Appendix C

Budget Resolution Targets and Actual Outcomes

Budget resolution targets, adopted by both Houses of Congress in most years, specify proposed levels of revenues and spending for the upcoming fiscal year. Those targets in the 2001 concurrent budget resolution, adopted in April 2000, yielded a proposed budget surplus of $170 billion. However, the actual surplus for fiscal year 2001 turned out to be significantly lower than the budget resolution anticipated.

This document analyzes the differences between the resolution's targets and the actual outcomes for the year. In 2001, actual revenues were $1,991 billion, almost $14 billion lower than expected for the year. The effects of legislation reduced revenues for that year by substantially more than anticipated; however, some of that reduction was offset by the effects of economic and technical factors. Total outlays, at $1,864 billion, ended up higher than anticipated by $29 billion—primarily because of legislation that was not included in the Congress's original plans. The actual surplus, then, for fiscal year 2001 was $127 billion, almost $43 billion less than the budget resolution anticipated.

Elements of the Analysis

The budget resolution is a concurrent resolution adopted by both Houses of Congress that sets forth the Congressional budget plan over five or more fiscal years. The resolution consists of targets for revenues, spending, the surplus or deficit, and debt held by the public. The budget resolution does not become law; instead, it is implemented through subsequent legislation, including appropriation acts and changes in the laws that affect revenues and spending, which are sometimes in response to reconciliation instructions that are included in the resolution. The targets established in the budget resolution are generally 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 the actual outcomes are allocated among three categories: policy, economic, and technical. Although those categories help explain the discrepancies, the divisions are inexact and necessarily somewhat arbitrary.

Differences attributed to policy derive from enacted legislation not anticipated in the resolution (such as legislation providing aid to victims of natural disasters) or legislation that cost more (or less) than the resolution assumed. Differences attributed to policy may also reflect lawmakers' failure to enact legislation that the budget resolution assumed would pass. To identify such differences arising from legislation, the Congressional Budget Office (CBO) normally uses the cost estimates it made at the time the legislation was enacted. (To the extent that the actual budgetary impact differs from what CBO estimated, that difference is implicitly characterized as a technical change.)

A key element in preparing the budget resolution is forecasting how the economy will perform in the upcoming fiscal year. Usually, for its resolution, the Congress adopts the most recent economic assumptions published by CBO. In 1982, and in most years between 1988 and 1992, 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. Those assumptions are used to estimate revenues, spending for benefit programs, and net interest. In CBO's analysis, differences that can be directly linked to its economic forecast are labeled economic. Other differences that might be tied to economic performance, such as changes to estimates of capital gains realizations or distributions from retirement plans, are categorized as technical.

In analyzing the deviation between budget resolution targets and outcomes, CBO cumulates differences that arise from changes in its economic forecast since the time that the resolution was completed. But CBO does not subsequently adjust that calculation, 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 targets 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 the government's open-ended commitments, such as entitlement programs. In the case of revenues, technical differences stem from various factors, including changes in administrative tax rules, differences in sources of taxable income that are not captured by the economic forecast, and changes in the relative amounts of income taxed at the various income tax rates. In the case of entitlement programs, factors such as changes in the number of beneficiaries, unforeseen utilization of health care services, changes in farm prices, or new regulations can produce technical differences.

Table C-1.
Comparison of Budget Resolution Targets and Actual Budget Totals, Fiscal Year 2001
(In billions of dollars)

	Budget Resolution	Actual Budget Totals	Actual Minus Budget Resolution
Revenues	2,005	1,991	-14
Outlays	1,835	1,864	29
Surplus	170	127	-43

SOURCES: Congressional Budget Office using data from House Con. Res. 290, Concurrent Resolution on the Budget for Fiscal Year 2001, adopted April 13, 2000, and the Office of Management and Budget.

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

These comparisons differ from those in the chapters of this volume, where differences are measured relative to CBO's baseline projections.

The 2002 budget resolution, adopted on May 10, 2001, revised the budget targets for fiscal year 2001. It increased the targets for revenues to $2,135 billion and for outlays to $1,948 billion; thus, the expected surplus climbed to $186 billion.

Table C-2.
Differences Between Budget Resolution Targets and Actual Budget Totals, Fiscal Year 2001
(In billions of dollars)

	Differences Arising from			
	Policy Changes	Economic Factors	Technical Factors	Total Differences
Revenues	-65	25	26	-14
Outlays				
Discretionary spending	20	2	2	24
Mandatory spending[a]	9	8	1	18
Net interest	1	-12	-2	-13
Subtotal	30	-1	*	29
Surplus	-95	26	26	-43

SOURCES: Congressional Budget Office using data from House Con. Res. 290, Concurrent Resolution on the Budget for Fiscal Year 2001, adopted April 13, 2000, and the Office of Management and Budget.

NOTES: Differences are actual outcomes minus budget resolution targets.

