



Glossary

(Updated July 2016)

This glossary defines various budgetary and economic terms that are commonly used in reports produced by the Congressional Budget Office. Many of CBO's entries conform to those published in *A Glossary of Terms Used in the Federal Budget Process*, which was issued by the Government Accountability Office (GAO) in 2005.¹

CBO's glossary is updated periodically, principally to keep abreast of current laws. Although the entries attempt to ensure technical precision, they also aim for brevity and clarity. Where appropriate, the entries note the sources of data for economic variables as follows:

- Board of Governors of the Federal Reserve System (FRB),
- Bureau of Economic Analysis in the Department of Commerce (BEA),
- Bureau of Labor Statistics in the Department of Labor (BLS), and
- National Bureau of Economic Research (NBER, a private entity).

1. As noted in the preface to GAO's glossary, that publication "fulfills part of GAO's responsibility (31 U.S.C. §1112) to publish standard terms, definitions, and classifications for the government's fiscal, budget, and program information. It was developed in cooperation with the Secretary of the Treasury and the Directors of the Office of Management and Budget and the Congressional Budget Office." In certain cases, when CBO's understanding of terms differed substantially from that of GAO, CBO provided its own wording.

Accrual accounting: A system of accounting in which revenues are recorded when earned and expenses are recorded when goods are received or services are 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. See **cash accounting**, **credit reform**, and **outlays**.

adjusted gross income (AGI): All income that is subject to taxation under the individual income tax after "above-the-line" deductions are taken into account. (Such deductions include alimony payments and some business expenses, for instance, and certain contributions to individual retirement accounts.) 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 becomes available one or more fiscal years after the fiscal year for which the appropriation act was enacted. The amount of the advance appropriation is included in the budget totals for the year in which it will become available. See **forward funding**, **obligation delay**, and **unobligated balances**.

Affordable Care Act: This term refers to the Patient Protection and Affordable Care Act (Public Law 111-148); the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152); and the effects of subsequent judicial decisions, statutory changes, and administrative actions. See **cost-sharing subsidy**, **employer mandate**, **health insurance marketplaces**, **individual mandate**, and **premium assistance tax credit**.

aggregate demand: Total purchases by consumers, businesses, governments, and foreigners of a country's output of final goods and services during a given period. (*Final* goods and services are purchased directly by the end user. They contrast with *intermediate* goods and services, which are used for the production of other goods and services.) (BEA) See **domestic demand**.

AGI: See **adjusted gross income**.

alternative minimum tax (AMT): A tax intended to limit the extent to which people earning higher income can reduce their tax liability (the amount they owe) through the use of preferences in the tax code. Taxpayers subject to the AMT 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. The amount by which a taxpayer's AMT calculation exceeds his or her regular tax calculation is that person's AMT liability.

appropriation act: A statute, under the jurisdiction of the House and Senate Committees on Appropriations, that generally provides legal authority for federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. The Congress normally considers 12 regular appropriation acts, which fund the operations of the federal government for the coming fiscal year. In addition to regular appropriation acts, the Congress may also consider *supplemental*, *deficiency*, or *continuing appropriation acts* (joint resolutions that provide budget authority for a fiscal year until the regular appropriation act for that year is enacted). An *omnibus appropriation act* typically refers to a single act containing the legislative language of 2 or more of the 12 regular appropriation acts.

asset-backed security: A financial security whose payments are derived solely from the cash flows of an underlying asset, such as a pool of mortgages or student loans. See **mortgage-backed security** and **securitization**.

asset bubble: An economic development in which the price of a class of physical or financial assets (such as houses or securities) rises to a level that appears to be unsustainable and well above the assets' value as determined by economic fundamentals. Bubbles typically occur when investors purchase assets with the expectation of short-term gains because of rapidly rising prices. The increase in prices continues until investors' sentiment

changes, in many cases resulting in a sharp decline in demand and in asset prices.

authorization act: Substantive legislation, proposed by a committee of jurisdiction other than the House or Senate Committees on Appropriations, that establishes or continues the operation of a federal program or agency either indefinitely or for a specific period or that sanctions a particular type of obligation or expenditure within a program. This term is used in two different ways: (1) to describe legislation enacting new program authority (that is, authorizing the program), and (2) to describe legislation authorizing an appropriation.

automatic stabilizers: Changes in federal revenues and outlays that are attributable to cyclical movements in the economy. When output falls below its potential amount and the unemployment rate rises above the natural rate of unemployment, revenues fall and outlays rise. Those changes help support the economy by cushioning the fall in after-tax income. When output rises above its potential and the unemployment rate falls below the natural rate, the rise in revenues and fall in outlays act to restrain the economy. See **natural rate of unemployment**.

