Glossary

This glossary defines economic and budgetary terms as they relate to this report and for the general information of our readers. Definitions of some budgetary terms are based on the definitions in General Accounting Office, *A Glossary of Terms Used in the Federal Budget Process, Exposure Draft*, GAO/AFMD-2.1.1 (January 1993). Most entries have been revised by the Congressional Budget Office, sacrificing precision for the sake of brevity and clarity to the lay reader. Where appropriate, sources of data for economic variables are indicated as follows:

- BEA denotes the Bureau of Economic Analysis in the Department of Commerce;
- BLS denotes the Bureau of Labor Statistics in the Department of Labor;
- CBO denotes the Congressional Budget Office;
- FRB denotes the Federal Reserve Board; and
- NBER denotes the National Bureau of Economic Research (a private entity that engages in economic research and, by convention, identifies peaks and troughs of business cycles).

accrual accounting: A system of accounting in which revenues are recorded when earned and outlays are recorded when goods are received or services performed, even though the actual receipt of revenues and payment for goods or services may occur, in whole or in part, at a different time. Compare with **cash accounting**.

adjusted gross income (AGI): All income subject to taxation under the individual income tax after subtracting "above-the-line" deductions, such as certain contributions for individual retirement accounts and alimony payments. Personal exemptions and the standard or itemized deductions are subtracted from AGI to determine taxable income.

advance appropriation: Budget authority provided in an appropriation act that is first available for obligation in a fiscal year after the one for which the appropriation act is enacted. The amount of budget authority is included in the budget totals for the fiscal year in which it will become available. See **appropriation act**, **budget authority**, and **fiscal year**; compare with **forward funding** and **obligation delay**.

aggregate demand: Total purchases of a country's output of goods and services by consumers, businesses, government, and foreigners during a given period. (BEA) Compare with **domestic demand**.

AGI: See **adjusted gross income**.

alternative minimum tax (AMT): A tax intended to prevent higher-income taxpayers from excessively reducing their tax liability through the use of preferences in the tax code. Under the AMT, taxpayers are required to recalculate their tax liability on the basis of a more limited set of exemptions, deductions, and tax credits than would normally apply.

appropriation act: Legislation under the jurisdiction of the House and Senate Committees on Appropriations that provides budget authority for federal programs or agencies. By law, such an act has a particular style and title—for example, "An act making appropriations for the Department of Defense for the year ending September 30, 2001." Generally, 13 regular appropriation acts are considered annually to fund the operations of the federal government; the Congress may also consider supplemental or continuing appropriations acts, but each follows the statutory style and title. See **budget authority**.

authorization act: Legislation under the jurisdiction of a committee *other than* the House and Senate Committees on Appropriations that establishes or continues the operation of a federal program or agency indefinitely or for a specified period of time. An authorization act may suggest a level of budget authority needed to fund the program or agency, which must then be provided in a future appropriation act. However, for some programs, the authorization itself may provide the budget authority. See **budget authority.**

Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177): Referred to in this report as the Deficit Control Act, it was originally known as Gramm-Rudman-Hollings. The law established specific deficit targets and a sequestration procedure to reduce spending if those targets were exceeded. The Deficit Control Act has been amended and extended several times—most significantly by the Budget Enforcement Act of 1990 and most recently by the Balanced Budget Act of 1997. See **discretionary spending limits**, **pay-as-you-go**, and **sequestration**.

baseline: A benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending. Generally, the baseline is an estimate of spending, revenues, surplus or deficit, and public debt projected during a fiscal year under current laws and policy. For purposes of the Deficit Control Act, the baseline is the projection of current-year levels of new budget authority, outlays, revenues, and the surplus or deficit into the budget year and outyears based on laws enacted through the applicable date, calculated in conformance with the rules set forth in section 257 of that act. See **fiscal year**, **direct spending**, **discretionary spending**, and **revenues**.

basis point: One-hundredth of a percentage point. (For example, the difference between interest rates of 10.5 percent and 10.0 percent is 50 basis points.)

***Blue Chip* consensus forecast:** The average of about 50 economic forecasts compiled and published monthly by Aspen Publishers, Inc.

book depreciation: See **depreciation**.

book profits: Profits calculated using book (or tax) depreciation and standard accounting conventions for inventories. Different from economic profits, book profits are referred to as "profits before tax" in the national income and product accounts. See **depreciation**, **economic profits**, and **national income and product accounts**.

budget authority: Authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds. Budget authority may be provided in an appropriation act or authorization act and may take the form of authority to obligate offsetting collections or receipts. Offsetting collections and receipts are classified as negative budget authority. See **appropriation act**, **authorization act**, **offsetting collections**, **offsetting receipts**, and **outlays**.

budget function: One of 20 broad categories into which budgetary resources are grouped so that all budget authority, outlays, and tax expenditures can be presented according to the interests being addressed. There are 17 broad functions, including national defense, international affairs, energy, agriculture, health, income security, and general government. Three other functions—net interest, allowances, and undistributed offsetting receipts—are included to complete the budget. See **net interest** and **offsetting receipts**.

budget resolution: A concurrent resolution, adopted by both Houses of Congress, that sets forth a Congressional budget plan for the budget year and at least four outyears. The plan consists of spending and revenue targets with which subsequent appropriation acts and authorization acts that affect revenues and direct spending are expected to comply. The targets established in the budget resolution are enforced in each House of Congress through procedural mechanisms set out in law and the rules of each House. See **appropriation act**, **authorization act**, **direct spending**, **fiscal year**, and **revenues**.

