ORAL TESTIMONY OF
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DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
COMMITTEE ON THE BUDGET,
UNITED STATES SENATE

February 4, 1998

Mr. Chairman, Members of the Committee, thank you for inviting me here today to discuss the President's proposed $1.7 trillion budget for fiscal 1999, the first balanced budget in 30 years.

I have a longer written statement that I would like to submit for the record. At this time, I would like to make brief oral remarks, and then I would be delighted to answer any questions that you have.

Mr. Chairman, the "Era of Big Government" Is, Indeed, Over.

Working with Congress, this Administration has made remarkable progress. We have brought the deficit down from a record $290 billion in 1992 to just $22 billion in 1997. This budget would finish the job by reaching balance in 1999 -- three years ahead of schedule -- and generate balanced budgets far into the future. In fact, although we project a deficit of $10 billion in 1998, if we maintain the fiscal discipline we have exercised for the last five years, we may very well reach balance this year.

As I would like to show you, by virtually any measure that you choose, the "era of big government" is truly over:

- As you see on the chart, we will save a total of $4 trillion by 2003 -- through a combination of the previous deficit-reduction steps that we've taken and the President's 1999 budget.

- Just through 1999, as the next chart shows, our cumulative savings will total $1.6 trillion.

- The Administration has cut the civilian Federal workforce by over 316,000 employees, giving us the smallest workforce in 35 years and, as a share of total civilian employment, the smallest since 1931. In this budget, the size of the workforce declines by 13,000 employees.

- The President's budget would not only reach balance, it would reach balance the right way. It proposes spending that equals 20 percent of the Gross Domestic Product, or GDP, the smallest budget as a share of GDP in 25 years.

- As the next chart shows, discretionary spending as a percentage of GDP is at a historically low level.

- As the next chart shows, non-defense discretionary spending as a percentage of GDP also is at a historically low level.

- We have reached balance by both cutting outlays and increasing revenues. Revenues have increased through strong economic growth and changes in the tax law in 1993. Revenue has increased even though the 1993 and 1997 budget legislation cut taxes for millions of Americans.

- As the next chart shows, the total deficit reduction that we have accomplished since 1993 has come 52 percent from spending, and 48 percent from revenues.

This budget continues the President's record of proposing budgets each year that are smaller, as a share of GDP, than <u>any</u> budget enacted during the previous two Administrations.

Now, in reaching balance, let me tell you what we did <u>not</u> do. We did not balance the budget on the backs of middle-income families.

- As the next chart shows:

  -- the income tax burden on a median-income family of four has fallen significantly since 1984, the year when the Reagan tax cuts became fully effective, from an effective tax rate of 10.3 percent to 7.5 percent, and

  -- the combined Federal income and payroll tax burden on individuals also has fallen, from 17.0 percent to 15.1 percent. For families of four at one-half of median income, the 1984 income tax rate of 6.5 percent has been totally eliminated.

Balancing the Budget is Enormously Important.

As we have said, total deficits through 2003 will be lower by about $4 trillion -- that is, $4 trillion of debt that we will not incur; $4 trillion of debt that we will not leave to our children and grandchildren.

- In fact, as the next chart shows, because we have reduced the deficit so dramatically over the last five years, we have added comparatively little to the total national debt -- compared to at least the last two Administrations.

In 1999, for the fifth straight year, we will reduce the ratio of debt held by the public to GDP, a ratio that almost doubled between 1981 and 1993. This lower ratio means lower Federal net interest costs in the future which, in turn, will mean that more of our Federal dollars can go to productive investments, rather than to financing the debt that earlier Administrations had incurred.

- As the next chart shows, we now expect that debt held by the public, which was projected to reach 75 percent of GDP in 2003, will fall to just 35 percent.

Of course, the ultimate test of whether government is growing or shrinking is to look where the growth is in the economy.

- As the next chart shows, the private sector has grown faster, and the public sector has shrunk much more, under this Administration than under the previous two.

The Budget Continues the President's Record of Investing in the Future.

From the start, the President recognized that deficit reduction alone would not suffice. He understood that we also needed to invest in the American people and to open foreign markets to trade.

Thus, the President's budget continues his efforts to help working families with their basic needs — raising their children, sending them to college, and paying for health care. The budget invests in education and training, the environment, science and technology, law enforcement, and other priorities to raise the standard of living and the quality of life of average Americans, both now and in the future.

Families and children: For five years, the President has sought to help working families balance the demands of work and family, and he now proposes a major effort to make child care more affordable, accessible, and safe. His Child Care Initiative provides tax breaks to help families pay for care; tax incentives to help businesses create or expand child care facilities; direct subsidies for over two million poor or near-poor children; increased funding for before- and after-school programs; and funds to help States enforce safety and quality, to train child care staff, to promote early childhood development, and to improve the health of young children in child care. Also, the President proposes tax incentives to encourage small businesses to create pension plans for more workers.