Baseline: An estimate of spending, revenues, the deficit or surplus, and the public debt expected during a fiscal year that reflects the assumption that current laws will generally remain unchanged. The baseline is a benchmark for measuring the budgetary effects of proposed changes in revenues and spending. It incorporates the assumption that, in general, receipts and mandatory spending will continue or expire in the future as required by law and that the future funding for discretionary programs will equal the most recently enacted appropriation, adjusted for inflation but constrained by limits established in law on discretionary appropriations. (Limits on such discretionary programs that were defined in the Balanced Budget and Emergency Deficit Control Act of 1985 were reinstated by the Budget Control Act of 2011. Those limits last through 2021.) Rules governing the baseline are specified in section 257 of the Deficit Control Act. Cost estimates consistent with section 257 are used by the House and Senate Budget Committees in implementing the pay-as-you-go rules in each House and are required for estimates under the Statutory Pay-As-You-Go Act of 2010. See **discretionary spending limits (or caps)** and **pay-as-you-go**.

basis point: One one-hundredth of a percentage point. (For example, the difference between interest rates of 5.5 percent and 5.0 percent is 50 basis points.)

Blue Chip consensus forecast: The average of about 50 private-sector economic forecasts compiled for Wolters Kluwer Law & Business's monthly publication *Blue Chip Economic Indicators*.

budgetary resources: An amount available to federal agencies that permits them to enter into new obligations and to liquidate them, including new budget authority, direct spending authority, unobligated balances of budget authority provided in previous years, and obligation limitations. See **budget authority**.

budget authority: Authority provided by federal 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 a direct appropriation of funds from the Treasury, borrowing authority, contract authority, entitlement authority, or authority to obligate and expend offsetting collections or receipts. Offsetting collections and receipts are classified as negative budget authority. See **budgetary resources**.

budget function: One of 20 general-subject categories into which budgetary resources are grouped so that all budget authority and outlays can be presented according to the national interests being addressed. There are 17 broad budget 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.

budget resolution: A concurrent resolution adopted by both Houses of Congress as part of the annual budget and appropriation process, setting forth an overall budget plan for the Congress against which individual appropriation bills, authorization bills, and revenue measures are to be evaluated. Subsequent appropriation acts and authorization acts that affect revenues or direct spending are expected to comply with the targets in that plan. Those targets are enforced in each House of Congress through procedural mechanisms that are set forth in law and in the rules of each House.

budget year: The fiscal year for which the budget is being considered. See **fiscal year**.

business cycle: Fluctuations in overall economic activity that are characterized by swings in real gross domestic product, real income, employment, and industrial production. Over a business cycle, real activity rises to a peak (its highest level during the cycle) and then falls until it reaches a 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) See **recession**.

business fixed investment: Spending by businesses on structures, equipment, and intellectual property products, such as software. Such investment is labeled "fixed" to distinguish it from investment in inventories.

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

capital: Tangible and intangible resources that can be used or invested to produce a stream of benefits over time. The *capital stock* consists of land and the stock of products set aside to support future production and consumption, including business inventories and *fixed capital* (residential and nonresidential structures, producers' durable equipment, and intellectual property products, such as software). *Human capital* is the education, training, work experience, and other attributes that enhance the ability of the labor force to produce goods and services. The *capital* of a business is the value of the instrument that is put at risk by the business's owners. In an accounting sense, capital is a business's net worth or equity—the difference between its assets and liabilities. *Financial capital* comprises funds raised by governments, individuals, or businesses by incurring liabilities such as bonds, mortgages, or stock certificates.

capital gains and losses: The increase or decrease in the value of an asset that results from the increase or decrease in the asset's market price after it is purchased. A capital gain or loss is "realized" when the asset is sold.

capital income: Income that is derived from capital, such as stock dividends, realized capital gains, an owner's profits from a business, or the interest paid to holders of debt. See **labor income**.

capital services: A measure of the flow of services available for production from the stock of capital goods. Growth in capital services differs from growth in the capital stock because different types of capital goods (such as equipment, structures, inventories, or land) contribute to production in different ways.

cash accounting: A system of accounting in which revenues are recorded when cash is actually received and expenses are recorded when payment is made without regard to the accounting period in which the revenues were earned or costs were incurred. See **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 **monetary policy**.

central tendency: The range of economic projections—truncated to exclude the three highest and the three lowest projections—made by members of the Board of Governors of the Federal Reserve System and the presidents of the Federal Reserve Banks. Those projections are published twice a year in the minutes of the Federal Open Market Committee's meetings and twice a year in the Federal Reserve's *Monetary Policy Report*.

COLA: See **cost-of-living adjustment**.

commercial paper: A short-term money market security, generally sold by large financial institutions or corporations to raise funds. Commercial paper is sometimes backed by collateral or guaranteed by a bank, but more typically it is backed by the good faith of the issuer.

compensation: All of the income due to an employee for his or her work during a given period. In addition to wages, salaries, bonuses, and stock options, compensation includes fringe benefits and the employer's share of payroll taxes for social insurance programs, such as Social Security. (BEA) See **wages and salaries**.

conservatorship: The legal process by which an external entity (in the case of Fannie Mae and Freddie Mac, the

federal government) establishes control and oversight of a company with the goal of putting it in a sound and solvent condition. See **Fannie Mae** and **Freddie Mac**.

constant dollar: A measure of spending or revenues in a given year that has been adjusted for differences in prices (such as inflation) between that year and a base year. See **current dollar**, **nominal**, and **real**.