These comparisons differ from those in the chapters of this volume, where differences are measured relative to CBO's baseline projections.

* = between zero and $500 million.

a. Includes offsetting receipts.

Comparing the Budget Resolution and Actual Outcomes for Fiscal Year 2001

The budget resolution adopted the economic assumptions that CBO published in January 2000. Using those assumptions and incorporating policy changes, the resolution established the following targets for the year: total revenues of $2,005 billion, outlays of $1,835 billion, and a surplus of $170 billion (see Table C-1). Ultimately, revenues were lower by $14 billion, and outlays were higher by $29 billion, resulting in a surplus that was $43 billion lower than was anticipated in the resolution. Policy changes diminished the surplus by an estimated $95 billion, but that amount was partially offset by differences arising from economic and technical factors, which added a total of $52 billion to the surplus (see Table C-2).

Differences Arising from Policy Changes

The major policy change that affected the surplus in 2001 was the tax cut signed by the President in June 2001 (which was actually provided for in the 2002 budget resolution).[1] The budget resolution for 2001 incorporated a tax cut that would reduce revenues by about $12 billion that year. The Joint Committee on Taxation estimated that the total cost of the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) would be much larger—roughly $74 billion for 2001. Of that amount, the major components were the advance refund checks mailed to all taxpayers who filed returns for tax year 2000, which totaled about $40 billion, and the shift of

1. The 2002 budget resolution, adopted on May 10, 2001, revised the targets for fiscal year 2001. It increased the targets for revenues to $2,135 billion and for outlays to $1,948 billion; thus, the expected surplus climbed to $186 billion—$15 billion higher than was anticipated in the 2001 resolution.

corporate tax receipts—about $33 billion in payments—from fiscal year 2001 to fiscal year 2002.

Discretionary outlays were $20 billion higher than anticipated in the resolution, mostly because appropriations for 2001 were more than $40 billion greater than specified in the resolution. Mandatory spending was also higher than the original estimate, primarily as a result of aid to farmers.

Differences Arising from Economic Factors

Overall, the economic assumptions underlying the 2001 budget resolution proved to be pessimistic. In particular, because of economic factors, revenues turned out to be $25 billion higher than presumed. Much of that difference can be traced to estimates of nominal GDP in 2000, which had implications for revenues in 2001. The resolution assumed that GDP would grow by 5.1 percent in 2000, but its actual rate of growth was 6.7 percent. Despite the recession that began in March 2001, the level of nominal GDP in fiscal year 2001 remained above what was anticipated by the resolution.

Cost-of-living-adjustments (COLAs) accounted for most of the $8 billion in additional mandatory spending that was attributable to economic factors. The budget resolution assumed a COLA of 2.4 percent for January 2001; the actual COLA turned out to be 3.5 percent. As a result, Social Security and other benefit payments that are pegged to inflation were higher than originally estimated. In addition, the unemployment rate rose beyond what was expected, particularly in the latter part of the year, increasing claims for unemployment benefits by nearly $2 billion. Discretionary spending differed only slightly from the expected amount because of economic factors.

Reflecting another difference linked to the economic forecast, net interest was $12 billion lower than the budget resolution anticipated, mostly because of lower interest rates. The Federal Reserve reduced interest rates several times in 2001, which led to lower interest costs on the federal debt. The budget resolution assumed that the average rates in 2001 on three-month Treasury bills and 10-year Treasury notes would be 5.6 percent and 6.4 percent, respectively. Those rates actually averaged 4.4 percent and 5.2 percent, respectively.

Differences Arising from Technical Factors

Differences arising from technical factors—that is, differences between budget resolution targets and actual outcomes that cannot be traced to legislation or CBO's economic forecast—are mostly found on the revenue side of the budget. Technical factors accounted for about $26 billion in additional revenues but only a minimal amount of the increase in outlays. Much of the additional revenues was attributable to unexpectedly high individual income tax receipts stemming from growth in realizations of capital gains and unforeseen increases in effective tax rates.

Comparing Budget Resolutions and Actual Outcomes for Fiscal Years 1980 Through 2001

Actual outcomes always differ to varying degrees from budget resolution targets. Over the 1980-1992 period, the 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). However, in 2001, lower-than-expected revenues and higher-than-anticipated outlays combined to reduce the surplus to less than was envisioned in the resolution. Over the entire 1980-2001 period, the differences netted out; that is, the total of the actual surpluses and deficits almost exactly matched the total of the surpluses and deficits in the budget resolutions.

Differences Arising from Policy Changes

From 1980 through 2001, policy action or inaction (for example, the failure to achieve savings called for in a budget resolution) decreased the surplus or increased the deficit by an average of $16 billion a year compared with the target. In only four of those years did policymakers trim the deficit by more, or add to it by less, than the resolution provided. The largest differences attributable to policy changes occurred in 2000 and 2001, when they decreased the surplus by $61 billion and $95 billion, respectively, in comparison to the targets. From 1980 through 1998, the differences ascribed to policy averaged less than $10 billion a year.