Health care: The President has worked hard to expand health care coverage and improve the Nation's health. The budget gives new insurance options to hundreds of thousands of Americans aged 55 to 65 and proposes new initiatives to ensure that as many uninsured children as possible are covered. In addition, it provides for unprecedented investments in biomedical research at the National Institutes of Health; advocates bipartisan national legislation that would reduce tobacco use among the young; expands access to new AIDS therapies through the Ryan White program; enables more Medicare recipients to receive promising cancer treatments by participating more easily in "clinical trials"; expands substance abuse prevention and treatment activities; and enhances food safety. The budget also funds full participation in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), which will provide benefits to 7.5 million people by the end of 1999.

Education and training: The President has worked to enhance access to, and the quality of, education and training, and the budget takes the next step — helping States and school districts to reduce class size by recruiting and preparing thousands more teachers and building thousands more classrooms, and creating new Education Opportunity Zones to provide needed support for high-poverty, low-achieving urban and rural districts while holding them accountable to boost student achievement. The budget also proposes to move further toward the President's commitment to put a million disadvantaged children in Head Start by 2002; begin field testing voluntary national tests; mobilize and train reading tutors for children; help parents, teachers, and communities create more charter schools that are free of most State regulations; integrate technology into the classroom as we connect every classroom to the Internet; enable more Americans to serve their communities and earn money for college; expand college work-study to a million students; make it easier for parents and students to borrow and repay college loans; raise the maximum Pell Grant college scholarship to its highest level ever; expand assistance to workers dislocated as a result of global trade and technological change; increase G.I. bill educational benefits for veterans; and expand resources for veterans who lose their jobs.

The environment: The Administration, which helped engineer the global agreement in Kyoto to address climate change, proposes to launch the U.S. effort with tax incentives and spending that will spur energy efficiency and help develop low-carbon emission energy sources. The proposal includes incentives for buying new, highly fuel-efficient cars; for investing in energy-saving equipment for commercial and residential buildings; for commuting by public transit or vanpool; and for developing innovative energy generation techniques, such as biomass, wind, and photovoltaics. The budget also would restore and rehabilitate national parks, forests, and public lands and facilities; expand efforts to restore and protect the water quality of rivers and lakes; continue efforts to double the pace of Superfund clean-ups; extend the "Brownfields" initiative to promote local cleanup and redevelopment; better protect endangered species; continue to restore Florida's Everglades and California's Bay-Delta and protect Yellowstone National Park and California's Headwaters Forest; improve the roads through national parks; and expand the public's access to information about environmental conditions in their neighborhoods.

Research: The President has sought to tap the full potential of our boundless future by investing heavily in basic and applied research. Along with increasing funds for biomedical research at the National Institutes of Health, the budget would promote science and engineering research at the National Science Foundation; support space-related activities that enhance our knowledge of Earth; invest in Federal-private ventures to more quickly develop cutting-edge technologies that create jobs; strengthen university-based research; invest in environmental research on safe food and clean air and water; expand support for energy efficiency and renewable energy programs; enable Americans to travel more safely, more quickly, and more efficiently; and put commercial industry's technical know-how and economies of scale to work for national defense.

The Budget Creates Three New Funds for America.

Challenging times demand innovative solutions, and this budget meets the challenge by proposing three new investment funds for America -- for research, the environment, and transportation -- that will focus attention on these critical priorities. Together, the funds provide

$75.5 billion, a $4.7 billion increase over the 1998 level for the programs they contain. Because the funds rely on budget offsets to help finance the spending, they, in effect, apply pay-as-you-go principles to discretionary spending.

The funds are:

- The Research Fund for America, which includes a broad range of investments in knowledge, including programs of the National Institutes of Health, the Centers for Disease Control and Prevention, the National Science Foundation, the National Aeronautics and Space Administration, the Energy Department, the Commerce Department's National Institute of Standards and Technology, Agriculture Department research programs, the multi-agency Climate Change Technology Initiative, and other programs. The budget finances this Fund, in part, through receipts from tobacco legislation and savings in mandatory programs.

- The Environmental Resources Fund for America, which encompasses the multi-agency Clean Water Initiative; the new Land, Water, and Facility Restoration Initiative of the Interior and Agriculture Departments; the Agriculture Department's water and wastewater program for rural communities; and the Environmental Protection Agency's programs for cleaning up hazardous waste sites (within the Superfund) and upgrading clean water and safe drinking water infrastructure. The budget finances the Fund, in part, through an extension of Federal taxes that support the Superfund.

- The Transportation Fund for America, which includes the Transportation Department's highway, highway safety, and transit programs; the Flight 2000 free flight demonstration program; and the Federal Aviation Administration's programs, including Airport Grants. The budget finances the Fund, in part, through a new Federal aviation user fee.

All of our Investments are Fully Paid For.

The President's budget continues the fiscal discipline that we have exercised for the last five years by fully paying for all of our investments. For every additional dollar that the President proposes to invest in health care, in education and training, and in other priorities, he proposes to offset the cost.