budget year: See **fiscal year**.

budgetary resources: All sources of authority provided to federal agencies permitting them to incur financial obligations, including new budget authority, unobligated balances, direct spending authority, and obligation limitations. See **budget authority**, **direct spending**, **obligation limitation**, and **unobligated balances**.

business cycle: Fluctuations in overall business activity accompanied by swings in the unemployment rate, interest rates, and corporate profits. Over a business cycle, real activity rises to a peak (its highest level during the cycle), then falls until it reaches its trough (its lowest level following the peak), whereupon it starts to rise again, defining a new cycle. Business cycles are irregular, varying in frequency, magnitude, and duration. (NBER)

business fixed investment: Spending by businesses on structures, equipment, and software. Such investment is labeled “fixed” to distinguish it from investment in inventories.

capacity utilization rate: The seasonally adjusted output of the nation's factories, mines, and electric and gas utilities expressed as a percentage of their capacity to produce output. The capacity of a facility is the greatest output it can maintain with a normal work pattern. (FRB)

capital: *Physical capital* is the stock of products set aside to support future production and consumption. In the national income and product accounts, *private capital* consists of business inventories, producers’ durable equipment, and residential and nonresidential structures. *Financial capital* is funds raised by governments, individuals, or businesses by incurring liabilities such as bonds, mortgages, or stock certificates. *Human capital* is the education, training, work experience, and other attributes that enhance the ability of the labor force to produce goods and services. *Bank capital* is the sum advanced and put at risk by the owners of a bank; it represents the first “cushion” in the event of loss, thereby decreasing the willingness of the owners to take risks in lending. See **consumption** and **national income and product accounts**.

capital input: A measure of the flow of services available for production from the stock of capital goods. Growth in the capital input differs from growth in the capital stock because it accounts for the fact that different types of capital goods (such as equipment, structures, inventories, and land) have different levels of productivity.

cash accounting: A system of accounting in which revenues are recorded when actually received and outlays are recorded when payment is made. Compare with **accrual accounting**.

central bank: A government-established agency responsible for conducting monetary policy and overseeing credit conditions. The Federal Reserve System fulfills those functions in the United States. See **Federal Reserve System** and **monetary policy**.

civilian unemployment rate: Unemployment as a percentage of the civilian labor force—that is, the labor force excluding armed forces personnel. (BLS) See **unemployment**.

compensation: All income due to employees for their work during a given period. In addition to wages, salaries, bonuses, and stock options, compensation includes fringe benefits and the employer's share of contributions to social insurance programs, such as Social Security. (BEA)

consumer confidence: An index of consumers' attitudes and buying plans. One such index is constructed by the University of Michigan Survey Research Center on the basis of surveys of consumers' views about the state of the economy and their personal finances, both current and future.

consumer price index (CPI): A measure of the change in the cost of living, commonly used to measure inflation. The Bureau of Labor Statistics publishes the CPI-U, an index of consumer prices based on the typical market basket of goods and services consumed by all urban consumers during a base period, and the CPI-W, an index of consumer prices based on the typical market basket of goods and services consumed by urban wage earners and clerical workers during a base period. (BLS) See **inflation**.

consumption: Total purchases of goods and services during a given period. It may measure such purchases by both households and governments or only by households. In this report, consumption is the total purchases by households only. (BEA) See **personal consumption.**

contract authority: A form of budget authority that specifically permits contracts or other obligations to be entered into in advance of available funding for that purpose. Therefore, the contractual or other obligation must be funded later, usually by a subsequent appropriation act (called a liquidating appropriation). Contract authority differs from a federal agency's inherent authority to enter into contracts, which may be exercised only within the limits of available funding. See **appropriation act** and **budget authority**.

CPI: See **consumer price index**.

credit crunch: A sudden reduction in the availability of loans and other types of credit from banks and capital markets at given interest rates. The reduced availability of credit can result from many factors, including an increased perception of risk on the part of lenders, an imposition of credit controls, or a sharp restriction of the money supply. See **money supply**.

credit reform: A system of budgeting for federal credit activities that focuses on the cost of subsidies conveyed in federal credit assistance. The system was established by the Federal Credit Reform Act of 1990. See **credit subsidy**.

credit subsidy: The estimated long-term cost to the federal government of a direct loan or loan guarantee. That cost is calculated on the basis of net present value, excluding federal administrative costs and any incidental effects on revenues or outlays. For direct loans, the subsidy cost is the net present value of loan disbursements minus repayments of interest and principal, adjusted for estimated defaults, prepayments, fees, penalties, and other recoveries. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries. See **outlays**, **present value**, and **revenues**.

currency value: See **exchange rate**.

current-account balance: The net revenues that arise from a country's international sales and purchases of goods and services plus net international transfers (public or private gifts or donations) and net factor income (primarily capital income from foreign property owned by residents of that country minus capital income from domestic property owned by nonresidents). The current-account balance differs from net exports in that it includes international transfers and net factor income. (BEA) See **net exports**.

current dollar: A measure of spending or revenues in a given year that has not been adjusted for differences in prices (such as inflation) between that year and a base year. See **nominal**; compare with **real**.

current year: See **fiscal year**.

