

U.S. DEPARTMENT OF THE TREASURY

Press Center



Joint Statement of Henry M. Paulson, Jr., Secretary of the Treasury, and Jim Nussle, Director of the Office of Management and Budget, on Budget Results for Fiscal Year 2008

10/14/2008

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SUMMARY

The Administration today released the September 2008 Monthly Treasury Statement of Receipts and Outlays of the United States Government [1]. The statement shows the actual budget totals for the fiscal year that ended September 30, 2008, as follows:

- A deficit of \$455 billion, or 3.2 percent of Gross Domestic Product (GDP)
- total receipts of \$2,524 billion, or 17.8 percent of GDP; and
- total outlays of \$2,979 billion, or 21.0 percent of GDP.

"This year's budget results reflect the ongoing housing correction, and the manifestations of that in strained capital markets and slower growth. We are taking aggressive actions to stabilize our financial markets and strengthen our financial institutions so they can finance economic growth. While it will take time to work through this period, we will overcome the current challenges facing our nation.

"The budget results reinforce the need to not only address short term challenges, but pursue policies that promote economic growth and fiscal responsibility, and address entitlement reform."

-Treasury Secretary Henry Paulson

"The bipartisan stimulus bill and the slow economy are the primary reasons for the increase in deficit as reflected in this year's budget results. This increase reinforces the need to adopt and maintain policies that promote economic growth and fiscal responsibility, including entitlement reform and pro-growth tax policies. I am confident the economy can return to stronger growth with a declining deficit - after working through current challenges - if Congress limits wasteful and excessive spending."

-OMB Director Jim Nussle

Table 1. TOTAL RECEIPTS, OUTLAYS AND SURPLUS/DEFICIT (-)

	Receipts	Outlays	Surplus/ Deficit (-)
FY 2007 Actual.	2,568	2,729	-162
FY 2008 Estimates:			
FY 2009 Budget.	2,521	2,931	-410
FY 2009 Mid-Session Review	2,553	2,942	-389
Actual.	2,524	2,979	-455

The FY 2008 unified deficit was \$455 billion, or an estimated 3.2 percent of GDP. The deficit was \$65 billion higher than projected in the July Mid-Session Review (MSR), because outlays were \$36 billion higher than expected and receipts were \$29 billion lower than expected. The deficit was also \$45 billion higher than projected last February in the FY 2009 Budget, with receipts coming in \$3 billion higher and outlays \$47 billion higher than projected.

Overall, receipts in FY 2008 were \$44 billion, or 1.7 percent, lower than in FY 2007. Receipts were reduced relative to the previous year by the tax rebates and other provisions of the Economic Stimulus Act enacted in February 2008, and by the effects of the current economic slowdown on incomes and corporate profits. Receipts fell from 18.8 percent of GDP in FY 2007 to 17.8 percent of GDP in FY 2008, after rising for the previous four years. This level of receipts is below the 40-year historical average of 18.3 percent of GDP.

Outlays for FY 2008 grew by \$249 billion, or 9.1 percent, from FY 2007. The increase was driven by growth in defense outlays, payments of the portion of stimulus tax rebates that was recorded as outlays, and payments by the Federal Deposit Insurance Corporation to resolve

recent bank failures. Outlays were also boosted by increases in unemployment, Food Stamp, and Medicaid benefits due to slower economic growth. In addition, the growth rate was influenced by proceeds for spectrum auctions recorded in FY 2007, which held down FY 2007 outlays relative to FY 2008. Overall, outlays increased as a percent of GDP from 20.0 percent in FY 2007 to 21.0 percent in FY 2008. This spending level is above the 40-year historical average of 20.6 percent.

At \$455 billion, the deficit for FY 2008 was \$293 billion higher than the deficit for FY 2007. The deficit increased to 3.2 percent of GDP, up from 1.2 percent of GDP for FY 2007. As a percentage of GDP, the FY 2008 deficit was the largest since the deficit of 3.6 percent of GDP in FY 2004, but below the peak postwar deficit in FY 1983 (6.0 percent).