In that way, the President's budget is consistent with the Budget Enforcement Act, with its pay-as-you-go rules for mandatory spending and tax cuts and its yearly "caps" on discretionary spending. It is also consistent with last year's Balanced Budget Act. In fact, the budget deviates from the BBA in only one respect -- it reaches balance three years ahead of schedule, in 1999.

On behalf of the President, I would ask that as we move ahead, let us continue to abide by the discipline that has proven so successful. Let us agree that we will not pursue tax cuts or new spending unless the proposals meet a simple test -- they do not add a dime to the deficit or subtract a dime from the surplus.

And speaking of the surplus...

The President Believes that We Should "Save Social Security First."

As you know, Mr. Chairman, prospects for a budget surplus are spurring a wide array of ideas about how to use it. At this point, the Government has not yet reached the surplus milestone, and the President believes strongly that "we should not spend a surplus that we don't yet have."

More specifically, he believes the Administration and Congress should not spend a budget surplus for any purpose until we have a solution to the long-term financing challenge facing Social Security. With that in mind, the budget proposes a reserve for the projected surpluses for the years 1999 and beyond.

A Balanced Budget and a Strong Economy Go Hand-in-Hand.

When the President announced his 1993 economic plan, long-term interest rates fell. After Congress enacted the plan, rates remained low. Those lower rates spurred a chain reaction of lower financing costs, more business and personal investment, more rapid productivity growth, and new job creation.

That cycle has sustained itself over time. Interest rates have fallen further and investment has continued to grow at unprecedented rates.

- As the next chart shows, in inflation-adjusted terms, business equipment investment has grown at over 11 percent a year under this Administration — almost three times faster than under President Reagan, and six times faster than under President Bush.

With this boom in investment serving as its foundation, the economy has created over 14 million new jobs in the last five years, 93 percent of them in the private sector. The economy as a whole has grown at a 3.0 percent annual rate, while the private sector of the economy has grown at an even faster 3.7 percent a year — far faster than the growth under the two preceding Administrations. The Federal Government's share of the economy has actually shrunk by 2.6 percent a year.

- As the next chart shows, the current economic expansion is the third longest in our history and the second longest in our peacetime history.

At the end of this year, the Administration, and the overwhelming majority of economic forecasters, expect the expansion to become the second longest, behind only the war-related growth of the 1960s.

Unlike earlier expansions, the current expansion is not fueled by deficit spending. Quite the contrary, the economy has been expanding at the same time that the deficit has been shrinking as a percentage of GDP.

- In this way, as the next chart shows, the current expansion is unique among the four longest post-war expansions.

The unemployment rate in November hit 4.6 percent — the lowest figure since 1973. Core consumer price inflation in 1997 was at its lowest level since the mid-1960s.

- And, as the next chart shows, the "misery index" — the combined rates of inflation and unemployment — is at its lowest level in 30 years.

Clearly, our efforts to reduce the deficit and, by 1999, balance the budget have served us well. The President believes strongly that we should continue to exercise budget discipline as we move ahead.

* * *

Mr. Chairman, this concludes my oral remarks. I would be delighted to answer any questions that you have.

Change in Baseline Deficits Since Pre-OBRA

(in billions of dollars)

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	1993	1994	1995	1996	1997	1998	1994-98
Pre-OBRA '93 Baseline*........	309.7	305.3	301.8	298.0	347.1	387.7	1,639.9
Changes due to:							
Enacted Legislation and Policy Changes:							
OBRA '93........	0.1	-46.8	-82.7	-100.6	-128.9	-145.8	-504.8
BBA '97 and TRA '97........	---	---	---	---	1.3	17.0	18.3
Other Legislation/policy changes........	5.6	10.7	8.0	-4.1	-8.3	5.0	11.3
Subtotal, Legislation........	5.7	-36.1	-74.7	-104.7	-135.9	-123.8	-475.1
Economic assumptions:							
Receipts........	4.2	-3.5	-12.9	-15.1	-30.1	-60.8	-122.4
Outlays:							
Net interest........	-2.0	-7.5	5.6	1.7	-2.9	-12.9	-15.9
Other........	-0.3	-1.8	-9.7	-9.5	-12.3	-17.5	-50.8
Subtotal, Outlays........	-2.3	-9.3	-4.1	-7.9	-15.1	-30.4	-66.7
Subtotal, Economics........	1.9	-12.8	-16.9	-23.0	-45.2	-91.2	-189.2
Technical Reestimates:							
Receipts........	-8.6	-11.7	-10.7	-34.1	-94.1	-163.3	-314.0
Outlays:							
Deposit insurance........	-30.8	-15.2	-16.5	4.7	-3.6	2.8	-27.8
Other........	-22.0	-25.5	-22.4	-33.4	-46.4	-81.4	-209.1
Subtotal, Outlays........	-52.8	-40.7	-38.9	-28.8	-49.9	-78.6	-237.0
Subtotal, Technicals........	-62.3	-53.3	-46.3	-62.9	-144.0	-241.9	-548.5
Total Changes........	-54.7	-102.2	-137.9	-190.6	-325.1	-456.9	$\boxed{-1,212.8}$
FY 2000 Budget Actual........	255.0	203.1	163.9	107.5	21.9	-69.2	427.2
Memorandum- Composition of OBRA Savings							
Receipts........	-0.1	-27.4	-46.9	-54.3	-62.8	-58.6	-250.1
Outlays........	0.1	-19.4	-35.8	-46.3	-66.1	-87.2	-254.7
Total........	0.1	-46.8	-82.7	-100.6	-128.9	-145.8	-504.8

* NOTE: Pre-OBRA Baseline used "Bush-Adjusted" Defense levels & Current Services Nondefense.

