Appendix C

Budget Resolution Targets and Actual Outcomes: Fiscal Years 1980 Through 2000

In most years, the Congress passes a concurrent resolution that sets out its recommended budget targets for the coming fiscal year. The resolution for 2000, adopted in April 1999, anticipated a total budget surplus of $141 billion.[1] But actual spending, revenues, and the surplus for 2000 turned out to be substantially different from the levels in the budget resolution.

This appendix analyzes the differences between the resolution's targets and actual outcomes for that year.[2] In 2000, revenues were $149 billion higher than expected, owing both to economic conditions that were more favorable than originally projected and to other factors. Total outlays also ended up higher—by $54 billion—primarily because of legislative actions that differed from those assumed in the resolution. The actual surplus was $236 billion, or $95 billion more than the budget resolution anticipated.

In addition to those assessments, this appendix provides another perspective by comparing the differences between the Congress's targets and actual outcomes in 2000 with such discrepancies in the years since 1980. Fiscal year 2000 was the seventh consecutive year (excluding 1999, when the two Houses did not adopt a conference report on a budget resolution) in which actual outcomes were more favorable than targets. Deviations that occurred before 1993 were of a different character: for 13 years in a row, the actual deficit was greater than the resolution's estimate. Over that period, the difference between targets and actual deficits ranged from less than 1 percent to more than 11 percent of actual outlays. For 2000, the difference between the assumed and actual surplus represented 5.3 percent of total outlays.

Elements of the Analysis

The budget resolution is a concurrent resolution adopted by both Houses of Congress that sets out a Congressional budget plan over five or more fiscal years. The plan consists of targets for spending, revenues, the deficit or surplus, and public debt. It is not presented to the President and does not become law. Instead, it is implemented through subsequent legislation, including appropriation acts and changes in laws that affect revenues and direct spending. (Sometimes, those revenue and direct spending changes may be made in response to reconciliation instructions that are included in the resolution.) In general, the targets established in the budget resolution are enforced through procedural mechanisms set out in the Congressional Budget and Impoundment Control Act of 1974.

For this analysis, the differences between the levels specified in the budget resolution and actual outcomes are allocated among three categories: pol-

1. By law, the revenues and outlays of the Social Security trust funds are off-budget and are not included in the revenue, outlay, and deficit or surplus totals in the budget resolution. For the purposes of this analysis, however, the Congressional Budget Office's (CBO's) totals include both on- and off-budget amounts.

2. In contrast to the analysis in Chapter 5, in which actual results are compared with CBO's projections, this assessment compares actual outcomes with the Congress's blueprint for the budget. Consequently, total discrepancies and the discrepancies attributed to policy, economic, and technical factors may be measured differently here than in the analysis in that chapter.

icy, economic, and technical. Although those categories help to explain the discrepancies, the divisions are both inexact and necessarily arbitrary.

Differences between targets and outcomes that are ascribed to policy changes derive from legislation. They reflect the passage of laws that were not explicitly anticipated in the resolution or that cost (or saved) more money than the resolution assumed. (An example of legislation that by definition is hard to anticipate is aid to victims of natural disasters.) Policy differences can also reflect lawmakers' failure to enact legislation that the resolution expected would be passed. In identifying differences arising from policy changes, the Congressional Budget Office (CBO) typically uses the cost estimates it made at the time the legislation was enacted. (To the extent that the budgetary effects of the policy change turn out differently than CBO estimated, those effects are implicitly characterized as technical.)

A key element in preparing the budget resolution is forecasting how the economy will perform in the upcoming year. Typically, the Congress draws the economic assumptions for its resolution from the most recent forecast published by CBO. In 1982 and most years between 1988 and 1992, however, it chose to use a different forecast (generally, the Administration's, published by the Office of Management and Budget).

The forecast for the budget resolution is usually made more than nine months before the fiscal year begins. Forecasting the economy is always an uncertain business, and almost invariably, the economy's actual performance differs from the forecast. Nevertheless, every resolution is based on the forecast's assumptions about numerous economic variables—mainly, gross domestic product (GDP), taxable income, unemployment, inflation, and interest rates—in the national income and product accounts (NIPAs).[3] Those assumptions are used to estimate revenues, spending for benefit programs, and net interest. In CBO's analysis, only differences that can be directly linked to NIPA variables are labeled economic. Other differences that might be tied to economic performance, such as changes to estimates of capital gains realizations or labor force participation, are categorized as technical.

