Glossary

This glossary defines economic and budgetary terms as they relate to this report. Some entries sacrifice precision for brevity and clarity to the lay reader. Where appropriate, sources of data for economic variables are indicated as follows:

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.

adjustable-rate mortgage: Mortgage whose interest rate is not fixed for the life of the mortgage but varies in a predetermined way with movements in a specified market interest rate.

aggregate demand: Total purchases of a country's output of goods and services by consumers, businesses, government, and foreigners during a given period. (Bureau of Economic Analysis)

appropriation act: A statute under the jurisdiction of the House and Senate Committees on Appropriations that provides budget authority. Enactment generally follows adoption of authorizing legislation unless the authorization itself provides the budget authority. Currently, 13 regular appropriation acts are enacted each year. When necessary, the Congress may enact supplemental or continuing appropriations.

authorization: A substantive law that sets up or continues a federal program or agency. Authorizing legislation is normally a prerequisite for appropriations. For some programs, the authorizing legislation itself provides the authority to incur obligations and make payments.

Balanced Budget and Emergency Deficit Control Act of 1985: Also known as Gramm-Rudman-Hollings or the Balanced Budget Act, this law set forth specific deficit targets and a sequestration procedure to reduce spending if the targets were exceeded. The Budget Enforcement Act of 1990 established new budget procedures through fiscal year 1995 as well as revised targets, which exclude the Social Security trust funds. The Omnibus Budget Reconciliation Act of 1993 further extended various provisions of the Balanced Budget Act, without including fixed deficit targets beyond fiscal year 1995. See **discretionary spending caps** and **pay-as-you-go**.

baseline: A benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending. As specified in the Budget Enforcement Act of 1990 (BEA), the baseline for revenues and entitlement spending generally assumes that laws now on the statute books will continue. The discretionary spending projections are based on the discretionary spending caps set by the BEA in 1995 through 1998. The *baseline with discretionary inflation* adjusts discretionary appropriations for inflation after 1998; the *baseline without discretionary inflation* does not.

***Blue Chip* consensus forecast:** The average of about 50 economic forecasts surveyed by Eggert Economic Enterprises, Inc.

budget authority: Legal authority to incur financial obligations that will result in the spending of federal government funds. Budget authority may be provided in an authorization or an appropriation act. Offsetting collections, including offsetting receipts, constitute negative budget authority.

budget deficit: Amount by which budget outlays exceed budget revenues during a given period.

Budget Enforcement Act of 1990 (BEA): Title XIII of the Omnibus Budget Reconciliation Act of 1990. This act amended both the Congressional Budget Act of 1974 and the Balanced Budget and Emergency Deficit Control Act of 1985. The BEA provides for new budget targets, sequestration procedures, pay-as-you-go procedures, credit reform, and various other changes. The discretionary spending caps and the pay-as-you-go process were extended through 1998 by the Omnibus Budget Reconciliation Act of 1993. See **discretionary spending caps** and **pay-as-you-go**.

budget function: One of 20 areas into which federal spending and credit activity are divided. National needs are grouped into 17 broad budget functions, including national defense, international affairs, energy, agriculture, health, income security, and general government. Three functions--net interest, allowances, and undistributed offsetting receipts--do not address national needs but are included to complete the budget.

budget resolution: A resolution, passed by both Houses of Congress, that sets forth a Congressional budget plan for the next five years. The plan must be carried out through subsequent legislation, including appropriations and changes in tax and entitlement laws. The resolution sets guidelines for Congressional action, but it is not signed by the President and does not become law. The Congressional Budget Act of 1974 established a number of mechanisms that are designed to hold spending and revenues to the targets established in the budget resolution.

budgetary resources: All sources of budget authority that are subject to sequestration. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations. See **sequestration**.

business cycle: Fluctuations in overall business activity accompanied by swings in the unemployment rate, interest rates, and 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)

capacity constraints: Limits on the amount of output that can be produced without also significantly increasing prices. Causes of capacity constraints include shortages of skilled labor or of capital needed for production.