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JOINT STATEMENT OF
ROBERT E. RUBIN,
SECRETARY OF THE TREASURY,
AND
JACOB J. LEW,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET,
ON
BUDGET RESULTS FOR FISCAL YEAR 1998

SUMMARY

The Administration is today releasing the September Monthly Treasury Statement of Receipts and Outlays of the United States Government. The statement shows the actual financial totals for the fiscal year that ended September 30, 1998, as follows:

-- a surplus of $70.0 billion;

-- total receipts of $1,721.4 billion; and

-- total outlays of $1,651.4 billion.

NOTE: Detail may not add to totals or changes due to rounding.

(MORE)

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*U.S. Government Printing Office: 1998 - 619-559

Table 1. TOTAL RECEIPTS, OUTLAYS AND DEFICIT/SURPLUS
(in billions of dollars)

	Receipts	Outlays	Deficit(-)/ Surplus
1997 Actual	1,579.0	1,600.9	-22.0
1998:			
February Budget Estimate	1,657.9	1,667.8	-10.0
Mid-Session Review Estimate	1,703.8	1,664.7	39.1
Actual	1,721.4	1,651.4	70.0

SURPLUS

The actual FY 1998 surplus is $70.0 billion, or 0.8 percent of GDP. This is the first surplus since 1969, and the largest as a percentage of GDP since 1956. In dollar terms, it is the largest ever. The surplus marks the sixth consecutive year of improvement in the Federal budget balance since the deficit peaked at $290.4 billion, or 4.7 percent of GDP, in FY 1992. Since FY 1992, thanks to strong and continuing economic growth and Federal Government downsizing and spending control, outlays have grown at an average rate of only 3.0 percent per year, less than half the average of 7.3 percent per year over the preceding 12 years, while receipts have advanced at a rate of 7.9 percent per year, faster than the 6.4 percent average of 1980 through 1992, resulting in steady reductions in the deficit and the realization of a surplus. Because of this progress in eliminating the budget deficit, the debt held by the public has been reduced for the first time in 29 years. As a share of the economy, the debt held by the public has declined for five consecutive fiscal years, and is now below its 1991 level.

The change from the MSR surplus estimate reflects:

-- a $13.3 billion decrease in outlays; and

-- a $17.6 billion increase in receipts.

OUTLAYS

Total outlays were $1,651.4 billion, $13.3 billion lower than the MSR estimate, continuing the spending restraint and slower outlay growth that have occurred since the beginning of this Administration. The major outlay changes since the MSR are described below. Table 2 displays actual outlays and estimates from the February Budget and the MSR by agency and major program.

Department of Agriculture. Actual outlays for the Department of Agriculture were $54.0 billion, $0.9 billion below the MSR estimate. The major differences were in the following areas:

- Food Stamp outlays were $1.2 billion lower than the MSR estimate due primarily to larger-than-projected declines in the Food Stamp caseload resulting in part from the strong economy.

- Commodity Credit Corporation (CCC) outlays were $0.8 billion higher than the MSR estimate, reflecting the difficulties in parts of the agriculture sector this year. Almost $0.5 billion was paid to farmers in loan deficiency payments due to market prices being below the CCC marketing loan rate, which was not assumed in the MSR. In addition, many farmers delayed repaying their previous year's loans, and over $0.2 billion more in marketing loans were disbursed to farmers for their 1998 crops than forecasted.

- The increase in CCC outlays was partially offset by lower-than-forecasted expenditures for the Conservation Reserve and Export Enhancement Programs, the working capital fund, and other programs.

Department of Defense - Military. Actual outlays for the Department of Defense - Military were $256.1 billion, $2.8 billion above the MSR estimate. The difference was due to higher-than-expected outlays for procurement, particularly by the Air Force.

Department of Education. Actual outlays for the Department of Education were only $0.3 billion below the MSR estimate. However, a $1.3 billion increase in outlays for the Office of Elementary and Secondary Education was more than offset by a $1.3 billion decrease in the Office of Post Secondary Education outlays and a $0.2 billion decrease in outlays for other education programs. The Office of Elementary and Secondary Education experienced a higher rate of grant disbursements than estimated in the MSR. The decrease in the Office of Post Secondary Education was due to receiving fewer Pell Grant applications and receiving greater FFEL offsetting collections than anticipated.

