COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Cox Wait
Date: June 11, 2003

Subject: CBO Monthly Budget Report

CBO Projects $400 billion plus Deficit for FY 2003--Up $150 billion since March.

CBO writes that near-term deterioration in the budget outlook is due to continued weakness in the economy and the tax cut enacted last month. The Jobs and Growth Tax Relief Reconciliation Act of 2003 will add an estimated $61 billion to this year's deficit in the form of tax cuts, refundable credits, and aid to states. The recent extension of unemployment compensation benefits will add another $3 billion.

The budget deficit through May this year is $291 billion--compared to $145 for the same period a year ago. According to CBO, $60 billion of the shortfall is caused by lower receipts and $86 billion results from increased outlays. Put another way: the deficit increase is due about 30 percent to economics and technical factors, about a third to tax cuts and the balance is attributable spending increases.

CBO report says there is insufficient data to explain the sources of the $27 billion drop in nonwithheld individual income taxes. Withheld individual income tax collections also declined ($17 billion), probably due to adjustments based on the 2001 tax cut.

Corporate receipts fell $23 billion, largely due to the timing of certain payments. Legislation enacted in 2001 delayed about $23 billion in payments from September 2001 to October 2001, pushing up receipts in FY 2002. Adjusted for the timing shift, corporate tax collections have been about the same this year as last.

Social Insurance Taxes have grown by about $9 billion or 2 percent. Other receipts are largely unchanged.

Adjusted for accounting changes, defense spending is up 14 percent year-over-year. Outlays for major health entitlements are up about 6.6 percent through May. Other spending rose 6.1 percent driven by double-digit increases in education, refundable tax credits, the Public Health Service, Food Stamps and TANIF.

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