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. Capacity is defined as the greatest output a plant can maintain with a normal work pattern. (FRB)

capital: *Physical capital* is the output that has been set aside to be used in production rather than consumed. According to the national income and product accounts, private capital goods are composed of residential and nonresidential structures, producers' durable equipment, and business inventories. *Financial capital* is the funds raised by an individual, business, or government by issuing securities, such as a mortgage, stock certificate, or bond. *Human capital* is a term for education, training, health, and other attributes of the workforce that increase its ability to produce goods and services.

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.

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

commercial paper: Short-term, unsecured debt obligations that are issued by large corporations with good credit ratings and that are actively traded in financial markets. By selling such obligations, issuers of commercial paper borrow directly from the public rather than indirectly through financial intermediaries such as commercial banks.

compensation: All income due to employees for their work during a given period. Compensation includes wages and salaries as well as fringe benefits and employers' share of social insurance taxes. (Bureau of Economic Analysis)

constant dollar: Measured in terms of prices of a base period--currently 1987 for most purposes--to remove the effect of inflation. Compare with **current dollar**.

consumer confidence: A measure of consumer attitudes and buying plans indicated by an index of consumer sentiment. One such index is constructed by the University of Michigan Survey Research Center based on surveys of consumers' views of the state of the economy and their personal finances, both current and prospective.

consumer durable goods: Goods bought by households for their personal use that, on average, last more than three years--for example, automobiles, furniture, or appliances.

consumption: Total purchases of goods and services during a given period by households for their own use. (Bureau of Economic Analysis)

cost of capital: The total expected rate of return that an investment must generate in order to provide investors with the prevailing market yield consistent with risk after accounting for corporate taxes (if applicable) and depreciation.

countercyclical: Acting to moderate the ups and downs of the business cycle.

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--currently 1982 through 1984. (BLS)

credit crunch: A significant, temporary decline in the normal supply of credit, usually caused by tight monetary policy or a regulatory restriction on lending institutions.

credit reform: A revised system of budgeting for federal credit activities that focuses on the cost of subsidies conveyed in federal credit assistance. This process was authorized by the Federal Credit Reform Act of 1990, which was part of the Budget Enforcement Act of 1990.

credit subsidies: The estimated long-term costs to the federal government of direct loans or loan guarantees calculated on the basis of net present value, excluding administrative costs and any incidental effects on governmental receipts or outlays. For direct loans, the subsidy cost is the net present value of loan disbursements less 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 the 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 **present value**.

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, net international transfers (public or private gifts or donations), and net factor income (primarily capital income from foreign-located property owned by residents less capital income from domestic property owned by nonresidents). The current-account balance differs from net exports in that the former includes international transfers and net factor income. (Bureau of Economic Analysis)

current dollar: Measured in the dollar value--reflecting then-prevailing prices--of the period under consideration. Compare with **constant dollar**.

cyclical deficit: The part of the budget deficit that results from cyclical factors rather than from underlying fiscal policy. The cyclical deficit reflects the fact that, when GDP falls, revenues automatically fall and outlays automatically rise. By definition, the cyclical deficit is zero when the economy is operating at potential GDP. Compare with **standardized-employment deficit**. (CBO)

debt held by the public: Debt issued by the federal government and held by nonfederal investors (including the Federal Reserve System).

debt restructuring: Changing the characteristics of an entity's outstanding debt, such as maturity or interest rate. Such changes can be effected by issuing long-term debt and retiring short-term debt (or vice versa), or by negotiating with creditors.

debt service: Payment of scheduled interest obligations on outstanding debt.

deflator: See **implicit deflator**.

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.

depository institutions: Financial intermediaries that make loans to borrowers and obtain funds from savers by accepting deposits. Depository institutions are commercial banks, savings and loan institutions, mutual savings banks, and credit unions.