cyclical surplus: The part of the budget surplus that results from cyclical factors rather than from underlying fiscal policy. Economists divide the budget surplus into a cyclical component (which reflects the way the surplus automatically increases or decreases in booms or recessions) and the standardized-budget surplus (which is a measure of the surplus that would occur if the economy was operating at potential GDP). (CBO) See **fiscal policy**, **NAIRU**, **potential GDP**, and **surplus**; compare with **standardized-budget surplus**.

debt: Total debt issued by the federal government is referred to as *federal debt* or *gross debt*. It has two components: *debt held by the public* (federal debt held by nonfederal investors, including the Federal Reserve System) and *debt held by government accounts* (federal debt held by federal government trust funds, deposit insurance funds, and other federal accounts). *Debt subject to limit* is federal debt that is subject to a statutory limit on its issuance. The current limit applies to almost all gross debt, except a small portion of the debt issued by the Department of the Treasury and the small amount of debt issued by other federal agencies (primarily the Tennessee Valley Authority and the Postal Service). *Unavailable debt* is debt that is not available for redemption or the amount of debt that would remain outstanding even if surpluses were large enough to redeem it. Such debt includes securities that have not yet matured (and will be unavailable for repurchase) and nonmarketable securities, such as savings bonds.

debt service: Payment of scheduled interest obligations on outstanding debt. As used in this report, debt service refers to a change in interest payments resulting from a change in estimates of the surplus or deficit.

deficit: The amount by which the federal government's total outlays exceed its total revenues in a given period, typically a fiscal year. See **outlays** and **revenues**; compare with **surplus**.

Deficit Control Act: See **Balanced Budget and Emergency Deficit Control Act of 1985**.

deposit insurance: The guarantee by a federal agency that an individual depositor at a participating depository institution will receive the full amount of the deposit (up to $100,000) if the institution becomes insolvent.

depreciation: Decline in the value of a currency, financial asset, or capital good. When applied to a capital good, depreciation usually refers to loss of value because of obsolescence or wear. *Book depreciation* (also known as tax depreciation) is the depreciation that the tax code allows businesses to deduct when they calculate their taxable profits. It is typically faster than *economic depreciation*, which represents the actual decline in the value of the assets. Both measures of depreciation appear as part of the national income and product accounts. See **book profits** and **national income and product accounts**.

devaluation: The fall in the value of a currency that occurs when a government declares that its domestic currency will buy fewer units of a foreign currency. Such a policy involves government intervention to peg its currency (that is, fix its exchange rate). Many governments peg their domestic currencies to a stable currency, such as the U.S. dollar or the German mark. See **depreciation** and **exchange rate**.

direct spending: Synonymous with *mandatory spending*. Direct spending is budget authority provided in laws other than appropriation acts. For the purposes of the Deficit Control Act, it is also defined as including entitlement authority and the Food Stamp program. See **appropriation act**, **budget authority**, and **entitlement**; compare with **discretionary spending**.

discount rate: The interest rate the Federal Reserve System charges on a loan that it makes to a bank. Such loans, when allowed, enable a bank to meet its reserve requirements without reducing its loans.

discouraged workers: Jobless people who are available for work but who are not actively seeking it because they think they have poor prospects of finding a job. Discouraged workers are not counted as part of the labor force or as being unemployed. (BLS) See **labor force** and **unemployment**.

discretionary spending: Budget authority provided in appropriation acts, except that provided to fund direct spending programs. See **appropriation act**; compare with **direct spending**.

discretionary spending limits (or caps): Ceilings imposed in each fiscal year through 2002 on budget authority provided in annual appropriation acts and the outlays that flow from that budget authority. The limits are set forth in section 251 of the Deficit Control Act. Separate caps have often been imposed on specific categories—or subsets—of discretionary spending, such as defense, highways, and violent crime reduction. Each discretionary spending limit is enforced through sequestration. See **budget authority**, **discretionary spending**, **outlays**, and **sequestration**.

disposable personal income: The income that individuals receive, including transfer payments, minus the personal taxes and fees that they pay to government. (BEA) See **transfer payments**.

domestic demand: Total purchases of goods and services, regardless of origin, by U.S. consumers, businesses, and governments during a given period. Domestic demand equals gross domestic product minus net exports. (BEA) See **gross domestic product** and **net exports**; compare with **aggregate demand**.

ECI: See **employment cost index**.

economic profits: Profits of corporations, adjusted to remove the distortions in depreciation allowances caused by tax rules and to exclude capital gains on inventories. Economic profits are a better measure of profits from current production than are the book profits reported by corporations. (BEA) See **book profits** and **depreciation**.

effective tax rate: The ratio of taxes paid to a given tax base. For individual income taxes, the effective tax rate is typically expressed as the ratio of taxes to adjusted gross income. For corporate income taxes, it is the ratio of taxes to book profits. For some purposes—such as calculating an overall tax rate on all income sources—an effective tax rate is computed on a base that includes the untaxed portion of Social Security benefits, interest on tax-exempt bonds, and similar items. The effective tax rate is a useful measure because the tax code's various exemptions, credits, deductions, and tax rates make actual ratios of taxes to income very different from statutory tax rates. See **adjusted gross income** and **book profits**.

employment cost index (ECI): An index of the cost of an hour of labor—comprising the cost to the employer for wage or salary payments, employee benefits, and contributions for social insurance programs. The ECI is structured so that changes in the mix of occupations and employment by industry do not affect it. (BLS)

entitlement: A legal obligation on the federal government to make payments to a person, business, or unit of government that meets the criteria set in law. The Congress generally controls entitlement programs by setting eligibility criteria and benefit or payment rules—not by providing budget authority in an appropriation act. The source of funding to liquidate the obligation may be provided in either the authorization act that created the entitlement or a subsequent appropriation act. The best-known entitlements are the major benefit programs, such as Social Security and Medicare. See **appropriation act**, **authorization act**, **budget authority**, and **direct spending**.