Borrowing from the public increased by \$768 billion during FY 2008, to \$5,801 billion or 40.8 percent of GDP. In addition to the \$455 billion needed to finance the deficit, the increase included \$300 billion in debt issued through Treasury's new Supplementary Financing Program (SFP). Under the SFP, Treasury issues short-term debt and deposits the cash proceeds with the Federal Reserve for use by the Federal Reserve in its actions to stabilize the financial markets. Although debt held by the public as a percentage of GDP increased from 36.9 percent at the end of FY 2007, it remains below the levels of the 1990s, when debt held by the public averaged 46.1 percent of GDP.

RECEIPTS

Total receipts for FY 2008 were \$2,524 billion, \$29 billion lower than the MSR estimate of \$2,553 billion. Lower-than-expected collections of individual income taxes and corporation income taxes accounted for most of the net decrease in receipts relative to the MSR. Table 2 displays actual receipts and estimates from the MSR by source.

- **Individual income taxes** were \$1,146 billion, \$23 billion lower than the MSR estimate. Lower-than-estimated withheld tax payments accounted for \$16 billion of the shortfall in individual income tax receipts relative to the MSR. Lower-than-anticipated growth in total wages and salaries and a different distribution of that growth among taxpayers, relative to what was assumed in the MSR, contributed to most of the shortfall in withheld tax payments. An accounting adjustment based on more recent data, which reallocated \$1 billion less than had been expected in withheld tax payments from the Social Security and Medicare Trust Funds to individual income taxes, also contributed to the shortfall in withheld tax payments. Lower-than-estimated non-withheld payments reduced individual income taxes an additional \$7 billion below the MSR estimate. Lower-than-anticipated growth in non-wage sources of income such as capital gains and dividends contributed to this shortfall in non-withheld payments.
- **Corporation income taxes** were \$304 billion, \$5 billion lower than the MSR estimate. Lower-than-estimated corporate tax payments of \$4 billion and higher-than-estimated refunds of \$1 billion were responsible for the shortfall in collections relative to the MSR. The ability of corporations affected by Hurricanes Gustav and Ike to delay estimated tax payments otherwise due on September 15th until January 2009 accounted for \$2 billion of the shortfall in corporate tax payments. Lower-than-expected corporate profits accounted for the remaining \$2 billion shortfall in corporate tax payments.
- **Social insurance and retirement receipts** were \$900 billion, \$1 billion lower than the MSR estimate. A \$2 billion shortfall in State deposits to the unemployment insurance trust fund was partially offset by a \$1 billion increase in Social Security and Medicare receipts, relative to the MSR. The increase in Social Security and Medicare receipts was attributable to the lower-than-expected reallocation of withheld tax payments from the Social Security and Medicare Trust Funds to individual income taxes, as described above. Lower-than-expected State tax rates and taxable wages, relative to what was assumed in the MSR, contributed to the shortfall in State deposits to the unemployment insurance trust fund.
- **Excise taxes** were \$67 billion, \$1 billion lower than the MSR estimate. This decline was in large part attributable to lower-than-expected demand for taxed goods, especially transportation.
- **Other sources of receipts** (customs duties, estate and gift taxes, and miscellaneous receipts) were \$106 billion, \$1 billion higher than the MSR estimate. This was the net effect of lower-than-expected customs duties and deposits of earnings by the Federal Reserve System, which was more than offset by higher-than-expected estate and gift taxes and other miscellaneous receipts (gifts, contributions, fines and penalties).

OUTLAYS

Total outlays were \$2,979 billion for FY 2008, which was \$36 billion above the MSR estimate. Outlays for many agencies were below MSR estimates, including differences of \$2 billion or more in the Departments of Agriculture, Health and Human Services, Labor, and Transportation as well as Other Defense Civil Programs. These lower-than-expected outlays were more than offset by significantly higher-than-expected outlays in the Departments of Defense and the Treasury (interest on inflation-adjusted securities), along with the Federal Deposit Insurance Corporation. Table 3 displays actual outlays by agency and major program as well as estimates from the Budget and the MSR. The largest changes in outlays from the MSR were in the following areas:

- **Department of Agriculture** – FY 2008 outlays for the Department of Agriculture (USDA) were \$91 billion, \$2.6 billion below the MSR estimate. USDA's actual outlays for its commodity and disaster payments were \$1.4 billion lower than projected in the MSR. Programs funded through the Commodity Credit Corporation were \$0.6 billion lower due to higher commodity prices and fewer requests from producers for advanced Direct Payments for the 2008 crop year. Outlays for advanced Direct Payments were lower than anticipated potentially due to several factors, including late enactment of the farm bill and producers' choices to defer payments until FY 2009. Finally, delays in making crop disaster quality loss payments reduced FY 2008 outlays by an additional \$0.5 billion. These outlays are expected to occur in FY 2009 rather than FY 2008.
- **Department of Defense** – Outlays for the Department of Defense (DOD) were \$595 billion, exceeding the MSR estimate by \$12.5 billion. The increase over the MSR was primarily due to outlays for operations and maintenance, which were \$20.5 billion above the MSR estimate. In the MSR, bridge funding provided by Congress for war-related operations and maintenance was assumed to have a "normal" outlay rate for supplemental appropriations, which turned out ultimately to be too low. The fact that the bridge funding for the war was available early in the fiscal year (mid-November 2007) meant that DOD did not have to use appropriations for its base activities to support the war and could spend base funding for its non-war operational needs, thus increasing total outlays. Partially offsetting the increased outlays for operations and maintenance, outlays for DOD procurement were \$11.7 billion lower than the MSR estimated, primarily because of lower-than-anticipated outlays for the Mine Resistant Ambush Protected Vehicles Program.
- **Department of Education** – Outlays for the Department of Education were \$66 billion in FY 2008, \$1.7 billion below the MSR estimate. These differences were due to three factors. First, while the MSR assumed higher outlays compared to FY 2007 in the Student Financial Assistance account, due to projections of a significant increase in the number of Pell Grant recipients, the actual increase in Pell recipients and costs was lower than anticipated. Second, the MSR estimates failed to reflect an increase in Direct Student Loan volume in the 2008-2009 academic year, resulting in a reduction in net outlays since this program has a negative subsidy. Finally, the value of the on-budget Federal Student Loan Reserve Fund increased more than anticipated. While in prior years the Department of Education did not update the reserve fund valuation estimates, the Department instituted this practice in FY 2008 and will continue it in future years.
- **Department of Health and Human Services** – The Department of Health and Human Services (HHS) had FY 2008 outlays of \$701 billion, \$5.9 billion less than the MSR estimate. Medicare gross outlays in FY 2008 were \$461 billion, about \$1.3 billion (0.3 percent) less than MSR estimates. Part A expenditures finished FY 2008 about \$1.0 billion above MSR estimates due to slightly higher than projected spending for skilled nursing facility and hospice services. Part D spending finished FY 2008 about \$2.5 billion

lower than projected in the MSR. Medicaid outlays were \$201 billion, \$3.5 billion or 1.7 percent below the MSR estimate, due to an unanticipated slowdown in State Medicaid spending over the second half of FY 2008. The HHS actuaries will have a better understanding of the factors contributing to this difference when the final year-end expenditure data are available in about six months.