consumer confidence: An index of consumer optimism that is based on surveys of consumers' attitudes about current and future economic conditions. One such measure, the *consumer sentiment index*, is constructed by the University of Michigan's Survey Research Center. The Conference Board constructs a similar measure, the *consumer confidence index*.

consumer durable goods: Products that are designed for use by consumers and that have an average life of three years or more. Examples include automobiles and major household appliances. Also called *consumer durables*.

consumer price index (CPI): A measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services commonly referred to as *inflation*. Among the measures published by the Bureau of Labor Statistics are the *CPI-U*, an index designed to measure the change over time in the prices of a typical collection of goods and services purchased by all urban consumers, and the *CPI-W*, an index designed to measure the change over time in the prices of a typical collection of goods and services purchased by urban wage earners and clerical workers. (BLS) See **core inflation** and **inflation**.

consumer sentiment index: See **consumer confidence**.

consumption: In principle, the value of goods and services purchased and consumed over a given period by households and governments. In practice, the Bureau of Economic Analysis counts purchases of many long-lasting goods (such as cars and clothes) as consumption even though the goods are not used up. Consumption by households alone is also called *personal consumption expenditures* or *consumer spending*.

contract authority: Budget authority that permits an agency to incur obligations in advance of appropriations, including collections sufficient to liquidate the obligation

or receipts. Although contract authority is a form of budget authority, it does not provide the funds to make payments. Those funds must be provided later, usually in 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 appropriations.

core inflation: A measure of the rate of inflation that excludes changes in the prices of food and energy. See **consumer price index** and **inflation**.

cost estimate: Under the Congressional Budget and Impoundment Control Act of 1974, estimates of the impact that legislation under consideration by the Congress would have on the federal budget if the legislation became law. CBO provides such estimates for all legislation of a public character reported by a Congressional committee. Typically, those estimates are published in the report accompanying that legislation and are available on the agency's website. In CBO's cost estimates, a cost is *insignificant* if the cost is estimated to be less than \$500,000, and it is *negligible* if the cost is estimated to be close to zero.

cost-of-living adjustment (COLA): An annual increase in payments to reflect inflation.

cost sharing: Amounts that consumers are required to pay out of pocket when they use health care services, usually in the form of deductibles, coinsurance, and copayments.

cost-sharing subsidy: Financial support that reduces out-of-pocket payments for eligible low-income people with health insurance coverage provided by the health insurance marketplaces established under the Affordable Care Act. See **Affordable Care Act** and **health insurance marketplaces**.

CPI: See **consumer price index**.

credit default swap: An insurance contract on a credit instrument, such as a bond or loan, under which one party (the buyer) makes a series of premium payments to another party (the seller) and receives a payoff from the seller if the credit instrument goes into default.

credit program account: A budget account that receives and obligates appropriations to cover the subsidy cost (on a net-present-value basis) of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. Usually, a separate amount is also appropriated in the program account for administrative expenses that are directly related to credit program operations.

credit reform: The method of controlling and accounting for credit programs in the federal budget after fiscal year 1991. It requires that the credit subsidy cost be financed from new budget authority and be recorded as budget outlays at the time the direct or guaranteed loans are disbursed. The system was established by the Federal Credit Reform Act of 1990 (FCRA) and took effect at the beginning of fiscal year 1992. The discount rate used for FCRA estimates is tied to Treasury securities rather than to market rates. See **credit subsidy**, **discount rate**, **fair-value accounting**, and **present value**.

credit subsidy: The estimated long-term cost to the federal government of a direct loan or loan guarantee. That cost is calculated on a net-present-value basis, using interest rates on Treasury securities as the discount rate, and excludes 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, with adjustments for estimated defaults (net of recoveries), prepayments, fees, and penalties. 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 **credit reform**, **discount rate**, **fair-value accounting**, and **present value**.

current-account balance: A summary measure of a country's current transactions with the rest of the world, including net exports, net unilateral transfers, and net income from abroad. (BEA)

current dollar: "In current dollars" means valued in the prices of the current year. The current-dollar value of a good or service is its value in terms of prices current at the time the good or service is acquired or sold. See **constant dollar**, **nominal**, and **real**.

D**ebt:** Generally, the amount borrowed by the government from the public or from government accounts. In the case of the federal government, the total value of outstanding bills, notes, bonds, and other securities issued by the Treasury and other federal agencies. *Debt held by the public* consists mainly of securities that the Treasury issues to raise cash to fund the operations and pay off the maturing liabilities of the federal government that tax revenues are insufficient to cover. Such debt is held by outside investors, including the Federal Reserve System. Other measures include *debt held by government accounts* (debt issued for internal government transactions, to trust funds and other federal accounts, and not traded in capital markets); *gross federal debt* (the sum of debt held by the public and debt held by government accounts); and *debt subject to limit* (which is subject to a statutory ceiling that applies to gross federal debt, with the exception of a small portion of the debt issued by the Treasury and the small amount of debt issued by other federal agencies, such as the Tennessee Valley Authority and the Postal Service). Securities issued by Fannie Mae and Freddie Mac are not included in any of those measures of debt.

debt service: Payment of interest on, and repayment of principal on, borrowed funds. As used in some CBO reports, *debt service* refers to a change in interest payments resulting from a change in estimates of the deficit or surplus.

deficit: The amount by which the government's spending exceeds its revenues for a given period, usually a fiscal year. See **surplus**.

deflation: A sustained decrease in the general price level. Such decreases are reflected in general indexes of prices, such as the consumer price index. Deflation is usually caused by a collapse in aggregate demand. See **aggregate demand** and **inflation**.

deflator: An index used to adjust a current-dollar amount to its real-dollar counterpart—that is, to remove the effects of inflation.

demand: See **aggregate demand** and **domestic demand**.