European Monetary Union (EMU): A currency union consisting of most of the members of the European Union, who in January 1999 aligned their monetary policies under a European Central Bank and adopted a common currency, the euro.

excess cash: The term used in previous CBO publications to describe the portion of the surplus that is greater than that necessary to redeem debt. The term has been superceded by *uncommitted funds*. See **debt** and **uncommitted funds**.

exchange rate: The number of units of a foreign currency that can be bought with one unit of the domestic currency. (FRB)

excise tax: A tax levied on the purchase of a specific type of good or service, such as tobacco products or telephone services.

expansion: A phase of the business cycle that extends from a trough to the next peak. (NBER) See **business cycle** and **recovery**; compare with **recession**.

expenditure account: An account established within federal funds and trust funds to record appropriations, obligations, and outlays usually financed from the associated receipt account. See **federal funds**, **receipt account**, and **trust funds**.

federal funds: Part of the budgeting and accounting structure of the federal government. Federal funds are all funds that make up the federal budget except those classified by law as trust funds. Federal funds include several types of funds, one of which is the general fund. See **general fund**; compare with **trust funds**.

federal funds rate: The interest rate that financial institutions charge for overnight loans from their monetary reserves. A rise in the federal funds rate (compared with other short-term interest rates) suggests a tightening of monetary policy, whereas a fall suggests an easing. (FRB) See **monetary policy**.

Federal Open Market Committee: The group within the Federal Reserve System that determines the direction of monetary policy. The open market desk at the Federal Reserve Bank of New York implements that policy with open market operations—the purchase or sale of government securities—which influence short-term interest rates and the growth of the money supply. The committee is composed of 12 members, including the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and a rotating group of four of the other 11 presidents of the regional Federal Reserve Banks. See **Federal Reserve System**, **monetary policy**, **money supply**, and **short-term interest rates**.

Federal Reserve System: The central bank of the United States. The Federal Reserve is responsible for conducting the nation's monetary policy and overseeing credit conditions. See **central bank** and **monetary policy**.

financing account: A nonbudgetary account associated with a credit program that holds balances, receives credit subsidy payments from the program account, and includes all cash flows resulting from obligations or commitments made under the program since October 1, 1991. The transactions reflected in the financing account are considered a means of financing. See **credit subsidy, means of financing**, and **program account**; compare with **liquidating account**.

fiscal policy: The government's choice of tax and spending programs, which influences the amount and maturity of government debt as well as the level, composition, and distribution of national output and income. An "easy" fiscal policy stimulates the short-term growth of output and income, whereas a "tight" fiscal policy restrains their growth. Movements in the standardized-budget surplus constitute one overall indicator of the tightness or ease of federal fiscal policy; an increase relative to potential gross domestic product suggests fiscal ease, whereas a decrease suggests fiscal restriction. The President and the Congress jointly determine federal fiscal policy. See **debt**, **national income**, **potential GDP**, and **standardized-budget surplus**.

fiscal year: A yearly accounting period. The federal government's fiscal year begins October 1 and ends September 30. Fiscal years are designated by the calendar years in which they end—for example, fiscal year 2002 will begin October 1, 2001, and end September 30, 2002. The *budget year* is the fiscal year for which the budget is being considered. In relation to a session of Congress, it is the fiscal year that starts on October 1 of the calendar year in which that session of Congress begins. The *current year* is the fiscal year immediately preceding the budget year. An *outyear* is a fiscal year following the budget year.

forward funding: The provision of budget authority that becomes available for obligation sometime after the first day of a fiscal year and remains available for obligation into the following fiscal year. For example, budget authority may be made available from July 1 of one fiscal year to September 30 of the next fiscal year. Such provision is often made to finance ongoing grant programs. See **budget authority**, **fiscal year**, and **obligation delay**; compare with **advance appropriation**.

GDI: See **gross domestic income**.

GDP: See **gross domestic product**.

GDP gap: The difference between potential and actual real GDP, expressed as a percentage of potential real GDP. See **potential GDP** and **real**.

GDP price index: A summary measure of the prices of all of the goods and services that make up gross domestic product. The change in the GDP price index is used as a measure of inflation in the overall economy. See **gross domestic product** and **inflation**.

general fund: A classification of federal funds whose receipt account is credited with federal revenues and offsetting receipts not earmarked by law for a specific purpose, and whose expenditure accounts record amounts provided in appropriation acts or other laws for the general support of the federal government. See **expenditure account**, **federal funds**, and **receipt account**; compare with **trust funds**.

GNP: See **gross national product**.

government-sponsored enterprises (GSEs): Financial institutions established and chartered by the federal government, as privately owned and operated entities, to facilitate the flow of funds to selected lending markets, such as those for residential mortgages and agricultural credit. Although they are classified as private entities for purposes of the federal budget (and thus their transactions are not included in the budget totals), GSEs retain a relationship with the federal government that confers certain advantages on them that would not be available to similar private entities that were not federally sponsored. Major examples of GSEs are the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Banks.