- **Department of Homeland Security** – Outlays for the Department of Homeland Security were \$41 billion in FY 2008, \$1.2 billion more than the MSR estimate. The difference was attributable primarily to faster-than-expected outlays in the aviation security account in the Transportation Security Administration, which spent \$1.0 billion more than projected in the MSR.
- **Department of Housing and Urban Development** – Outlays for the Department of Housing and Urban Development were \$49 billion in FY 2008, \$1.4 billion below the MSR estimate. Slower-than-expected outlays of Community Development Block Grant disaster supplemental funds accounted for \$1.0 billion of the \$1.4 billion difference. These disaster funds were obligated to the Gulf Coast States after the 2005 hurricanes, but the States did not expend the funds as quickly as projected. The remaining difference in outlays was mainly due to slower spending in the Tenant-Based Rental Assistance and Housing Certificate Fund accounts.
- **Department of the Interior** – Outlays for the Department of Interior were \$9.9 billion, or \$1.0 billion less than the MSR estimate. The main driver was outlays for the Bureau of Reclamation, which were \$0.6 billion less than estimated due to slower-than-expected spending of prior year appropriations. Fish and Wildlife Service outlays were \$0.3 billion below estimates for several reasons, including slower obligations for operations (due to project delays as a result of hurricanes and flooding), and grant programs. In addition, land acquisition programs had difficulty finding willing sellers. The net reduction in outlays also reflected an increase in proprietary offsetting receipts of \$0.2 billion (3.6 percent) over the MSR estimates, primarily due to greater onshore oil and gas receipts.
- **Department of Labor** – FY 2008 outlays for the Department of Labor were \$59 billion, \$2.2 billion below the MSR estimate. The major contributors to this difference were the Unemployment Trust Fund and the Pension Benefit Guaranty Corporation. Actual outlays for the Unemployment Trust Fund were \$0.9 billion (2 percent) below the MSR, largely because of lower-than-projected outlays for the Emergency Unemployment Compensation program that was enacted in late June. Actual outlays for the Pension Benefit Guaranty Corporation were \$0.7 billion (34 percent) below the MSR, largely because of a change in accounting guidance that requires PBGC and other agencies to no longer mark holdings of zero coupon bonds to market each month.
- **Department of State** – Outlays for the Department of State were \$18 billion in FY 2008, \$1.6 billion below the MSR estimate. Outlays for Administration of Foreign Affairs were \$1.0 billion below the MSR estimate, primarily due to slower-than-expected spending on capital construction projects and higher-than-expected receipts in the Department's Working Capital Fund. In addition, outlays for International Organizations and Conferences were \$0.6 billion lower than the MSR estimate because bills from the United Nations for international peacekeeping missions were still in process at the end of the fiscal year.
- **Department of Transportation** – Outlays for the Department of Transportation were \$65 billion in FY 2008, \$2.7 billion below the MSR estimate. The decrease was due to slower-than-anticipated obligation and spending of funds for transit formula grants, surface transportation safety bureaus, and Federal Aviation Administration capital investments.
- **Department of the Treasury** – Actual outlays for the Department of the Treasury were \$549 billion, \$12.2 billion higher than the MSR estimate. Interest on the public debt, which includes interest paid to government accounts as well as interest paid to the public, was \$451 billion, \$10.1 billion higher than the MSR estimate. Of this \$10.1 billion difference, \$9.7 billion was due to the increase in interest paid to the public on inflation-indexed Treasury securities resulting from faster-than-expected inflation in the Consumer Price Index, and \$0.5 billion related to higher interest paid to trust funds and other government accounts, such as Federal retirement funds. Higher-than-projected interest paid to credit financing accounts (\$0.7 billion) and lower-than-anticipated offsetting receipts of interest from credit financing accounts (\$1.8 billion) added to the higher-than-estimated Treasury outlays. Finally, the portion of Treasury's outlays for the Economic Stimulus Act of 2008 that was attributed to child tax credits (\$2.3 billion) was lower than anticipated, but recovery rebates were higher than projected (\$1.3 billion), resulting in a net decrease of \$1.0 billion in projected outlays.
- **Department of Veterans Affairs** – Outlays for the Department of Veterans Affairs were \$85 billion, \$1.0 billion lower than estimated in the MSR. This difference results primarily from lower-than-anticipated outlays for veterans' benefits and for departmental administration. Within veterans' benefits, compensation and pension payments were \$0.2 billion less than anticipated. In addition, spending on readjustment benefits was \$0.2 billion less than anticipated. Within departmental administration, spending on major construction lagged \$0.2 billion behind the MSR estimate.