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 (currently up to \$250,000) if the institution becomes insolvent.

depreciation: A 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, wear, or destruction (as by fire or flood) and is also called *consumption of fixed capital*. *Tax depreciation* is the depreciation that the tax code allows businesses to deduct when they calculate their taxable profits. It typically occurs more rapidly than *economic depreciation*, which is the actual decline in the value of an asset. Both measures of depreciation appear as part of the national income and product accounts. See **national income and product accounts**.

devaluation: The act of a government to lower the fixed exchange rate of its currency. The government maintains a fixed exchange rate by buying and selling its currency at that rate. It implements a devaluation by announcing that it will henceforth buy or sell its currency only at a new, lower exchange rate, which means that it will pay more of its currency for a given amount of foreign currency than it did before the devaluation. See **monetary policy**.

direct spending: See **mandatory spending**.

discount rate: The interest rate that a commercial bank pays when it borrows from a Federal Reserve Bank. Such borrowing, when allowed, enables a bank to meet its reserve requirements without reducing its lending. The term is also used to describe the interest rate used to determine the present value of a future stream of receipts and outlays, or in cost-benefit analysis, of benefits and costs. See **monetary policy** and **present value**.

discouraged workers: Jobless people who are available for work but not actively seeking it because they think they have poor prospects of finding a job. Discouraged workers are not included in measures of the labor force or the unemployment rate. (BLS) See **labor force** and **labor force participation rate**.

discretionary spending: The budget authority that is provided and controlled by appropriation acts and the outlays that result from that budget authority. See **mandatory spending**.

discretionary spending limits (or caps): Statutory ceilings imposed on the amount of budget authority or outlays provided in appropriation acts in a fiscal year. The current limits apply only to budget authority; the caps for 2016 and 2017 were set in the Bipartisan Budget Act of 2015; caps for 2018 through 2021 were established in the Budget Control Act of 2011. If the estimated budget authority provided in all appropriation acts for a fiscal year exceeds the spending limits for that year, a sequestration—a cancellation of budget authority provided for programs funded by appropriation acts—would be triggered.

disposable personal income: Personal income—the income that people receive, including transfer payments—minus the taxes and fees that people pay to governments. (BEA)

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

domestic economic profits: Corporations' domestic profits, adjusted to remove distortions in depreciation allowances caused by tax rules and to exclude the effect of inflation on the value of inventories. Domestic economic profits exclude certain income of U.S.-based multinational corporations that is derived from foreign sources, most of which does not generate corporate income tax receipts in the United States. Domestic economic profits are among the best measures of domestic profits from current production. In the national income and product accounts, domestic economic profits are referred to as *corporate profits with inventory valuation and capital consumption adjustments, domestic industries*. (BEA)

dynamic scoring: The incorporation into the 10-year cost estimates by CBO or the Joint Committee on Taxation of the budgetary impact resulting from major legislation's macroeconomic effects, generally for legislation that Congressional authorizing committees have approved.



CI: See **employment cost index**.

economic stimulus: Federal fiscal or monetary policies that are aimed at promoting economic activity and used primarily during recessions. Such policies include reductions in taxes, increases in federal spending, cuts in interest rates, and other support for financial markets and institutions. See **fiscal stimulus** and **monetary stimulus**.

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 paid to adjusted gross income. For corporate income taxes, it is the ratio of taxes paid to domestic economic profits. For some purposes—such as calculating an overall tax rate on all income—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. It can also be computed on a base of personal income as measured by the national income and product accounts. 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 paid to income different from statutory tax rates. See **marginal tax rate** and **statutory tax rate**.

elasticity: The responsiveness of one variable to a change in another variable. The elasticity is often quantified as the percentage change in one variable resulting from a 1 percent change in another variable. For example, an elasticity equal to 0.2 hours of work with respect to a change in one's hourly wage rate indicates that hours of work tend to increase by 0.2 percent when one's wage rate increases by 1 percent.

employer mandate: The provision of the Affordable Care Act that requires certain employers to either offer health insurance that meets specified standards or pay penalties if they have full-time employees who receive a subsidy through a health insurance marketplace established by the Affordable Care Act. The standards specify thresholds for affordability and the share of the cost of covered benefits paid by the employer's insurance plan. See **Affordable Care Act** and **health insurance marketplaces**.