In analyzing the deviation between budget resolution targets and outcomes, CBO cumulates differences that arise from changes in the economic forecast since the time that the resolution was completed. That calculation is not subsequently adjusted, even though revisions to data about GDP and taxable income continue to trickle in over a number of years.

Technical differences between the budget resolution and outcomes are those variations that do not arise directly from legislative or economic sources as initially categorized. The largest dollar impacts of technical differences are concentrated in two areas: on the revenue side of the budget and among open-ended commitments of the government, such as entitlement programs. In the case of revenues, technical differences stem from a variety of factors, including changes in administrative tax rules, differences in sources of taxable income that are not captured by the NIPAs, and changes in the relative amounts of income taxed at the various income tax rates. In the case of entitlement programs, factors such as a change in the number of beneficiaries, changes in farm prices, or new regulations can produce technical differences.

Comparing the Budget Resolution and Actual Outcomes for Fiscal Year 2000

The budget resolution adopted the economic assumptions that CBO published in January 1999 but modified them to reflect the near-term strength of the economy that became evident after CBO had completed its forecast. In particular, the resolution boosted the expected growth of real (inflation-adjusted) GDP for 2000 from 1.7 percent to 2.0 percent.[4]

3. The NIPAs are the official U.S. accounts, maintained by the Commerce Department's Bureau of Economic Analysis, that track the level and composition of GDP and how the costs of production are distributed as income.

4. That assumption used a calendar year basis rather than a fiscal year basis. In addition, the adjustment raised the resolution's estimate of revenues slightly above CBO's projection.

Table C-1.
Comparison of Budget Resolution Targets and Actual Budget Totals, Fiscal Year 2000
(In billions of dollars)

	Budget Resolution	Actual Budget Totals	Actual Minus Resolution
Revenues	1,876	2,025	149
Outlays	1,735	1,789	54
Surplus	141	236	95

SOURCE: Congressional Budget Office using data from H. Con. Res. 68, Concurrent Resolution on the Budget for Fiscal Year 2000, adopted on April 15, 1999, and the Office of Management and Budget.

NOTES: The figures in the table include Social Security and the Postal Service, which are off-budget.

These comparisons differ from those in earlier chapters in which differences are measured relative to CBO's baseline projections.

For 2000, the resolution specified few legislative changes other than a reduction in discretionary spending.[5] It called for $571 billion in discretionary outlays—slightly below the statutory cap on such spending that was in effect at the time but $34 billion below the estimated amount needed to keep pace with inflation.

The resolution established the following targets for the year: total revenues of $1,876 billion, outlays of $1,735 billion, and a surplus of $141 billion (see Table C-1). That surplus corresponds to the resolution's assumption about the surplus in the Social Security trust funds. Ultimately, both revenues and outlays were greater than envisioned. Revenues were higher by $149 billion and outlays by $54 billion, resulting in a surplus that was $95 billion larger than expected.

Differences Arising from Policy Changes

The Congress enacted policies that the budget resolution did not take into account, and by the end of fiscal year 2000, those changes increased discretionary spending by $42 billion and mandatory spending by $22 billion (see Table C-2). Including a small increase in revenues and changes to net interest, CBO estimates that policy changes reduced the resolution's estimated surplus for the year by $61 billion.

Actual budget authority and outlays for discretionary programs were both higher than the budget resolution had assumed. A total of $536 billion in budget authority was proposed in the resolution ($290 billion for defense and $246 billion for nondefense discretionary programs), but appropriation actions provided an additional $51 billion. That boosted the actual total to about $587 billion ($301 billion for defense and $285 billion for nondefense programs). Discretionary outlays for 2000 turned out to be $617 billion ($295 billion for defense and $322 billion for nondefense), approximately $46 billion more than the resolution's target. About $42 billion of that amount can be attributed to the increase in budget authority.[6] Nearly $4 billion is attributable to technical factors.