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.

direct spending: The Budget Enforcement Act of 1990 defines direct spending as (a) budget authority provided by an authorization, (b) entitlement authority (including mandatory spending contained in appropriation acts), and (c) the Food Stamp program. A synonym is **mandatory spending**. 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 jobs. Because they are not actively seeking jobs, discouraged workers are not counted as part of the labor force or as being unemployed. (BLS)

discretionary spending: Spending for programs whose funding levels are determined through the appropriation process. The Congress has the discretion each year to determine how many dollars will be devoted to continuing

current programs and funding new ones. The Budget Enforcement Act of 1990 divided discretionary spending among three categories: defense, international, and domestic. Compare with **direct spending**.

discretionary spending caps: Annual ceilings on budget authority and outlays for discretionary programs defined in the Balanced Budget Act of 1985, as amended by the Budget Enforcement Act of 1990 and the Omnibus Budget Reconciliation Act of 1993. For fiscal years 1991 through 1993, the caps were divided among the three categories of discretionary spending--defense, international, and domestic. For fiscal years 1994 through 1998, there is one cap for all discretionary spending. Discretionary spending caps are enforced through Congressional rules and sequestration procedures.

disposable (personal) income: Income received by individuals, including transfer payments, less personal taxes and fees paid to government. (Bureau of Economic Analysis)

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. (Bureau of Economic Analysis)

entitlements: Programs that make payments to any person, business, or unit of government that seeks the payments and meets the criteria set in law. The Congress controls these programs indirectly by defining eligibility and setting the benefit or payment rules. Although the level of spending for these programs is controlled by the authorizing legislation, funding may be provided in either an authorization or an appropriation act. The best-known entitlements are the major benefit programs, such as Social Security and Medicare; other entitlements include farm price supports and interest on the federal debt. See **direct spending.**

excess reserves: Total monetary reserves in excess of required reserves. See **monetary reserves** and **reserve requirements**.

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 the trough to the next peak. See **business cycle**. (NBER)

federal funds: See **trust fund**.

federal funds rate: Overnight interest rate at which financial institutions borrow and lend monetary reserves. A rise in the federal funds rate (compared with other short-term rates) suggests a tightening of monetary policy, whereas a fall suggests an easing. (FRB)

Federal Open Market Committee (FOMC): 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 the 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 FOMC is composed of 12 members, including the seven members of the Board of Governors of the Federal Reserve System and five of the 12 presidents of the regional Federal Reserve Banks.

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

final sales to domestic purchasers: Gross domestic product minus both net exports and the change in business inventories during a given period. (Bureau of Economic Analysis)

financial intermediary: An institution that indirectly matches borrowers with lenders. For example, depository institutions, such as commercial banks or savings and loan institutions, lend funds that they have accepted from depositors. Nondepository institutions, such as life insurance companies or pension funds, lend or invest funds that they hold in reserve against future claims by policyholders or participating retirees.

financing account: Any account established under credit reform to finance the portion of federal direct loans and loan guarantees not subsidized by federal funds. Since these accounts are used only to finance the nonsubsidized portion of federal credit activities, they are excluded from the federal budget and considered a means of financing the deficit.

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-employment deficit 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.

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 1995 began October 1, 1994, and will end on September 30, 1995.

fixed-weighted price index: An index that measures the overall price level (compared with a base period) without being influenced by changes in the composition of output or purchases. Compare with **implicit deflator**.

GDP: See **gross domestic product**.

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

General Agreement on Tariffs and Trade (GATT): A multilateral organization of over 100 member countries, established in 1948, that has provided the framework for formulating and enforcing rules that govern international trade. A major focus of the organization has been to reduce barriers to trade on a nondiscriminatory basis. The Uruguay Round of negotiations, the eighth and most recently concluded round conducted under the auspices of GATT, established the World Trade Organization. That body will eventually replace GATT and will oversee a wider variety of trade agreements and alter certain decisionmaking procedures.