employment: Work performed or services rendered in exchange for compensation. Two estimates of employment are commonly used. One comes from what is called the *establishment survey* of employers (the Department of Labor's Current Employment Statistics Survey), which measures employment as the estimated number of non-farm wage and salary jobs. (In that survey, a person with more than one job may be counted more than once.) The other estimate comes from what is known as the *household survey* (the Census Bureau's Current Population Survey), which measures employment as the estimated number of people employed. (In that survey, someone with more than one job is counted only once.) The establishment survey covers only people on the payrolls of nonagricultural establishments, whereas the broader household survey includes self-employed workers, agricultural workers, unpaid workers in family-owned businesses, and employees of private households. However, the household survey is based on a smaller sample than the establishment survey is and therefore yields a more volatile estimate of employment. See **labor force**.

employment cost index (ECI): An index of the average cost of an hour of labor—comprising the cost to the employer of wage and salary payments, employee benefits, and payroll taxes for social insurance programs, such as Social Security. The ECI is structured so that it is not affected by changes in the mix of occupations in the labor force or the mix of employment by industry. (BLS)

entitlement: A legal obligation of the federal government to make payments to a person, group of people, business, unit of government, or similar entity that meets the eligibility criteria set in law and for which the budget authority is not provided in advance in an appropriation act. Spending for entitlement programs is controlled through those programs' eligibility criteria and benefit or payment rules. The best-known entitlements are the government's major benefit programs, such as Social Security and Medicare. See **mandatory spending**.

establishment survey: See **employment**.

estate and gift taxes: A linked set of federal taxes on estates, gifts, and generation-skipping transfers that are designed to tax the transfer of wealth from one generation to the next and to limit the extent to which wealth can be given away during a person's lifetime to avoid the taxation of that wealth after the individual dies.

euro zone: The area comprising those member states of the European Union (EU) in which the euro has been adopted as the single currency and in which a single monetary policy is conducted under the responsibility of the European Central Bank. Also known as the *euro area*. (Several other countries use the euro as well, but they are not members of the EU. In addition, some members of the EU are not part of the euro zone.) The euro is the world's second largest reserve currency—and the second most traded currency—after the U.S. dollar.

exchange: See **health insurance marketplaces**.

exchange rate: The number of units of a currency that can be bought with one unit of another currency—for example, the number of euros that can be purchased with one dollar.

exchange subsidy: See **cost-sharing subsidy** and **premium assistance tax credit**.

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

expansion: A phase of the business cycle that begins when gross domestic product exceeds its previous peak and extends until gross domestic product reaches its next peak. (NBER)

Fair-value accounting: A method of accounting for the value of assets and liabilities that is based on actual market prices in a well-functioning market or approximations of market prices when directly comparable figures are unavailable. Fair-value estimates for an asset or liability can be approximated by computing the present value of the projected cash flows using discount rates inferred from the observed market prices of assets or liabilities with comparable cash flow timing and risks. The discount rate reflects market participants' appraisals of the market risks and other characteristics of the comparable assets or liabilities. See **credit reform**, **discount rate**, **market risk**, and **present value**.

Fannie Mae: Formerly known as the Federal National Mortgage Association, Fannie Mae is a government-sponsored enterprise founded during the Great Depression

and federally chartered in 1968 as a shareholder-owned corporation that operates exclusively in the secondary market for residential mortgages (the market in which such mortgages are bought and sold). Fannie Mae provides liquidity to the mortgage market by purchasing qualifying mortgages from private lenders, pooling and securitizing them, and then selling them as mortgage-backed securities in the secondary market. The company also holds mortgage-backed securities and whole mortgages in its portfolio. Since September 2008, Fannie Mae has been in federal conservatorship. See **conservatorship**, **Freddie Mac**, **government-sponsored enterprise**, and **mortgage-backed security**.

federal funds: In the federal accounting structure, all budgetary accounts composed of moneys collected and spent by the federal government other than those designated as trust funds. Federal fund accounts include general, special, public enterprise, and intragovernmental fund accounts. See **general fund** and **trust fund**.

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

federal investment: Expenditures by the federal government for long-lived assets that produce a stream of benefits over time. Those assets include structures, equipment, and intellectual property products (such as software and research and development).

Federal Open Market Committee: The group within the Federal Reserve System that determines the stance of monetary policy. The committee is composed of 12 members, including the 7 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 4 of the other 11 presidents of the regional Federal Reserve Banks. The open-market desk at the Federal Reserve Bank of New York implements the committee's monetary policy with open-market operations (the purchase or sale of government securities), which influence short-term interest rates—especially the federal funds rate—and the growth of the money supply.

Federal Reserve balance sheet: The accounting of the assets and liabilities of the Federal Reserve System. The Federal Reserve's assets traditionally consist of government securities and loans that it extends to its member banks; its liabilities traditionally consist of the currency it has issued as well as its holdings of member banks' reserve accounts.