Department of Health and Human Services. Actual outlays for the Department of Health and Human Services were $350.6 billion, $7.0 billion below the MSR estimate. The major differences were in the following areas:

- Outlays for the Medicare program were $213.6 billion, $4.7 billion below the MSR estimate. The MSR overestimated hospital outlays, specifically payments for inpatient services. In addition, a portion of the difference was due to a temporary slowdown in home health expenditures due to billing and computer systems changes required by the Balanced Budget Act of 1997.

- Outlays for the Temporary Assistance for Needy Families (TANF) and related programs were $15.5 billion, $1.7 billion below MSR estimates. The difference was due primarily to slower-than-anticipated outlays during implementation of the new TANF law and larger-than-projected declines in state welfare caseloads due to the strong economy.

Department of the Interior. Actual outlays for the Department of the Interior were $7.2 billion, $0.7 billion below the MSR estimate. Outlays for the Bureau of Reclamation and land acquisition through the Land and Water Conservation Fund were less than projected, in part because the Congress did not release all of the funds appropriated for FY 1998.

Department of Justice. Actual outlays for the Department of Justice were $16.1 billion, $0.7 billion above the MSR estimate. As a result of a Departmental initiative to obligate grant dollars more quickly, outlays for the Crime Reduction Trust Fund were higher than previously experienced.

Department of Labor. Actual outlays for the Department of Labor were $30.0 billion, $0.6 billion below the MSR estimate. Nearly half of the net shortfall was due to lower-than-anticipated claims activity in the unemployment insurance program. About another 30 percent was due to slower spending under grants to States and local areas for helping dislocated workers and disadvantaged youth and adults train for or find jobs.

Department of State. Actual outlays for the Department of State were $4.6 billion, $0.7 billion below the MSR estimate. Outlays for payments to international organizations were $0.2 billion lower than expected due to the failure to enact authorizing legislation for United Nations arrearage payments and to an end-of-year reprogramming notification. Outlays for diplomatic and consular programs were $0.2 billion lower than expected primarily due to improved collection and settlement of prior year receivables from other government agencies. Other outlay shortfalls were primarily due to an accounting adjustment for foreign buildings programs.

Department of Transportation. Actual outlays for the Department of Transportation were $39.5 billion, $1.0 billion below the MSR estimate. Outlays for the Federal Highway Administration were $20.4 billion, $1.1 billion below the MSR estimate, largely because projects were delayed during the lapse in authorization for the highway program.

Department of the Treasury. Actual outlays for the Department of the Treasury were $390.1 billion, $1.3 billion above the MSR estimate. Interest on the public debt, which includes interest paid to the other government accounts as well as interest paid to the public, was $363.8 billion, $1.4 billion above the MSR estimate. This difference was due primarily to interest paid to trust funds, which was $1.2 billion higher than the MSR estimates because of higher trust fund balances and slightly higher interest rates than were assumed in the MSR. Higher interest paid to trust funds is offset by higher interest received by trust funds, so this difference does not affect total outlays. Interest paid to the public was $0.2 billion above the MSR estimate due to slightly higher interest rates, partly offset by the impact of the higher surplus.

Department of Veterans Affairs. Actual outlays for the Department of Veterans Affairs were $41.8 billion, $1.3 billion below the MSR estimate. Veterans Health Administration outlays were $0.6 billion less than anticipated, because higher-than-expected medical insurance collections were retained for future obligations. Outlays for all other Veterans programs were $0.7 billion below the MSR estimate due to a lower-than-anticipated number of claims for veterans disability compensation and lower-than-expected mortality in the National Service Life Insurance programs.

Federal Emergency Management Agency. Actual outlays for the Federal Emergency Management Agency were $2.1 billion, $1.1 billion below the MSR estimate. This difference reflected lower-than-estimated flood insurance claims, slower disbursements for the repair and restoration of public facilities damaged in disasters, and higher-than-projected cancellations and reductions in previously approved disaster assistance.

Federal Communications Commission. Actual outlays for the Federal Communications Commission were $0.1 billion below the MSR estimate. However, this difference represented a $1.6 billion decrease in outlays for the Universal Service Fund (USF) and a $1.5 billion increase in subsidies for spectrum auction sales. The decrease in USF outlays resulted from a delay in the disbursement of the fund for schools and libraries and a reduction in available funds, because contributions to the USF were $0.5 billion lower than anticipated. The increase in spectrum auction subsidy outlays reflected higher-than-projected subsidy rates and modifications of loan terms.

United States Postal Service. Actual net outlays for the United States Postal Service were $0.3 billion, $1.3 billion below the MSR estimate. Outlays forecast for several major programs did not occur as planned, contributing to a $1.7 billion reduction in operating disbursements. In addition, estimated capital outlays of $0.5 billion did not occur in FY 1998. These outlay shortfalls were partly offset by a $0.9 billion shortfall in receipts due to a delay in implementing new postage rates.

Undistributed offsetting receipts. Offsetting receipts are deducted from gross outlays in calculating net outlays; therefore, increases in these figures reduce the surplus and vice-versa. The major differences were in the following areas:

- Interest received by on-budget trust funds was $67.2 billion, $1.2 billion higher than the MSR estimate. As indicated in the paragraph above on the Department of the Treasury, this difference is offset by higher interest paid on the public debt by Treasury and does not affect total outlays.