Government Performance Results Act of 1993 (Public Law 103-62): The law that requires federal agencies to create a framework and develop the information that will lead to more effective planning, budgeting, program evaluation, and fiscal accountability for federal programs. The law's intent is to hold agencies accountable for achieving program results and to improve budget formulation and Congressional decisionmaking. In furtherance of those objectives, agencies must submit performance plans that clearly state performance goals and indicators for each program as well as reports that evaluate actual program performance. (For more information, see the Office of Management and Budget's Web site at www.whitehouse.gov/omb/mgmt-gpra/index.html.)

grants: Transfer payments from the federal government to state and local governments or other recipients to help fund projects or activities that do not involve substantial federal participation. See **transfer payments**.

grants-in-aid: Grants from the federal government to state and local governments to help provide for programs of assistance or service to the public.

gross debt: Total debt issued by the federal government. See **debt**.

gross domestic income (GDI): The sum of all income earned in the domestic production of goods and services. In theory, GDI should equal GDP, but measurement difficulties leave a statistical discrepancy. (BEA)

gross domestic product (GDP): The total market value of goods and services produced domestically during a given period. The components of GDP are consumption, gross investment, government purchases of goods and services, and net exports. (BEA) See **consumption**, **gross investment**, and **net exports**.

gross investment: A measure of additions to the capital stock that does not subtract depreciation of existing capital. See **capital** and **depreciation**.

gross national product (GNP): The total market value of goods and services produced in a given period by labor and capital supplied by residents of a country, regardless of where the labor and capital are located. GNP differs from GDP primarily by including the capital income that residents earn from investments abroad and excluding the capital income that nonresidents earn from domestic investment.

inflation: Growth in a measure of the general level of prices, usually expressed as an annual rate of change. See **consumer price index** and **GDP price index**.

infrastructure: Government-owned capital goods that provide services to the public, usually with benefits to the community at large as well as to the direct user. Examples include schools, roads, bridges, dams, harbors, and public buildings. See **capital**.

inventories: Stocks of goods held by businesses either for further processing or for sale. (BEA)

investment: *Physical investment* is the current product set aside during a given period to be used for future production—in other words, an addition to the stock of capital goods. As measured by the national income and product accounts, private domestic investment consists of investment in residential and nonresidential structures, producers' durable equipment, and the change in business inventories. *Financial investment* is the purchase of a financial security. *Investment in human capital* is spending on education, training, health services, and other activities that increase the productivity of the workforce. Investment in human capital is not treated as investment by the national income and product accounts. See **capital**, **inventories**, and **national income and product accounts**.

labor force: The number of people who have jobs or who are available for work and are actively seeking jobs. The *labor force participation rate* is the labor force as a percentage of the noninstitutional population age 16 or older. (BLS)

labor productivity: See **productivity**.

liquidating account: A budgetary account associated with certain credit programs that includes all cash flows resulting from all direct loan obligations and loan guarantee commitments made under those programs before October 1, 1991. See **credit reform**; compare with **financing account**.

liquidity: The ease with which an asset can be sold for cash. An asset is highly liquid if it comes in standard units that are traded daily in large amounts by many buyers and sellers. Among the most liquid of assets are U.S. Treasury securities.

lockbox: Any of several legislative mechanisms that attempt to isolate or "lock away" funds of the federal government for purposes such as reducing federal spending, preserving the surplus, or protecting the solvency of trust funds. See **surplus** and **trust funds**.

long-term interest rate: The interest rate earned by a note or bond that matures in 10 or more years.

mandatory spending: See **direct spending**.

marginal tax rate: The tax rate that applies to an additional dollar of income.

means of financing: Means by which a budget deficit is financed or a surplus is used. Means of financing are not included in the budget totals. The primary means of financing is borrowing from the public. In general, the cumulative amount borrowed from the public (debt held by the public) will increase if there is a deficit and decrease if there is a surplus, although other factors can affect the amount that the government must borrow. Those other factors, known as *other means of financing*, include reductions (or increases) in the government's cash balances, seigniorage, changes in outstanding checks, changes in accrued interest costs included in the budget but not yet paid, and cash flows reflected in credit financing accounts. See **debt**, **deficit**, **financing account**, **seigniorage**, and **surplus**.

means-tested programs: Programs that provide cash or services to people who meet a test of need based on income and assets. Most means-tested programs are entitlements (such as Medicaid, Food Stamps, Supplemental Security Income, family support, and veterans' pensions), but in the case of a few such programs (such as subsidized housing and various social services), budget authority for the program is provided in appropriation acts. See **appropriation act** and **entitlement**.

monetary policy: The strategy of influencing movements of the money supply and interest rates to affect output and inflation. An "easy" monetary policy suggests faster money growth and initially lower short-term interest rates in an attempt to increase aggregate demand, but it may lead to a higher rate of inflation. A "tight" monetary policy suggests slower money growth and higher interest rates in the near term in an attempt to reduce inflationary pressure by reducing aggregate demand. The Federal Reserve System conducts monetary policy in the United States. See **aggregate demand**, **Federal Reserve System**, **inflation**, and **money supply**.

money supply: Private assets that can readily be used to make transactions or are easily convertible into assets that can. It includes currency and demand deposits and may also include broader measures, such as other types of deposits and securities.