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

financing account: A nonbudgetary account (or accounts) associated with each credit program account that holds balances, receives the subsidy cost payment from the credit program account, and includes all other cash flows to and from the government resulting from direct loan obligations or loan guarantee commitments made on or after October 1, 1991. As required by the Federal Credit Reform Act of 1990, such accounts reconcile subsidies calculated on an accrual basis with the cash flows associated with credit activities. The account tracks flows between the Treasury, the program account, and the public. The net cash flow in each financing account for a fiscal year is shown in the federal budget as *other means of financing*. See **liquidating account** and **program account**.

fiscal policy: Federal government policies with respect to taxes and spending that affect the level, composition, and distribution of national income and output. See **monetary policy**.

fiscal stimulus: A type of economic stimulus consisting of changes in revenues or spending that are intended to encourage economic activity. Fiscal stimulus typically takes the form of debt-financed changes in fiscal policy, such as temporary or permanent reductions in taxes or increases in the government's transfer payments or its purchases of goods and services. See **economic stimulus** and **monetary stimulus**.

fiscal year: Any yearly accounting period, regardless of its relationship to a calendar year. The fiscal year for the federal government begins on October 1 of each year and ends on September 30 of the following year; it is designated by the calendar year in which it ends. For example, fiscal year 2015 began October 1, 2014, and ended September 30, 2015. See **budget year**.

foreign direct investment: Financial investment by which a person or an entity acquires an active ownership share of a foreign business. As measured by the Bureau of Economic Analysis, foreign direct investment includes only investments that result in an ownership share greater than 10 percent of the value of a business.

forward funding: Budget authority that is made available for obligation beginning in the last quarter of the fiscal year for the financing of ongoing activities (usually grant programs) during the next fiscal year. This funding is used mostly for education programs, so that obligations for grants can be made prior to the beginning of the next school year. See **advance appropriation, obligation delay**, and **unobligated balances**.

Freddie Mac: Formerly known as the Federal Home Loan Mortgage Corporation, Freddie Mac is a government-sponsored enterprise founded and federally chartered in 1970 as a shareholder-owned corporation that operates exclusively in the secondary market for residential mortgages (the market in which such mortgages are bought and sold). Freddie Mac provides liquidity to the mortgage market by purchasing qualifying mortgages from private lenders, pooling and securitizing them, and then selling them as mortgage-backed securities in the secondary market. The company also holds mortgage-backed securities and whole mortgages in its portfolio. Since September 2008, Freddie Mac has been in federal conservatorship. See **conservatorship, Fannie Mae, government-sponsored enterprise**, and **mortgage-backed security**.



DI: See **gross domestic income**.

GDP: See **gross domestic product**.

GDP gap: The difference between actual and potential gross domestic product, expressed as a percentage of potential GDP.

GDP price index: A measure of the price level for the whole economy covering the prices of final goods and services produced in a country such as the United States. The change in the GDP price index is used as a measure of inflation in the overall economy.

general fund: Accounts in the U.S. Treasury holding all federal money not allocated by law to any other fund account. See **federal funds** and **trust fund**.

Ginnie Mae: Formerly known as the Government National Mortgage Association, Ginnie Mae is a government-owned corporation within the Department of Housing and Urban Development that guarantees the timely payment of principal and interest on securities that are backed by single-family and multifamily residential mortgages insured by government agencies, such as the Federal Housing Administration and the Department of Veterans Affairs.

GNP: See **gross national product**.

government-sponsored enterprise (GSE): A financial institution created by federal law—generally through a federal charter—to carry out activities such as increasing the availability of credit for borrowers or enhancing liquidity in particular sectors of the economy, notably agriculture and housing.

grants: Federal financial assistance awards making payments in cash or in kind to help fund projects or activities that do not involve substantial federal participation. Grants can be paid to nongovernmental recipients as well as state and local governments.

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: See **debt**.

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

gross domestic product (GDP): The value of all final goods and services produced within the borders of a country such as the United States in a given period, whether produced by residents or nonresidents. The components of GDP are personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures

and gross investment. That value is conceptually equal to the sum of incomes generated within the borders of the country in the same period. (BEA) See **national income and product accounts**.

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

gross national product (GNP): The value of all final goods and services produced by labor and capital supplied by residents of a country such as the United States in a given period, whether or not the residents are located within the country. That value is conceptually equal to the sum of incomes accruing to residents of the country in the same period. GNP differs from GDP in that GNP includes net receipts of income from the rest of the world while GDP excludes them.

GSE: See **government-sponsored enterprise**.

H **health insurance marketplaces:** Marketplaces for health insurance that were established by the Patient Protection and Affordable Care Act in which consumers can compare the premiums and benefits of health insurance plans that are available where they live. The marketplaces verify eligibility for, and help administer, federal tax credits and subsidies that reduce premiums and cost-sharing requirements for certain individuals and families. See **Affordable Care Act**, **cost-sharing subsidy**, and **premium assistance tax credit**.

home equity: The value that an owner has in a home, calculated by subtracting the value of any outstanding mortgages (or other loans) secured by the property from the home's current market value.

household survey: See **employment**.