- **Army Corps of Engineers** – Actual outlays for the Army Corps of Engineers were \$5.1 billion, \$1.5 billion lower than the MSR estimate. A number of factors contributed to this discrepancy, including: overly optimistic assumptions about the spending of supplemental funds; an extensive storm season that slowed down a number of project operations; and higher-than-expected reimbursements, also due to storm-related reimbursable activity. The two accounts with the greatest difference between the estimates and year-end actuals were the Construction and the Operation and Maintenance accounts. Actual outlays for the Construction account were \$0.7 billion below the MSR estimate and actual outlays for the Operation and Maintenance account were \$0.4 billion below the MSR estimate, both due to higher-than-expected reimbursements. Outlays for the Flood Control and Coastal Emergencies account were \$0.2 billion lower than the MSR estimate.
- **Other Defense Civil Programs** – Actual outlays for Other Defense Civil programs were \$46 billion, \$3.2 billion below the MSR estimate. This was almost entirely the result of \$3.1 billion in higher-than-anticipated interest earnings for the DOD Medicare-eligible retiree health care fund.
- **International Assistance Programs** – Outlays for International Assistance Programs were \$11 billion in FY 2008, \$1.0 billion below the MSR estimate. Within this amount, outlays for the Foreign Military Sales program were \$1.4 billion lower than the MSR estimate due to lower-than-expected disbursements from the Foreign Military Sales Trust Fund for the purchase of military equipment and services. These lower outlays were offset by a net increase of \$0.4 billion above the MSR resulting from higher-than-estimated outlays in a number of other foreign assistance accounts.
- **Federal Deposit Insurance Corporation** – The Federal Deposit Insurance Corporation (FDIC) had actual outlays of \$18 billion, \$15.2 billion higher than the MSR estimate. Subsequent to the preparation of the MSR estimates, the FDIC made deposit insurance claim payments related to the failures of IndyMac Bank and other smaller depository institutions. Almost \$11 billion of the increase was attributable to insurance losses and \$4 billion was attributable to higher-than-expected working capital needed to resolve the bank failures.
- **National Credit Union Administration** – The National Credit Union Administration (NCUA) had actual outlays of \$1.0 billion, \$1.3 billion higher than the MSR estimate. The additional outlays resulted primarily from the unexpected use of the NCUA Central Liquidity Facility (CLF) by Natural Person Credit Unions (NPCU), which are non-corporate member credit unions. Loan disbursements from the CLF are recorded on a cash basis due to the program's statutory exemption from the Federal Credit Reform Act. The MSR did not estimate that the CLF would be used. During September, however, NPCUs applied for loans from the facility and as of September 30, 2008, the CLF had \$1.1 billion in short-term loans outstanding. These loans are expected to be repaid in FY 2009. The NCUA also experienced about \$0.2 billion in insurance losses and related resolution expenses in FY 2008 in addition to what was forecast in the MSR.
- **Railroad Retirement Board** – FY 2008 outlays for the Railroad Retirement Board (RRB) of \$9 billion were \$2.9 billion higher than estimated in the MSR. This was the result of market losses on non-Federal securities held by RRB. The Railroad Retirement and Survivors Improvement Act of 2001 permitted assets of Tier II of the Railroad Retirement program to be invested in private equities. Net returns for FY 2008 on non-Federal securities, including unrealized gains and losses, were \$2.9 billion lower than estimated in the MSR.
- **Undistributed Offsetting Receipts** – Undistributed offsetting receipts were \$278 billion in FY 2008, \$16.8 billion below the MSR estimate. Offsetting receipts are deducted from gross outlays in calculating net outlays; therefore, reductions in these receipts increase outlays and the deficit. Proceeds from spectrum auctions related to the digital television transition were \$15.1 billion less than estimated in the MSR. While total auction bids exceeded expectations, these bids are not recorded as receipts until license applications are approved and licenses are issued. The MSR assumed that licenses accounting for the bulk of the auction revenue would be issued in FY 2008, but only \$1.8 billion of licenses were actually issued by the end of the fiscal year. The remaining licenses will be issued in FY 2009, at which point these offsetting receipts will be recognized, lowering net outlays and the deficit. Interest received by on- and off-budget trust funds was \$2.9 billion lower than the MSR estimate, due primarily to lower-than-estimated interest earnings for the Civil Service Retirement and Disability Fund. Partially offsetting these lower receipts, employee contributions to the military retirement fund account were \$1.6 billion above the MSR estimate. The actual collections exceeded the MSR estimate because the MSR underestimated contributions due to mobilized reservists.

[1] The September 2008 Monthly Treasury Statement of Receipts and Outlays of the United States Government containing these results can be found on the Financial Management Service website at www.fms.treas.gov/mts.

REPORTS

- [Table II](#) 
- [Table III](#) 