NAIRU (nonaccelerating inflation rate of unemployment): The unemployment rate consistent with a constant inflation rate. An unemployment rate higher than the NAIRU indicates downward pressure on inflation, whereas an unemployment rate lower than the NAIRU indicates upward pressure on inflation. Estimates of the NAIRU are based on the historical relationship between inflation and the unemployment rate. (CBO's procedures for estimating the NAIRU are described in Appendix B of *The Economic and Budget Outlook: An Update*, August 1994.) See **inflation** and **unemployment**.

national income: Income from all sources earned by U.S. residents, including compensation of employees (wages, salaries, and benefits), corporate profits, net interest, rental income, and proprietors' income.

national income and product accounts (NIPAs): Official U.S. accounts that track the level and composition of gross domestic product and how the costs of production are distributed as income. (BEA) See **gross domestic product**.

national saving: Total saving by all sectors of the economy: personal saving, business saving (corporate after-tax profits not paid as dividends), and government saving (the budget surplus or deficit). National saving represents all income not consumed, publicly or privately, during a given period. (BEA) See **net national saving** and **personal saving**.

net exports: Exports of goods and services produced in a country minus its imports of goods and services produced elsewhere (sometimes referred to as the trade deficit or surplus).

net indebtedness: The amount of debt held by the public minus any balance of uncommitted funds. See **debt** and **uncommitted funds**.

net interest: In the federal budget, net interest includes federal interest payments to the public as recorded in budget function 900. It also includes, as an offset, interest income received by the government on loans and cash balances.

net national saving: National saving minus depreciation of physical capital. See **capital**, **depreciation**, and **national saving**.

NIPAs: See **national income and product accounts**.

nominal: A measure based on current-dollar value. For income or spending, the nominal level is measured in current dollars. For an interest rate, the nominal rate on debt selling at par is the current-dollar interest paid in any year as a ratio to the current-dollar value of the debt when it was issued. For debt initially issued or now selling at a discount, the nominal rate includes as a payment the estimated yearly equivalent of the difference between the redemption price and the discounted price. For an exchange rate, the nominal rate is the rate at which one nominal unit of currency trades for another. See **current dollar**; compare with **real**.

obligation delay: Legislation that precludes the obligation of an amount of budget authority provided in an appropriation act or some other law until some time after the first day on which that budget authority would normally be available. For example, language in an appropriation act for fiscal year 2001 that precludes obligation of an amount until March 1 is an obligation delay; without that language, the amount would have been available for obligation on October 1, 2000, the first day of fiscal year 2001. See **appropriation act**, **fiscal year**, and **forward funding**; compare with **advance appropriation**.

obligation limitation: Legislation that reduces existing authority to incur obligations. Compare with **obligation delay**.

off-budget: Spending or revenues excluded from the budget totals by law. The revenues and outlays of the two Social Security trust funds (the Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund) and the transactions of the Postal Service are off-budget. As a result, those transactions are excluded from the totals and other amounts in the budget resolution and from any calculations necessary under the Deficit Control Act. See **Balanced Budget and Emergency Deficit Control Act of 1985**, **budget resolution**, **outlays**, **revenues**, and **trust funds**.

offsetting collections: Amounts received by the federal government that are considered negative budget authority and outlays (rather than revenues) and, by law, are credited directly to expenditure accounts. Most offsetting collections are credited to discretionary spending accounts and thus offset budget authority provided in appropriation acts. Usually, they are authorized to be spent for the purposes of that account without further Congressional action. The authority to spend offsetting collections is a form of budget authority. Business-like or market-oriented activities with the public and other government accounts are the source of most offsetting collections. See **appropriation act**, **budget authority**, **direct spending**, **discretionary spending**, **expenditure account**, and **outlays**; compare with **offsetting receipts**.

offsetting receipts: Amounts received by the federal government that are considered negative budget authority and outlays (rather than revenues) and are not authorized to be credited to expenditure accounts; instead, they are credited to receipt accounts. The legislation that authorized the offsetting receipts may earmark them for a specific purpose and may either authorize them to be spent directly or require them to be appropriated in annual appropriation acts before they may be spent. Offsetting receipts are a form of direct spending, reducing the total amount of budget authority and outlays that are classified as direct spending. Like offsetting collections, most offsetting receipts result from business-like or market-oriented activities with the public and other government accounts. See **appropriation act**, **budget authority**, **direct spending**, **outlays**, and **receipt account**; compare with **offsetting collections**.

other means of financing: See **means of financing**.

outlays: Spending made to pay a federal obligation. Outlays may pay for obligations incurred in previous fiscal years or in the current year; therefore, they flow in part from unexpended balances of prior-year budget authority and in part from budget authority provided for the current year. For most categories of spending, outlays are recorded when payments are made or when cash is disbursed from the Treasury. However, outlays for interest on the public debt are recorded when the interest is earned, and outlays for direct loans and loan guarantees (since credit reform) reflect estimated subsidy costs instead of cash transactions. See **budget authority**, **credit subsidy**, **debt**, and **fiscal year**.

outyear: See **fiscal year**.

pay-as-you-go (PAYGO): A procedure set forth in the Deficit Control Act that ensures that all legislation affecting direct spending or receipts is budget neutral in each fiscal year. The Office of Management and Budget and CBO estimate the five-year budgetary effects of all such legislation enacted before September 31, 2002. If the estimated budgetary effects in the budget year would increase the deficit or reduce the surplus for that year, a PAYGO sequestration—or cancellation of budgetary resources available for direct spending programs—is triggered. See **direct spending**, **fiscal year**, and **sequestration**.