I **individual mandate:** The provision of the Affordable Care Act requiring most citizens of the United States and lawfully present noncitizens to obtain health insurance or pay a penalty. Certain categories of people are exempt from paying penalties, including people with taxable

income below the filing threshold, people without access to affordable coverage, unauthorized immigrants, and people who obtain a hardship waiver. See **Affordable Care Act** and **employer mandate**.

inflation: A rise in the general price level measured through price indexes such as the consumer price index, usually expressed as an annual rate of change. See **consumer price index** and **core inflation**.

insurance exchange: See **health insurance marketplaces**.

interest rate spread: The difference between two interest rates.

inventories: Stocks of goods held by businesses 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; it represents an addition to the capital stock. As measured by the national income and product accounts, *private domestic investment* consists of investment in residential and nonresidential structures, producers' durable equipment, intellectual property products, such as software, and the change in business inventories. *Financial investment* is the purchase of a financial security, such as a stock, bond, or mortgage. *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.

L **labor force:** The number of people age 16 or older in the civilian noninstitutionalized population who have jobs or who are available for work and are actively seeking jobs. (The civilian noninstitutionalized population excludes members of the armed forces on active duty and people in penal or mental institutions or in homes for the elderly or infirm.) (BLS)

labor force participation rate: The labor force as a percentage of the civilian noninstitutionalized population age 16 or older. (BLS)

labor income: Income that is derived from employment, such as wages and salaries. See **capital income** and **wages and salaries**.

labor productivity: See **productivity**.

liquidating account: A budget account that includes all cash flows to and from the government resulting from direct loan obligations or loan guarantee commitments made before October 1, 1991. The Federal Credit Reform Act of 1990 requires that such accounts be shown in the budget on a cash basis. Agencies are required to transfer end-of-year unobligated balances in these accounts to the general fund as soon as practicable after the close of the fiscal year. See **financing account** and **program account**.

liquidity: With respect to an asset, liquidity is the quality of being readily convertible into cash—that is, the ease with which an asset can be bought and sold in large quantities without affecting its price. Treasury securities are among the most liquid of assets. With respect to an institution, liquidity is the ability to meet financial obligations by virtue of possessing cash or assets that can be readily converted into cash.

loan-to-value ratio: The relationship between the amount of a loan (such as a mortgage) and the value of the underlying collateral. The ratio is one measure that lenders use to assess the riskiness of a loan.

long-term interest rate: An interest rate associated with a security that matures in 10 or more years.

Mandatory spending: Synonymous with *direct spending*, mandatory spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority. (As used in many CBO reports, *mandatory spending* generally refers only to the outlays that result from budget authority provided in laws other than appropriation acts.) See **discretionary spending** and **entitlement**.

marginal tax rate: The percentage of an additional dollar of income that is paid in taxes. That rate can also include

the effect of reductions in benefits from government programs. See **effective tax rate** and **statutory tax rate**.

market risk: Risks that investors cannot protect themselves against by diversifying their portfolios. Market risk is one component of financial risk. It arises because most investments tend to perform relatively poorly when the economy is weak and relatively well when the economy is strong. People value income from investments more when the economy is weak and income is relatively low, and thus assign a higher cost to losses that occur during economic downturns. The higher cost of losses in bad times (as well as the lower cost in good times) is captured in the cost of market risk. Investors require compensation for bearing market risk. That compensation typically takes the form of a higher expected return, known as a *risk premium*. See **fair-value accounting** and **risk premium**.

MBS: See **mortgage-backed security**.

means of financing: Ways in which a budget deficit is financed or a budget 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 factors, known as *other means of financing*, include reductions (or increases) in the government's cash balances, seigniorage, changes in accrued interest costs included in the budget but not yet paid, and cash flows reflected in credit financing accounts. See **financing account** and **seigniorage**.

monetary policy: A policy affecting the money supply, interest rates, and credit availability that is intended to achieve maximum sustainable output and employment and to promote stable prices (interpreted as a low-inflation environment in practice). Monetary policy is directed by the Federal Reserve System. An “easy” monetary policy attempts to reduce interest rates to increase aggregate demand, but it may lead to higher inflation. A “tight” monetary policy attempts to raise interest rates in the near term to reduce inflationary pressure by lowering aggregate demand. See **central bank**, **discount rate**, and **fiscal policy**.

monetary stimulus: A type of economic stimulus consisting of an increase in the availability of (and hence a lower cost for) money and credit that is intended to encourage economic activity. The Federal Reserve can lower short-term interest rates (and, to a lesser extent, long-term rates) by purchasing Treasury or other securities through its open-market operations. To a more limited extent, it can provide stimulus by reducing the reserve ratio (the percentage of assets that member banks are required to keep on deposit at the Federal Reserve) or by lowering the discount rate (the rate at which it lends money to member banks). See **economic stimulus** and **fiscal stimulus**.

mortgage-backed security (MBS): A financial security whose payments of interest and principal are backed by the payments from a pool of mortgages. MBSs are sometimes structured to create multiple classes of claims (or “tranches”) of different seniority and timing. See **asset-backed security** and **securitization**.

multiplier: The fiscal multiplier is a measure of the change in a nation’s economic output generated by each dollar of the budgetary cost of a change in fiscal policy. The fiscal multiplier is composed of direct and indirect effects. Direct effects consist of the immediate (or first-round) effects of a policy’s budgetary change on the demand for goods and services. Indirect effects enhance or offset the direct effects on economic activity, and represent the total change in gross domestic product per dollar of direct effect. (CBO’s estimates of fiscal multipliers are described in *The Fiscal Multiplier and Economic Policy Analysis in the United States*, February 2015, www.cbo.gov/publication/49925.)