- Spectrum auction receipts were $2.6 billion, $0.5 billion lower than the MSR estimate. Auctions expected to generate $0.3 billion in receipts were rescheduled from FY 1998 to FY 1999. The remaining $0.2 billion difference was due to the fact that proceeds from numerous auctions were different than anticipated.

RECEIPTS

Actual FY 1998 receipts were $1,721.4 billion, $17.6 billion higher than the MSR estimate. This larger-than-expected improvement in receipts follows on similar results over the preceding four years, in which the economy outperformed the Administration's forecasts. Table 3 displays actual receipts as well as estimates from the budget and MSR by source.

Changes in Receipts by Source

- Individual income taxes were $828.6 billion, $18.1 billion higher than the MSR estimate of $810.5 billion. Most of the difference is attributable to higher-than-estimated withholding of $6.6 billion, higher-than-estimated non-withheld payments of $5.3 billion and lower-than-estimated refunds of $2.7 billion. Higher-than-anticipated net adjustments into individual income taxes from the social security trust funds account for the remaining increase relative to the MSR estimate.

- Corporation income taxes were $188.7 billion, $1.0 billion higher than the MSR estimate. Higher-than-anticipated payments from corporations, offset in part by higher-than-anticipated refunds paid to corporations, account for the increase in this source of receipts.

- Social insurance and retirement receipts were $3.5 billion lower than the MSR estimate of $575.4 billion. Higher-than-anticipated net adjustments into individual income taxes from the social security trust funds, higher-than-anticipated refunds of social security taxes and lower-than-estimated unemployment insurance receipts account for most of the net decrease in this source of receipts relative to the MSR estimate.

- Excise taxes were $2.0 billion higher than the MSR estimate. Most of this amount appears to be associated with taxpayers not taking full advantage of a Taxpayer Relief Act of 1997 deposit rule change, which shifted the due date for the deposit of certain Highway Trust Fund taxes, otherwise due after July 31, 1998 and before October 1, 1998, to October 5, 1998.

- Miscellaneous receipts were $32.3 billion, $1.3 billion lower than the MSR estimate of $33.6 billion. Lower-than-anticipated deposits of earnings by the Federal Reserve

System, reflecting lower-than-expected asset values on securities denominated in foreign currencies, reduced miscellaneous receipts $0.5 billion relative to the MSR. Lower-than-anticipated contributions to the Universal Service Fund of $0.5 billion account for most of the remaining net decrease in this source of receipts.

- Other receipts, which include estate and gift taxes and customs duties, were $42.4 billion, $1.4 billion higher than the MSR estimate. Estate and gift taxes were $1.0 billion higher than the MSR estimate, reflecting higher-than-anticipated numbers and values of taxable estates. Customs duties were $0.4 billion above the MSR estimate, in large part because of higher-than-anticipated taxable activity.

Table 2.--1998 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1997 Actual	1998 Estimate Budget	1998 Estimate Mid-Session	1998 Actual	Change, 1998 Actual from: Budget	Change, 1998 Actual from: Mid-Session
Legislative Branch	2,362	2,855	2,879	2,543	-312	-336
The Judiciary	3,259	3,719	3,719	3,463	-256	-256
Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation	7,256	8,566	9,323	10,143	1,577	820
Other	160	20	43	278	258	235
Risk Management Agency (Federal Crop Insurance Corporation)	1,026	1,397	1,397	1,274	-123	-123
Foreign Agricultural Service	456	665	665	591	-74	-74
Food and Nutrition Service:						
Food stamps	22,857	22,416	21,370	20,141	-2,275	-1,229
Other	12,555	13,142	13,142	12,833	-309	-309
Forest Service	3,209	3,526	3,572	3,399	-127	-173
Other	5,029	5,283	5,324	5,289	6	-35
Subtotal, Agriculture	52,549	55,015	54,836	53,950	-1,065	-886
Commerce	3,780	4,065	4,065	4,047	-18	-18
Defense-Military	258,330	251,385	253,360	256,136	4,751	2,776
Education:						
Office of Elementary and Secondary Education	9,619	9,371	9,371	10,685	1,314	1,314
Office of Postsecondary Education	12,260	12,285	12,285	10,957	-1,328	-1,328
Other	8,134	9,091	9,091	8,850	-241	-241
Subtotal, Education	30,014	30,747	30,747	30,492	-255	-255
Energy:						
Atomic energy defense activities	11,276	11,521	11,521	11,181	-340	-340
Other	3,194	2,845	3,053	3,263	418	210
Subtotal, Energy	14,470	14,366	14,574	14,444	78	-130
Health and Human Services:						
Medicare (gross outlays)	210,437	218,807	218,275	213,569	-5,238	-4,706
Medicaid	95,552	100,960	101,260	101,234	274	-26
Public Health Service	21,755	24,232	23,935	23,670	-562	-265
Temporary assistance for needy families, family support payments to States, and JOBS	15,516	18,330	17,168	15,503	-2,827	-1,665
Other Administration for Children and Families	15,833	16,816	16,816	17,087	271	271
Other	-19,552	-20,039	-19,923	-20,501	-462	-578
Subtotal, Health and Human Services	339,541	359,106	357,531	350,563	-8,543	-6,968