Most of the impact stemming from legislation over the period was 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, when the effects of legislation increased outlays by about $65 billion. On the revenue side of the budget, the largest difference arising from a policy change occurred in 2001, when legislation reduced taxes by $65 billion more than was anticipated by the resolution.

Differences Arising from Economic Factors

Overall, inaccuracies in the economic forecast over the 1980-2001 period have had a negligible net effect on the variations between targets and actual outcomes for surpluses or deficits. But the average, however, masks large differences in many years—deviations that were mostly negative before 1994 and positive more recently. Until 1993, budget resolutions tended to use short-term economic assumptions that proved 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 in the 1990-1992 period. Since 1993, that pattern has largely been reversed. Short-term economic assumptions in 1993 through 2001 for the most part turned out to be pessimistic.

In absolute terms (disregarding whether the errors were positive or negative), the typical difference in the surplus or deficit attributable to incorrect economic assumptions was about $29 billion a year over the 1980-2001 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 accounted for differences between budget resolution targets and actual surpluses or deficits that averaged $16 billion a year during the past two decades. In absolute terms, however, such differences caused the targets to be off by $35 billion, on average. Overall, about two-thirds 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, technical misestimates were generally not very great through 1990, but the budget resolutions significantly overestimated revenues in 1991 and 1992, when tax collections were weaker than economic data had predicted. Over the past few years, revenues have been much higher than the budget resolution targets. The individual income tax has been the source of most of the technical discrepancies, primarily because of higher realizations of capital gains, unexpected increases in the effective tax rate, and higher 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 disproportionate increase in income among taxpayers taxed at the highest marginal rates. Also contributing to the inaccuracy in estimating individual income tax receipts were underestimates of reported incomes that were revised too late for CBO to incorporate in its forecasts.

Table C-3.
Differences Between Budget Resolution Targets and Actual Budget Totals, Fiscal Years 1980-2001 (In billions of dollars)

	Differences Arising from				
	Policy Changes	Economic Factors	Technical Factors	Total Differences	Total Differences as a Percentage of Actual Outcomes
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
2001	-65	25	26	-14	-0.7
Average	-2	*	6	4	-0.9
Absolute Average[b]	9	30	17	42	3.8
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
2001	30	-1	*	29	1.6

(Continued)

Table C-3.
Continued

	Differences Arising from				
	Policy Changes	Economic Factors	Technical Factors	Total Differences	Total Differences as a Percentage of Actual Outcomes
Average	14	*	-10	5	1.0
Absolute Average[b]	16	11	26	36	3.2
		Surplus or Deficit (-)[c]			
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
2001	-95	26	26	-43	-2.3
Average	-16	*	16	*	-1.3
Absolute Average[b]	21	29	35	56	4.8

SOURCE: Congressional Budget Office.

NOTES: Differences are actual outcomes minus budget resolution targets.

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

* = between -$500 million and $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 surplus or deficit, total differences are calculated as a percentage of actual outlays.

Misestimates arising from technical factors show up to an even greater extent on the outlay side of the budget. Through the mid-1980s, discrepancies in estimating receipts from offshore oil leases and spending on farm price supports, defense, and entitlement programs constituted the dominant technical differences. In addition, in the early 1990s, during the savings and loan crisis, outlays for deposit insurance were a major source of discrepancies attributable to technical factors. In recent years, technical differences between estimates of outlays and actual outlays have been spread among a variety of programs. In addition, those differences were quite small in 2000 and 2001 (within $10 billion and near zero, respectively).

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 1980-2001 period may be best compared as a percentage of total revenues or outlays. The total difference for revenues for 2001 was well below the absolute average of 3.8 percent; the amount anticipated in the budget resolution came within 0.7 percent of actual revenues. By contrast, revenues exceeded the budget resolution target by more than 7 percent in 2000. Outlays in 2001 were 1.6 percent above the budget resolution target but below the 3.2 percent absolute average difference for the 1980-2001 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 surpluses or deficits and the surpluses or deficits anticipated in budget resolutions depends in large part on whether the differences for revenues and outlays offset each other. For years in which the discrepancies for revenues and outlays affected the surplus or deficit in opposite ways, the total difference dropped to as little as 0.5 percent of actual outlays. But in other years in which the discrepancies for both revenues and outlays affected the surplus or deficit in the same way, the total difference was as much as 11.4 percent of outlays. Indeed, from 1980 to 2001, the differences between estimates of revenues and outlays in the budget resolutions and the actual amounts went in the same direction relative to the surplus or deficit in 12 years. In 2001, the actual surplus was below the resolution target by an amount equal to 2.3 percent of actual outlays—lower than the absolute average difference of 4.8 percent over the 21-year period.