GNP: See **gross national product**.

government purchases of goods and services: Purchases from the private sector (including compensation of government employees) made by government during a given period. Government purchases constitute a component of GDP, but they encompass only a portion of all government expenditures because they exclude transfer payments (such as grants to state and local governments and net interest paid). (Bureau of Economic Analysis)

government-sponsored enterprises (GSEs): Enterprises established and chartered by the federal government to perform specific financial functions, usually under the supervision of a government agency, but in all cases wholly owned by stockholders rather than the government. Major examples are the Federal National Mortgage Association, the Student Loan Marketing Association, and the Federal Home Loan Banks.

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.

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

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

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

implicit deflator: An overall measure of the price level (compared with a base period) given by the ratio of current-dollar purchases to constant-dollar purchases. Changes in an implicit deflator, unlike those in a fixed-weighted price index, reflect changes in the composition of purchases as well as in the prices of goods and services purchased. See **fixed-weighted price index**. (Bureau of Economic Analysis)

index: An indicator or summary measure that defines the overall level (compared with a base) of some aggregate, such as the general price level or total quantity, in terms of the levels of its components.

inflation: Growth in a measure of the general price level, usually expressed as an annual rate of change.

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.

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

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 in the 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. *Labor force participation rate* is the labor force as a percentage of the noninstitutional population age 16 years or older. (BLS)

liquidating account: Any budgetary account established under credit reform to finance direct loan and loan guarantee activities that were obligated or committed before October 1, 1992 (the effective date of credit reform).

liquidity: The characteristic of an asset that permits it to be sold on short notice with little or no loss in value. Ordinarily, a shorter term to maturity or a lower risk of default will enhance an asset's liquidity.

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

M2: A measure of the U.S. money supply that consists of M1 (the nonbank public's holdings of currency, traveler's checks, and checking accounts), plus small (less than $100,000) time and savings accounts, money market deposit accounts held at depository institutions, most money market mutual funds, overnight repurchase agreements, and overnight Eurodollar accounts held by U.S. residents. (FRB)

mandatory spending: Another term for **direct spending**.

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

means of financing: Sources of financing federal deficits or uses of federal surpluses. The largest means of financing is normally federal borrowing from the public, but other means of financing include any transaction that causes a difference between the federal (including off-budget) surplus or deficit and the change in debt held by the public. The means of financing include changes in checks outstanding and Treasury cash balances, seigniorage (that is, government revenue from the manufacture of money), and the transactions of the financing accounts established under credit reform.

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--for example, Medicaid, the Food Stamp program, Supplemental Security Income, family support, and veterans' pensions--but a few, such as subsidized housing and various social services, are funded through discretionary appropriations.

merchandise trade balance: Net exports of goods. The merchandise trade balance differs from net exports by excluding exports and imports of services. (Bureau of Economic Analysis)

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.

monetary reserves: The amount of funds that banks and other depository institutions hold as cash or as deposits with the Federal Reserve System. See **reserve requirements**.

money supply: Private assets that can readily be used to make transactions or are easily convertible into those that can. See **M2**.

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

national income and product accounts (NIPAs): Official U.S. accounts that detail the composition of GDP and how the costs of production are distributed as income. (Bureau of Economic Analysis)

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 (budget surplus or deficit--indicating dissaving--of all government entities). National saving represents all income not consumed, publicly or privately, during a given period. (Bureau of Economic Analysis)

net exports: Exports of goods and services produced in a country less its imports of goods and services produced elsewhere.

net interest: *In the federal budget*, net interest includes federal interest payments to the public as recorded in budget function 900. Net interest also includes, as an offset, interest income received by the government on loans and cash balances. *In the national income and product accounts* (NIPAs), net interest is the income component of GDP paid as interest--primarily interest that domestic businesses pay, less interest they receive. The NIPAs treat government interest payments as transfers, so they are not part of GDP.

net national saving: National saving less depreciation of physical capital.

