gross Domestic Product</b>			
<b>Fiscal Year</b>	<b>Receipts</b>	<b>Outlays</b>	<b>Surplus/(Deficit)</b>
2000	20.9%	18.4%	2.4%
2001	19.8%	18.6%	1.3%
2002	17.9%	19.4%	-1.5%
2003	16.5%	19.9%	-3.5%
2004	15.8%	20.0%	-4.2%

**Source:** Congressional Budget Office, January 2004

Federal outlays, which equaled 18.4% of GDP in FY 2000, have grown to 20.0% of GDP in FY 2004. Most of this increase can be attributed to increased defense spending, but other Federal expenditure categories also have grown significantly over the last five fiscal years. Since the end of World War II, the peak level of Federal outlays as a percentage of GDP occurred in FY 1983 when Federal outlays equaled 23.5% of GDP. During FY 2000, the Federal budget surplus equaled 2.4% of GDP. The projected Federal budget deficit in FY 2004 will equal 4.2% of GDP. The 2.4% of GDP that the Federal budget surplus equaled in FY 2000 was the largest percentage ever recorded in the history of the Federal budget. The previous high was during FY 1951, when the Federal budget surplus equaled 1.9% of GDP. The 4.2% of GDP that the Federal budget deficit will equal in FY 2004 is the largest Federal budget deficit in relation to the size of the economy since FY 1983, when the Federal budget deficit equaled 6.0% of GDP.

The change in Federal receipts for the period FY 2000 through FY 2004 is summarized in Table 3. Over this five-fiscal year period total Federal receipts declined by \$208 billion or 10.3%. Federal individual income tax receipts declined by \$243 billion or 24.2%, and corporate income tax receipts fell by \$46 billion or 22.2%. These declines in individual income and corporate income tax receipts were partially offset by an increase in social insurance taxes, which grew by \$94 billion or 14.4%. Another striking feature of this sharp decline in Federal receipts is that the consecutive three-year decline in Federal receipts that occurred in FY 2001, FY 2002, and FY 2003 marks the first consecutive three-year decline in Federal receipts since FY 1921, FY 1922, and FY 1923.

**Table 3**

<b>Five-Year Change in Federal Government Receipts</b>		
	<b>Billions</b>	<b>Percentage Change</b>
Individual Income Tax .....	-243	-24.2%
Corporate Income Tax .....	-46	-22.2%
Social Insurance Taxes.....	94	14.4%
All Other Receipts .....	-13	-8.1%
Total Receipts .....	-208	-10.3%

**Source:** Congressional Budget Office, January 2004



The change in Federal outlays for the period FY 2000 through FY 2004 is summarized in Table 4. Over this five-fiscal year period total Federal outlays have increased by \$505 billion or 28.2%. Defense outlays have grown \$156 billion or 52.9%. While the defense spending increases have been the major factor behind the recent growth in Federal outlays, other areas of Federal spending also have grown considerably over the past four fiscal years. Nondefense discretionary spending has increased \$125 billion or 31.4%, Social Security spending has increased \$86 billion or 21.2%, Medicare spending is up \$78 billion or 36.1%, Medicaid spending is up \$43 billion or 36.6%, and other income support program spending is up \$59 billion or 43.8%. The only area of Federal outlays that has declined in recent years is net interest payments. The spending to service the Federal debt has declined by \$67 billion or 30.0%. The 28.2% overall growth in Federal outlays over the past four fiscal years compares with an 18.1% growth in GDP over the same time period and a 9.9% growth in the United States Consumer Price Index over the same period.

**Table 4**  
**Five-Year Growth in Federal Government Outlays**  
**FY 2000 to FY 2004**

	Billions	Percentage Growth
Defense .....	\$156	52.9%
Nondefense Discretionary.....	125	31.4%
Social Security .....	86	21.2%
Medicare .....	78	36.1%
Medicaid .....	43	36.6%
Income Support.....	59	43.8%
Net Interest .....	(67)	-30.0%
All Other Outlays.....	<u>25</u>	<u>32.7%</u>
Total Change in Outlays .....	\$505	28.2%
Addendum:		
United States CPI .....	---	9.9%
Gross Domestic Product.....	---	18.1%

**Source:** Congressional Budget Office, January 2004

What is clear from a review of the recent history of the Federal budget is that remarkable changes have taken place over the past four Federal fiscal years. Instead of the debates that took place in the United States Congress in 2000 about what to do with a large Federal budget surplus, the United States Congress is now focused on eliminating a large Federal budget deficit. It will be very interesting to see if the changes in the Federal budget that occur over the next few years are as major as the changes that have occurred over the past few years.