peak: See **business cycle**.

personal consumption: Total purchases of goods and services during a given period by households for their own use. (BEA) See **consumption**.

personal saving: Saving by households. Personal saving equals disposable personal income minus spending for consumption and interest payments. The *personal saving rate* is personal saving as a percentage of disposable personal income. (BEA) See **disposable personal income**.

potential GDP: The highest level of real gross domestic product that could persist for a substantial period without raising the rate of inflation. CBO calculates potential real GDP by relating it to the rate of unemployment that is consistent with a constant inflation rate. (CBO) See **gross domestic product**, **inflation**, **NAIRU**, **real**, and **unemployment**.

potential labor force: The labor force adjusted for movements in the business cycle. See **business cycle** and **labor force**.

present value: A single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) today. The calculation of present value depends on the rate of interest. For example, given an interest rate of 5 percent, 95 cents today will grow to $1 next year. Hence, the present value of $1 payable a year from today is only 95 cents.

private saving: Saving by households and businesses. Private saving is equal to personal saving plus after-tax corporate profits minus dividends paid. (BEA) See **personal saving**.

probability scoring: A method of calculating the expected costs of a legislative proposal that uses the baseline as just one of the plausible projection paths with which to compare the proposal. Probability scoring is employed only when a point estimate (measurement against only the baseline) will not adequately capture the potential budgetary effects of a legislative proposal. Such proposals are ones that would change a federal program in a way that would not affect estimated costs when measured against the baseline but could affect costs in just one direction (increasing or reducing them, but not both) if future events differ from the assumptions underlying the baseline. (For more information about this estimating method, see *Estimating the Cost of One-Sided Bets: How CBO Analyzes Proposals with Asymmetric Uncertainties*, CBO Memorandum, October 1999.) See **baseline**.

productivity: Average real output per unit of input. *Labor productivity* is average real output per hour of labor. The growth of labor productivity is defined as the growth of real output that is not explained by the growth of labor input alone. *Total factor productivity* is average real output per unit of combined labor and capital inputs.The growth of total factor productivity is defined as the growth of real output that is not explained by the growth of labor and capital. Labor productivity and total factor productivity differ in that increases in capital per worker raise labor productivity but not total factor productivity. (BLS) See **capital input**.

program account: Any budgetary account associated with a credit program that receives an appropriation of the subsidy cost of that program's loan obligations or commitments and, usually, the administrative expenses of that program. From the program account, the subsidy cost is disbursed to the applicable financing account. See **credit subsidy** and **financing account**.

real: Adjusted to remove the effects of inflation. *Real output* represents the quantity, rather than the dollar value, of goods and services produced. *Real income* represents the power to purchase real output. *Real data* at the finest level of disaggregation are constructed by dividing the corresponding nominal data, such as spending or wage rates, by a price index. Real aggregates, such as *real GDP*, are constructed by a procedure that allows the real growth of the aggregate to reflect the real growth of its components, appropriately weighted by the importance of the components. A *real interest rate* is a nominal interest rate adjusted for expected inflation; it is often approximated by subtracting an estimate of the expected inflation rate from the nominal interest rate. Compare with **nominal** and **current dollar**.

receipt account: An account established within federal funds and trust funds to record offsetting receipts or revenues credited to the fund. See **federal funds**, **offsetting receipts**, **revenues**, and **trust funds**.

recession: A phase of the business cycle extending from a peak to the next trough and characterized by a substantial decline in overall business activity—output, income, employment, and trade—of at least several months' duration. As a rule of thumb, though not an official measure, recessions are identified by a decline in real gross domestic product for at least two consecutive quarters. (NBER) See **business cycle**, **gross domestic product**, and **real**; compare with **expansion**.

reconciliation: A special legislative procedure by which the Congress implements the revenue and spending targets established in the budget resolution. The budget resolution may contain *reconciliation instructions*, which direct Congressional committees to make changes in existing revenue or direct spending programs under their jurisdiction to achieve a specified budgetary result. The legislation to implement the instructions is usually combined into one comprehensive *reconciliation bill*. Reconciliation affects revenues, direct spending, and offsetting receipts, but usually not discretionary spending. See **budget resolution**, **direct spending**, **discretionary spending**, **offsetting receipts**, and **revenues**.

recovery: A phase of the business cycle that lasts from a trough until overall economic activity returns to the level it reached at the previous peak. (NBER) See **business cycle**.

revenues: Funds collected from the public arising from the sovereign power of the government. Federal revenues consist of receipts from income taxes (individual and corporate), excise taxes, and estate and gift taxes; contributions to social insurance programs (such as Social Security and Medicare); customs duties; fees and fines; and miscellaneous receipts, such as Federal Reserve earnings, gifts, and contributions. Federal revenues are also known as federal governmental receipts. Compare with **offsetting collections** and **offsetting receipts**.

risk premium: The additional return that investors require to hold an asset whose perceived return is riskier than that of a hypothetically safe asset. The risk can arise from many sources—such as the possibility of default (in the case of corporate or municipal debt) or the volatility of earnings (in the case of corporate equities).