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

nominal: Measured in the dollar value (as in nominal output, income, or wage rate) or market terms (as in nominal exchange or interest rate) of the period under consideration. Compare with **real**.

nonresidential structures: Primarily business buildings (such as industrial, office, and other commercial buildings) and structures (such as mining and well shafts). (Bureau of Economic Analysis)

off-budget: Spending or revenues excluded from the budget totals by law. The revenues and outlays of the two Social Security trust funds and the transactions of the Postal Service are off-budget and (except for discretionary Social Security administrative costs) are not included in any Budget Enforcement Act calculations.

offsetting receipts: Funds collected by the federal government that are recorded as negative budget authority and outlays and credited to separate receipt accounts. More than half of offsetting receipts are intragovernmental receipts that reflect agencies' payments to retirement and other funds on behalf of their employees; these receipts simply balance payments elsewhere in the budget. An additional category of receipts (proprietary receipts) come from the public and generally represent voluntary, business-type transactions. The largest items are the flat premiums for Supplementary Medical Insurance (Part B of Medicare), timber and oil lease receipts, and proceeds from the sale of electric power.

Organization of Petroleum Exporting Countries (OPEC): The group of oil-rich countries that tries to determine the price of crude oil (given demand) by agreeing to production quotas among its members.

outlays: The liquidation of a federal obligation, generally by issuing a check or disbursing cash. Sometimes obligations are liquidated (and outlays occur) by issuing agency promissory notes, such as those of the former

Federal Savings and Loan Insurance Corporation. Unlike outlays for other categories of spending, outlays for interest on the public debt are counted when the interest is earned, not when it is paid. Outlays may be for payment of obligations incurred in previous fiscal years or in the same year. Outlays, therefore, flow in part from unexpended balances of prior year budget authority and in part from budget authority provided for the current year.

pay-as-you-go (PAYGO): A procedure required in the Budget Enforcement Act of 1990 to ensure that, for fiscal years 1991 through 1995, legislation affecting direct spending and receipts does not increase the deficit. Pay-as-you-go is enforced through Congressional rules and sequestration procedures. The pay-as-you-go process was extended through fiscal year 1998 by the Omnibus Budget Reconciliation Act of 1993.

peak: See **business cycle**.

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

point-year of unemployment: An unemployment rate that is 1 percentage point above the NAIRU for one year. For example, if the unemployment rate averaged 2 percentage points above the NAIRU for one and one-half years, that would be three point-years of unemployment. See **NAIRU**.

potential real GDP: The highest level of real GDP that could persist for a substantial period without raising the rate of inflation. CBO's calculation relates potential GDP to the nonaccelerating inflation rate of unemployment, which is the unemployment rate consistent with a constant inflation rate. (CBO)

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, today's 95 cents 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. (Bureau of Economic Analysis)

producers' durable equipment: Primarily nonresidential capital equipment--such as computers, machines, and transportation equipment--owned by businesses. (Bureau of Economic Analysis)

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 would raise labor productivity but not total factor productivity. (BLS)

program account: Any budgetary account that finances credit subsidies and the costs of administering credit programs.

real: Adjusted to remove the effect of inflation. *Real (constant-dollar) output* represents volume, rather than dollar value, of goods and services. *Real income* represents power to purchase real output. *Real data* are usually constructed by dividing the corresponding nominal data, such as output or a wage rate, by a price index or deflator. *Real interest rate* is a nominal interest rate minus the expected inflation rate. Compare with **nominal**.

receipt account: Any budget or off-budget account that is established exclusively to record the collection of income, including negative subsidies. In general, receipt accounts that collect money arising from the exercise of the government's sovereign powers are included as revenues, whereas the proceeds of intragovernmental transactions or collections from the public arising from business-type transactions (such as interest income, proceeds from the sale of property or products, or profits from federal credit activities) are included as offsetting receipts--that is, credited as offsets to outlays rather than included in receipts.

recession: A phase of the business cycle extending from a peak to the next trough--usually lasting six months to a year--characterized by widespread declines in output, income, employment, and trade in many sectors of the economy. Real GDP usually falls throughout a recession. See **business cycle**. (NBER)

reconciliation: A process the Congress uses to make its tax and spending legislation conform with the targets established in the budget resolution. The budget resolution may contain reconciliation instructions directing certain Congressional committees to achieve deficit reduction through changes in tax or spending programs under their jurisdiction. Legislation to implement the reconciliation instructions is usually combined in one comprehensive bill. The reconciliation process primarily affects taxes, entitlement spending, and offsetting receipts. As a general rule, decisions on discretionary programs are determined separately through the appropriation process, which is also governed by allocations in the budget resolution.