Table 2.--1998 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1997 Actual	1998 Estimate Budget	1998 Estimate Mid-Session	1998 Actual	Change, 1998 Actual from: Budget	Change, 1998 Actual from: Mid-Session
Housing and Urban Development:						
Community development grants	4,517	4,969	4,589	4,621	-368	32
Other	23,008	25,961	25,588	25,604	-357	16
Subtotal, Housing and Urban Development	27,525	30,950	30,177	30,224	-726	47
Interior	6,722	7,937	7,969	7,234	-703	-735
Justice	14,315	15,474	15,474	16,129	655	655
Labor:						
Training and employment services	4,432	4,990	4,818	4,644	-346	-174
Unemployment trust fund	24,299	24,744	23,685	23,408	-1,336	-277
Pension Benefit Guaranty Corporation	-1,197	-1,286	-1,286	-1,218	68	68
Other	2,926	3,677	3,345	3,169	-508	-176
Subtotal, Labor	30,461	32,125	30,562	30,002	-2,123	-560
State	5,245	5,261	5,261	4,585	-676	-676
Transportation:						
Federal Highway Administration	20,798	21,992	21,452	20,350	-1,642	-1,102
Federal Transit Administration	4,581	4,150	4,150	4,297	147	147
Federal Aviation Administration	8,815	8,979	9,235	9,242	263	7
Other	5,641	5,344	5,582	5,579	235	-3
Subtotal, Transportation	39,835	40,465	40,419	39,468	-997	-951
Treasury:						
Exchange Stabilization Fund	-1,007	-1,378	-1,178	-1,236	142	-58
Interest on the public debt	355,796	362,120	362,409	363,824	1,704	1,415
IRS:						
Earned income tax credit	21,856	22,295	23,341	23,239	944	-102
Other	9,530	10,001	10,001	9,914	-87	-87
Other	-6,830	-5,816	-5,812	-5,641	175	171
Subtotal, Treasury	379,345	387,222	388,761	390,100	2,878	1,339

Table 2.--1998 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1997 Actual	1998 Estimate Budget	1998 Estimate Mid-Session	1998 Actual	Change, 1998 Actual from: Budget	Change, 1998 Actual from: Mid-Session
Department of Veterans Affairs:						
Veterans Health Administration	17,052	18,174	18,174	17,615	-559	-559
Other	22,226	24,900	24,900	24,160	-740	-740
Subtotal, Department of Veterans Affairs	39,277	43,074	43,074	41,776	-1,298	-1,298
Corps of Engineers	3,599	4,064	4,168	3,833	-231	-335
Other defense civil programs	30,282	31,494	31,494	31,215	-279	-279
Environmental Protection Agency	6,167	6,440	6,440	6,300	-140	-140
Executive Office of the President	219	240	240	213	-27	-27
Federal Emergency Management Agency	3,326	3,698	3,246	2,101	-1,597	-1,145
General Services Administration	1,083	944	944	1,136	192	192
International Assistance Programs:						
International Security Assistance:						
Foreign Military Financing	2,960	3,213	3,213	3,118	-95	-95
Economic Support Fund	2,226	2,421	2,421	2,462	41	41
Other	-783	-603	-593	-630	-27	-37
Agency for International Development	2,814	2,618	2,618	2,457	-161	-161
Multilateral assistance	2,141	1,858	1,858	1,850	-8	-8
Military sales programs	-107	-43	-43	-163	-120	-120
International monetary programs	787	24	24	-151	-175	-175
Other	91	121	121	58	-63	-63
Subtotal, International Assistance Programs	10,128	9,609	9,619	9,000	-609	-619
National Aeronautics and Space Administration	14,358	13,729	13,723	14,206	477	483
National Science Foundation	3,131	3,165	3,165	3,188	23	23
Office of Personnel Management	45,404	46,418	46,418	46,307	-111	-111
Small Business Administration	334	-62	-62	-78	-16	-16
Social Security Administration:						
Old age and survivors insurance (off-budget)	318,569	330,865	329,812	329,769	-1,096	-43
Disability insurance (off-budget)	48,701	50,644	49,658	49,459	-1,185	-199
Supplemental security income program	28,717	29,781	29,512	29,747	-34	235
Other:						
On-budget	6,221	8,860	8,805	8,388	-472	-417
Off-budget	-8,898	-9,670	-9,615	-9,160	510	455
Subtotal, Social Security Administration	393,309	410,480	408,172	408,202	-2,278	30
Other independent agencies:						
Major deposit insurance agencies:						
Federal Deposit Insurance Corporation:						
Bank insurance fund	-4,025	-1,684	-1,051	-1,219	465	-168
Savings association insurance fund	-4,554	-327	-327	-448	-121	-121