Mandatory spending also outpaced the resolution's estimate for 2000, rising by $22 billion for policy reasons. Approximately $13 billion of that in-

5. The budget resolution envisioned total budget surpluses of $2.0 trillion over the 2000-2009 period. Of that sum, $1.9 trillion represented off-budget surpluses, generated almost entirely by the Social Security trust funds. The resolution also expected the government's on-budget accounts to be in balance from 2000 through 2003 and to record surpluses totaling $92 billion over the following six years. Incorporated in its targets were tax cuts slated to total $778 billion through 2009. It recommended beginning those cuts in 2001.

6. Roughly one-quarter of the $42 billion policy difference came from the budget resolution's unusually low outlay target for national defense. Specifically, the resolution's target of $278 billion was $7 billion below CBO's estimate of the President's budgetary request for defense outlays, although the resolution assumed the appropriation of more budget authority—not less—than the request.

crease came from legislative actions that provided additional assistance to farmers and agricultural producers. Another $4 billion resulted from eliminating the Social Security earnings test.

Differences Arising from Economic Factors

Even with the upward adjustment to real GDP growth, the economic assumptions underlying the 2000 budget resolution proved too pessimistic: differences between those assumptions and the economy's actual performance culminated in an underestimate of $79 billion in the surplus. In particular, the growth of nominal GDP for the fiscal year turned out to be about 3.5 percentage points higher than originally forecast, generating $78 billion more in revenues than anticipated.

Economic factors had little effect on outlays, however. The actual unemployment rate was lower than projected by about 1 percentage point, reducing the costs of unemployment insurance and contributing to about one-third of the $7 billion decrease in mandatory spending that resulted from the economy's strong performance. Cost-of-living adjustments for various benefit programs and indexes of prices for medical care were also lower than expected. In contrast, interest rates were higher than anticipated, leading to bigger net interest payments. Although some of those estimated payments were offset by lower debt service (stemming from the larger-than-anticipated surplus), net interest spending was still higher than the resolution's target by $6 billion. When both effects are combined, economic factors account for only $1 billion of the difference in outlays.

Differences Arising from Technical Factors

About $77 billion of the unexpected improvement in the surplus for 2000 came from higher revenues and

Table C-2.
Sources of Differences Between Budget Resolution Targets and Actual Budget Totals, Fiscal Year 2000
(In billions of dollars)

	Policy Differences	Economic Differences	Technical Differences	Total Differences
Revenues	3	78	68	149
Outlays				
Discretionary spending	42	*	4	46
Mandatory spending[a]	22	-7	-13	2
Net interest	*	6	-1	6
Total	65	-1	-10	54
Surplus	-61	79	77	95

SOURCE: Congressional Budget Office using data from H. Con. Res. 68, Concurrent Resolution on the Budget for Fiscal Year 2000, adopted on April 15, 1999, and Office of Management and Budget.

NOTES: Differences are actual outcomes minus budget resolution assumptions.

These comparisons differ from those in earlier chapters in which differences are measured relative to CBO's baseline projections.

* = between -$500 million and $500 million.

a. Includes offsetting receipts.

lower outlays that cannot be directly traced to legislative actions or economic assumptions. CBO attributes such differences to so-called technical factors. About $10 billion of the improvement resulted from lower-than-expected outlays—mostly in the Medicare program. Revenues that were higher than anticipated accounted for $68 billion in technical differences. Most of those additional revenues are attributable to unexpectedly high individual income tax receipts, stemming from growth in realizations of capital gains, unforeseen increases in the effective tax rate, and incomes that were higher than initially reported. Also, the difference between actual revenues and CBO's final projection for 2000 was characterized as technical.

Comparing Budget Resolutions and Actual Outcomes for Fiscal Years 1980 Through 2000

Budget resolution targets and actual outcomes have deviated to varying degrees in virtually every year of the past two decades. Over the 1980-1992 period, the actual deficit consistently exceeded the target in the resolution by amounts ranging from $4 billion in 1984 to $119 billion in 1990 (see Table C-3). That pattern changed in 1993, in part because spending for deposit insurance was substantially lower than expected. From 1994 through 2000, actual outcomes continued to be more favorable than the targets (with the exception of 1999, when there was no conference agreement on a budget resolution).