S corporation: A domestically owned corporation with no more than 75 owners who have elected to pay taxes under Subchapter S of the Internal Revenue Code. S corporations are taxed like partnerships. That is, they are exempt from the corporate income tax, but the owners pay income taxes on all of the firm's income, even if some of the earnings are retained by the firm.

saving rate: See **national saving** and **personal saving**.

savings bond: A nontransferable, registered security issued by the Department of the Treasury at a discount in denominations from $50 to $10,000. The interest earned on savings bonds is exempt from state and local taxation and from federal taxation until the bonds are redeemed.

seigniorage: The gain to the government from the difference between the face value of minted coins put into circulation and the cost of producing them (including the cost of the metal used in the coins). Seigniorage is considered a means of financing and is not included in the budget totals. See **means of financing**.

sequestration: The cancellation of budgetary resources available for a fiscal year in order to enforce the discretionary spending limits and pay-as-you-go procedures in that year. Pursuant to procedures set forth in the Deficit Control Act, a sequestration is triggered if the Office of Management and Budget determines that budget authority or outlays provided in appropriation acts exceed the discretionary spending limits or that enacted legislation affecting direct spending and receipts increases the deficit or reduces the surplus. Discretionary spending in excess of any of the limits would cause the cancellation of budgetary resources within the applicable discretionary spending programs. Changes in direct spending and receipts that increase the deficit or reduce the surplus would result in reductions in direct spending not otherwise exempt by law. See **direct spending**, **discretionary spending limits**, and **pay-as-you-go**.

short-term interest rate: The interest rate earned by a debt instrument (such as a Treasury bill) that will mature within one year.

standardized-budget surplus: The level of the federal budget surplus that would occur under current law if the economy operated at potential GDP. The standardized-budget surplus provides a measure of underlying fiscal policy by removing the influence of cyclical factors from the budget surplus. (CBO) See **fiscal policy**, **potential GDP**, and **surplus**; compare with **cyclical surplus**.

structural surplus: Same as **standardized-budget surplus**.

Subchapter S corporation: See **S corporation**.

subsidy cost: See **credit subsidy**.

surplus: The amount by which the federal government's total revenues exceed its total outlays in a given period, typically a fiscal year. See **outlays** and **revenues**; compare with **deficit**.

10-year Treasury note: An interest-bearing note issued by the U.S. Treasury that is to be redeemed in 10 years.

three-month Treasury bill: An interest-bearing security issued by the U.S. Treasury that is to be redeemed in 91 days.

thrift institutions: Savings and loan institutions and mutual savings banks.

total factor productivity: See **productivity**.

trade deficit: See **net exports**.

transfer payments: Payments made to an individual or organization for which no current or future goods or services are required in return. Federal transfer payments include welfare, Social Security, and unemployment benefits. (BEA)

trough: See **business cycle**.

trust funds: Government funds that are designated by law as trust funds (regardless of any other meaning of that term). Trust funds account for the revenues, offsetting receipts or offsetting collections, and outlays that result from the implementation of the law that designated the fund as a trust fund. The federal government has at least 130 trust funds. The largest and best known finance major benefit programs (including Social Security and Medicare) and infrastructure spending (the Highway and the Airport and Airway Trust Funds). See **offsetting collections**, **offsetting receipts**, **outlays**, and **revenues**; compare with **federal funds**.

unavailable debt: See **debt**.

uncommitted funds: The amount of the surplus in a fiscal year that is greater than the amount necessary to redeem federal debt available for redemption. See **debt** and **surplus**.

underlying rate of inflation: The rate of inflation of a modified consumer price index for all urban consumers that excludes from its market basket the components with the most volatile prices: food, energy, and used cars. See **consumer price index** and **inflation**.

unemployment: Joblessness. The measure of unemployment is the number of jobless people who are available for work and are actively seeking jobs. The *unemployment rate* is unemployment as a percentage of the labor force. (BLS) See **discouraged workers** and **labor force**.

unemployment gap: The difference between the nonaccelerating inflation rate of unemployment (NAIRU) and the unemployment rate. See **NAIRU**.

unobligated balances: The portion of budget authority that has not yet been obligated. When budget authority is provided for one fiscal year, any unobligated balances at the end of that year expire and are no longer available for obligation. When budget authority is provided for a specific number of years, any unobligated balances are carried forward and are available for obligation for the years specified. When budget authority is provided for an unspecified number of years, the unobligated balances are carried forward indefinitely, until either they are rescinded, the purpose for which they were provided is accomplished, or no disbursements have been made for two consecutive years. See **budget authority**; compare with **advance appropriation**, **forward funding**, and **obligation delay**.

user fee: A fee charged to recipients of goods or services provided by the federal government. User fees generally apply to activities that provide special benefits to identifiable recipients, and the amount of the fee is usually related to the cost of the good or service provided. In the federal budget, most user fees are classified as offsetting collections or offsetting receipts; however, some user fees result from the government's sovereign powers and are classified as revenues. See **offsetting collections**, **offsetting receipts**, and **revenues**.

yield: The average annual rate of return on a security, including interest payments and repayment of principal, if it is held to maturity.

yield curve: The relationship formed by plotting the yields of otherwise comparable fixed-income securities against their terms of maturity. Typically, yields increase as maturities lengthen. The rate of that increase determines the "steepness" or "flatness" of the yield curve. Ordinarily, a steepening (or flattening) of the yield curve is taken to suggest that short-term interest rates are expected to rise (or fall). See **short-term interest rate**.