Table 2.--1998 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1997 Actual	1998 Estimate Budget	1998 Estimate Mid-Session	1998 Actual	Change, 1998 Actual from: Budget	Change, 1998 Actual from: Mid-Session
FSLIC resolution fund (including RTC)	-5,803	-2,335	-2,325	-2,484	-149	-159
Other FDIC	0	—	—	29	29	29
Subtotal, Federal Deposit Insurance Corporation	-14,181	-4,346	-3,703	-4,122	224	-419
National Credit Union Administration	-169	-186	-186	-212	-26	-26
Subtotal, major deposit insurance agencies	-14,350	-4,532	-3,889	-4,334	198	-445
District of Columbia	704	811	811	768	-43	-43
Export-Import Bank	-114	-34	-34	-208	-174	-174
Federal Communications Commission:						
Universal service fund	1,001	3,336	3,336	1,769	-1,567	-1,567
Spectrum auction subsidies	940	3,295	3,295	4,769	1,474	1,474
Other	-13	-15	-15	0	15	15
Subtotal, Federal Communications Commission	1,927	6,616	6,616	6,538	-78	-78
Postal Service:						
On-budget	126	86	86	86	0	0
Off-budget	-49	1,721	1,467	217	-1,504	-1,250
Subtotal, Postal Service	77	1,807	1,553	303	-1,504	-1,250
Railroad Retirement Board	4,870	4,923	4,923	4,837	-86	-86
Securities and Exchange Commission	-20	-62	-62	-231	-169	-169
Tennessee Valley Authority	-337	-839	-839	-784	55	55
U.S. Enrichment Corporation	-102	7	7	-46	-53	-53
Other (net)	4,857	5,300	5,309	4,797	-503	-512
Subtotal, other independent agencies	-2,469	13,997	14,395	11,639	-2,358	-2,756
Undistributed offsetting receipts:						
Employer share, employee retirement (on-budget)	-27,773	-27,908	-27,907	-27,819	89	88
Employer share, employee retirement (off-budget)	-6,483	-7,155	-7,054	-7,052	103	2
Interest received by on-budget trust funds	-63,776	-65,951	-66,057	-67,208	-1,257	-1,151
Interest received by off-budget trust funds	-41,214	-46,730	-46,639	-46,630	100	9
Rents and royalties on the Outer Continental Shelf lands	-4,711	-4,663	-4,987	-4,522	141	465
Sale of major assets	—	-4,424	-4,870	-5,158	-734	-288
Spectrum auction receipts	-11,006	-2,216	-3,132	-2,642	-426	490
Other	-6	-1,120	—	-3	1,117	-3
Subtotal, undistributed offsetting receipts	-154,970	-160,167	-160,646	-161,035	-868	-389
Total, Outlays	1,600,911	1,667,815	1,664,724	1,651,383	-16,432	-13,341
On-budget	1,290,287	1,348,140	1,347,095	1,334,781	-13,359	-12,314
Off-budget	310,624	319,675	317,629	316,602	-3,073	-1,027
Deficit (-) / Surplus (+)	-21,957	-9,957	39,061	70,039	79,996	30,978
On-budget	-103,322	-106,273	-63,131	-29,160	77,113	33,971
Off-budget	81,365	96,316	102,192	99,198	2,882	-2,994

NOTE: Detail may not add to totals or changes due to rounding.

Table 3.–1998 BUDGET RECEIPTS BY SOURCE
(fiscal years; in millions of dollars)

Receipts by Source	1997 Actual	1998 Estimate Budget	1998 Estimate Mid-Session	1998 Actual	Change, 1998 Actual from: Budget	Change, 1998 Actual from: Mid-Session
Individual income taxes	737,466	767,768	810,516	828,597	60,829	18,081
Corporation income taxes	182,294	190,842	187,712	188,677	-2,165	965
Social insurance and retirement receipts:						
Employment and general retirement:						
On-budget	114,761	122,133	123,260	124,215	2,082	955
Off-budget	391,989	415,991	419,821	415,800	-191	-4,021
Subtotal, Employment and general retirement	506,750	538,124	543,081	540,016	1,892	-3,065
Unemployment insurance	28,202	28,922	27,941	27,484	-1,438	-457
Other retirement contributions	4,418	4,328	4,328	4,335	7	7
Subtotal, Social insurance and retirement receipts	539,371	571,374	575,350	571,835	461	-3,515
Excise taxes	56,926	55,540	55,642	57,669	2,129	2,027
Estate and gift taxes	19,845	20,436	23,091	24,076	3,640	985
Customs duties	17,927	18,363	17,879	18,297	-66	418
Miscellaneous receipts	25,127	33,535	33,595	32,270	-1,265	-1,325
Total, Receipts	1,578,955	1,657,858	1,703,785	1,721,421	63,563	17,636
On-budget	1,186,965	1,241,867	1,283,964	1,305,621	63,754	21,657
Off-budget	391,989	415,991	419,821	415,800	-191	-4,021

NOTE: Detail may not add to totals or changes due to rounding.