Differences Arising from Policy Changes

From 1980 through 2000, policy action or inaction (the failure to achieve savings called for in the budget resolution) increased the deficit or decreased the surplus by an average of $12 billion a year compared with the targets. In only four of those years did policymakers trim the deficit by more, or add to it by less, than the resolution provided. Most of the impact stemming from legislation over the period was felt on the outlay side of the budget. On average, policy decisions added about $14 billion a year to the spending totals. In fact, 1988 and 1991 were the only years in which legislative action reduced outlays below the resolution's targets. By far the biggest difference was in 2000, with added outlays of $65 billion.

Differences Arising from Economic Factors

Over the 1980-2000 period, errors in the economic forecast, on average, had very little net effect on the variations between targets and actual outcomes for deficits or surpluses. But that average masks large differences in many years—deviations that were mostly negative before 1993 and positive more recently. Until 1993, budget resolutions tended to use short-term economic assumptions that proved overly optimistic. The largest overestimates in the 1980s and early 1990s, not surprisingly, were in years marked by recession or the early stages of recovery—namely, in 1982 and 1983 and again in the 1990-1992 period. Since 1993, that pattern has largely been reversed. Short-term economic assumptions in 1993 through 2000 for the most part were overly pessimistic.

In absolute terms (disregarding whether the errors were positive or negative), the typical difference in the surplus or deficit attributable to faulty economic assumptions was about $29 billion a year over the 1980-2000 period. Regardless of the direction of the error in the forecast, differences between the resolution's assumptions and what actually happened in the economy primarily affected revenues and net interest.

Differences Arising from Technical Factors

Technical factors were responsible for differences between budget resolution targets and actual deficits or surpluses that averaged $16 billion during the past two decades. In absolute terms, however, such differences caused the resolutions' estimates to be off by $35 billion, on average. Overall, about two-thirds

Table C-3.
Sources of Differences Between Budget Resolution Targets and Actual Budget Totals, Fiscal Years 1980-2000 (In billions of dollars)

	Policy Differences	Economic Differences	Technical Differences	Total Differences	Total Differences as a Percentage of Actual
			Revenues		
1980	6	8	-4	11	2.1
1981	-4	5	-13	-11	-1.8
1982	13	-52	-1	-40	-6.5
1983	-5	-58	-3	-65	-10.8
1984	-14	4	-4	-13	-2.0
1985	*	-20	3	-17	-2.3
1986	-1	-23	-2	-27	-3.5
1987	22	-27	7	2	0.2
1988	-11	4	-17	-24	-2.6
1989	1	34	-8	26	2.6
1990	-7	-36	9	-34	-3.3
1991[a]	-1	-31	-24	-56	-5.3
1992	3	-46	-34	-78	-7.1
1993	4	-28	3	-20	-1.7
1994	-1	12	4	15	1.2
1995	*	16	1	17	1.3
1996	-1	24	12	36	2.5
1997	20	44	46	110	7.0
1998	-1	62	59	120	7.0
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	3	78	68	149	7.4
Average	1	-1	5	5	-0.9
Absolute Average[b]	6	31	16	44	3.9
			Outlays		
1980	20	12	16	48	8.1
1981	25	6	16	47	6.9
1982	1	24	8	33	4.4
1983	18	*	8	26	3.2
1984	1	7	-18	-9	-1.1
1985	23	-5	-13	5	0.5
1986	14	-12	20	22	2.2
1987	7	-12	13	8	0.8
1988	-2	12	12	22	2.1
1989	17	14	12	43	3.8
1990	13	13	59	85	6.8
1991[a]	-19	1	-22	-40	-3.0
1992	15	-21	-60	-66	-4.8
1993	16	-19	-90	-92	-6.5
1994	10	-9	-36	-35	-2.4
1995	2	17	-14	6	0.4
1996	25	-24	-29	-28	-1.8
1997	15	7	-43	-21	-1.3
1998	5	-9	-37	-41	-2.5
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	65	-1	-10	54	3.0
Average	14	*	-10	3	0.9
Absolute Average[b]	16	11	27	37	3.3

(Continued)