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

reserve requirements: The amount of funds that banks and other depository institutions must hold as cash or as deposits with the Federal Reserve System. The Federal Reserve specifies reserve requirements depending on the level of deposits. Such requirements reduce the risk of bank failure and allow the Federal Reserve to influence the money supply. (FRB)

reserves: See **monetary reserves**.

residential investment: Investment in housing, primarily for construction of new single-family and multifamily housing and alterations plus additions to existing housing. (Bureau of Economic Analysis)

Resolution Trust Corporation (RTC): An agency created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to close, merge, or otherwise resolve insolvent savings and loan institutions whose deposits are insured by the federal government.

retained earnings: Corporate profits after tax that are used for investment rather than paid out as dividends to stockholders. (Bureau of Economic Analysis)

revenues: Funds collected from the public arising from the sovereign power of the government. Revenues consist of receipts from income taxes (individual and corporate), excise taxes, and estate and gift taxes; social insurance contributions; customs duties; miscellaneous receipts such as Federal Reserve earnings, gifts, and contributions; and fees and fines. Revenues are also known as federal governmental receipts but do not include offsetting receipts, which are recorded as negative budget authority and outlays.

RTC: See **Resolution Trust Corporation**.

sequestration: The cancellation of budgetary resources to enforce the discretionary spending caps and pay-as-you-go process established under the Budget Enforcement Act of 1990 and the Omnibus Budget Reconciliation Act of 1993. Sequestration is triggered if the Office of Management and Budget determines that discretionary appropria-

tions exceed the discretionary spending caps or that legislation affecting direct spending and receipts increases the deficit. Changes in direct spending and receipt legislation that increase the deficit would result in reductions in funding for entitlements not otherwise exempted by law. Discretionary spending in excess of the caps would cause the cancellation of budgetary resources within the discretionary spending category.

short-term interest rate: Interest rate earned by a debt instrument that will mature within one year.

standardized-employment deficit: The level of the federal budget deficit that would occur under current law if the economy was operating at potential GDP. It provides a measure of underlying fiscal policy by removing the influence of cyclical factors from the budget deficit. Compare with **cyclical deficit**. (CBO)

structural deficit: Same as **standardized-employment deficit**.

supply shock: A large and unexpected change in the production of a good or service. Examples include bumper crops, crop failures, or sudden restrictions on the supply of oil as occurred in 1973-1974 and 1979-1980. A supply shock that restricts output will raise the price of the good in short supply; a surfeit will lower the price of the good.

ten-year Treasury note: Interest-bearing note issued by the U.S. Treasury that is redeemed in 10 years.

three-month Treasury bill: Security issued by the U.S. Treasury that is redeemed in 91 days.

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

transfer payments: Payments in return for which no good or service is currently received--for example, welfare or Social Security payments or money sent to relatives abroad. (Bureau of Economic Analysis)

trough: See **business cycle**.

trust fund: A fund, designated as a trust fund by statute, that is credited with income from earmarked collections and charged with certain outlays. Collections may come from the public (for example, taxes or user charges) or from intrabudgetary transfers. More than 150 federal government trust funds exist, of which the largest and best known finance several major benefit programs (including Social Security and Medicare) and certain infrastructure spending (the Highway and the Airport and Airway trust funds). The term "federal funds" refers to all programs that are not trust funds.

underlying rate of inflation: Rate of inflation of a modified CPI-U that excludes from the market basket the components most volatile in price--food, energy, and used cars.

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)

yield: The average annual rate of return on a security, including interest payments and repayment of principal, if 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 this increase determines the "steepness" or "flatness" of the yield curve. Ordinarily a steepening (or flattening) of the yield curve is taken to suggest that relatively short-term interest rates are expected to be higher (or lower) in the future than they are now.

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