Table C-3.
Continued

	Policy Differences	Economic Differences	Technical Differences	Total Differences	Total Differences as a Percentage of Actual[c]
			Deficit or Surplus		
1980	-13	-4	-19	-36	-6.1
1981	-28	-1	-29	-58	-8.6
1982	12	-76	-9	-73	-9.8
1983	-22	-59	-11	-92	-11.4
1984	-15	-3	14	-4	-0.5
1985	-23	-15	16	-22	-2.3
1986	-16	-11	-22	-49	-4.9
1987	15	-15	-6	-6	-0.6
1988	-9	-8	-29	-46	-4.3
1989	-17	20	-20	-17	-1.5
1990	-20	-49	-50	-119	-9.5
1991[a]	19	-32	-2	-15	-1.1
1992	-12	-25	26	-11	-0.8
1993	-12	-9	93	72	5.1
1994	-11	21	40	50	3.4
1995	-2	-2	15	11	0.7
1996	-25	48	40	63	4.0
1997	5	37	89	131	8.2
1998	-7	71	97	160	9.7
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	-61	79	77	95	5.3
Average	-12	-2	16	2	-1.2
Absolute Average[b]	17	29	35	57	4.9

SOURCE: Congressional Budget Office.

NOTES: Differences are actual outcomes minus budget resolution assumptions.

Differences are allocated among the three categories soon after the fiscal year ends. Later changes in economic data are not reflected in those allocations.

These comparisons differ from those in earlier chapters in which differences are measured relative to CBO's baseline projections.

* = less than $500 million; n.a. = not applicable (there was no budget resolution in 1999).

a. Based on the budget summit agreement for fiscal year 1991 (as assessed by CBO in December 1990).

b. The absolute average disregards whether the differences are positive or negative.

c. In the case of the deficit or surplus, total differences are calculated as a percentage of actual outlays.

of those misestimates have been on the outlay side of the budget.

The magnitude and causes of the differences ascribed to technical factors have varied over the years. On the revenue side, misestimates were generally not very great through 1990, but revenues were significantly overestimated in 1991 and 1992, when tax collections were weaker than economic data seemed to justify. Over the past few years, revenues have been much higher than the resolutions' estimates. The individual income tax has been the locus of most of the technical error, primarily because of higher realizations of capital gains, unexpected increases in the effective tax rate, and higher-than-reported incomes. Greater realizations of capital gains most likely stemmed from upturns in the prices of stocks and in the volume of stock transactions. The unexpected rise in the effective tax rate was largely due to a disproportionately rapid increase in income among taxpayers taxed at the highest marginal rates. Also contributing to the error in estimating individual income tax receipts were underestimates of reported incomes in the NIPAs that were revised too late to be incorporated in CBO's forecasts.

Misestimates arising from technical factors show up to an even greater extent on the outlay side of the budget. Errors in estimating receipts from offshore oil leases and spending on farm price supports, defense, and entitlement programs dominated technical differences through the mid-1980s. In addition, outlays for deposit insurance developed into a major source of technical estimating errors in the early 1990s during the savings and loan crisis. By the mid-1990s, however, they became a much less significant factor. In recent years, technical differences have been spread among various programs.

Differences as a Percentage of Actual Revenues or Outlays

Because the federal budget has grown considerably since 1980, differences between the revenue and spending levels in the budget resolutions and actual outcomes over the 1980-2000 period are best compared as a percentage of total revenues or outlays. Total absolute differences for both revenues and outlays averaged between 3 percent and 4 percent of actual levels (see Table C-3). The total difference in revenues for 2000—which came to 7.4 percent of actual revenues for the year, or $149 billion—was above that average. Estimates of revenues were off by about 7 percent in 1997 and 1998 as well.

The total difference in outlays from the budget resolution target for 2000 was 3.0 percent of actual outlays—below the 3.3 percent absolute average difference for the 1980-2000 period. Differences between outlay targets and actual outcomes ranged from a high of 8.1 percent in 1980 to a low of 0.4 percent in 1995.

The size of the total difference between actual deficits or surpluses and the deficits or surpluses specified in budget resolutions depends in large part on whether the revenue and outlay differences offset each other. For years in which the errors in revenues and outlays went in opposite directions relative to the deficit or surplus, the difference dropped to as little as 0.5 percent of actual outlays. But in other years, in which the errors in both revenues and outlays raised or lowered the budget balance, the difference was as much as 11.4 percent of outlays. Indeed, from 1980 to 2000, the errors in revenues and outlays went in the same direction relative to the deficit or surplus in 11 years. In 2000, misestimates of revenues and outlays partially offset each other and thereby produced a total difference that represented 5.3 percent of actual outlays—slightly higher than the average absolute difference of 4.9 percent over the 20-year period.