National income: Total income earned by U.S. residents from all sources, including employees’ compensation (wages, salaries, benefits, and employers’ share of payroll taxes for social insurance programs), corporate profits, net interest, rental income, and proprietors’ income.

national income and product accounts (NIPAs): The comprehensive set of accounts prepared and published by the Department of Commerce that measures the total

value of goods and services (gross domestic product, or GDP) produced by the U.S. economy and the total income earned in producing that output. (BEA)

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 surpluses). National saving represents all income not consumed, publicly or privately, during a given period. As measured by the Bureau of Economic Analysis, national saving does not include unrealized capital gains or losses.

natural rate of unemployment: The rate of unemployment arising from all sources except fluctuations in aggregate demand. Those sources include *frictional unemployment* and *structural unemployment*. Frictional unemployment is associated with the normal turnover of jobs. Structural unemployment includes unemployment caused by mismatches between the skills of available workers and the skills necessary to fill vacant positions and unemployment caused when wages exceed the level that would balance supply and demand because of institutional factors, such as statutory minimum wages, the presence of unions, social conventions, or wage-setting practices by employers that are intended to increase workers’ morale and effort. See **unemployment rate**.

net exports: A country’s exports of goods and services minus its imports of goods and services. Net exports are also referred to as the *trade balance*.

net federal government saving: A term used in the national income and product accounts (NIPAs) to identify the difference between federal current receipts and federal current expenditures (including consumption of fixed capital). When receipts exceed expenditures, net federal government saving is positive (formerly identified in the NIPAs as a federal government surplus); when expenditures exceed receipts, net federal government saving is negative (formerly identified in the NIPAs as a federal government deficit).

net income from abroad: The difference between receipts of labor and capital income from the rest of the world and payments of labor and capital income to the rest of the world.

net interest: In the federal budget, net interest comprises the government's interest payments on debt held by the public (as recorded in budget function 900), offset by interest income that the government receives on loans and cash balances and by earnings of the National Railroad Retirement Investment Trust.

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

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

nominal: A measure based on current-dollar value. *Nominal income* and *spending* are measured in current dollars—that is, in terms of the prices that prevailed at the time (with no adjustments to remove the effects of inflation). The *nominal interest rate* on debt is the promised dollar return (with no adjustments to remove the effects of expected inflation). The *nominal exchange rate* is the rate at which a unit of one currency trades for a unit of another currency. See **constant dollar**, **current dollar**, and **real**.



Obligation: A legally binding commitment by the federal government that will result in outlays, immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the government to make payments to the public or from one government account to another.

obligation delay: Legislation that precludes the obligation of an amount of budget authority provided in an appropriation act or in some other law until sometime after the first day on which the budget authority would normally be available. For example, language in an appropriation act for fiscal year 2016 that precluded 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, 2015 (the first day of fiscal year 2016). See **advance appropriation**, **forward funding**, and **unobligated balances**.

obligation limitation: A restriction on the amount, purpose, or period of availability of budget authority. Typically, an obligation limitation is included in an appropriation act. The limitation may affect budget authority provided in that act, but more often it affects direct spending that has been provided in an authorization act.

off-budget: Those budgetary accounts (either federal or trust funds) designated by law as excluded from budget totals. The revenues and outlays of the two Social Security trust funds (the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund) and the transactions of the Postal Service are off-budget (but are usually included in figures describing federal spending, revenues, and deficits).

offsetting receipts and collections: Funds collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are credited to an expenditure account (in the case of offsetting collections) or to a receipt account (in the case of offsetting receipts). Both types of collections are treated for budgetary purposes as negative budget authority and outlays. Collections that result from the government's exercise of its sovereign or governmental powers are ordinarily classified as revenues, but they are classified as offsetting collections or offsetting receipts when a law requires it. See **revenues**.

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

outlays: The issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. Outlays may pay for obligations incurred in a prior fiscal year or in the current year; hence, they flow partly from unexpended balances of prior-year budget authority and partly from budget authority provided for the current year. For most categories of spending, outlays are recorded on a cash accounting basis. However, outlays for interest on debt held by the public are recorded on an accrual accounting basis, as are outlays for direct loans and loan guarantees, which reflect estimated subsidy costs instead of cash transactions.

output gap: See **GDP gap**.

Pay-as-you-go (PAYGO): A statutory procedure that is intended to ensure that laws affecting direct spending or revenues are deficit neutral over a designated period. The procedure was first created in the Balanced Budget and Emergency Deficit Control Act of 1985, which expired at the end of 2006; a similar procedure was resurrected in the Statutory Pay-As-You-Go Act of 2010. *PAYGO* may also refer to the Senate rule (first established in 1993) or the House rule (first established in 2007) that prohibits consideration of direct spending or revenue legislation that is not deficit neutral within certain periods.

PCE price index: See **price index for personal consumption expenditures**.

personal income: See **disposable personal income**.

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

potential gross domestic product: An estimate of the amount of real gross domestic product attainable if labor and capital are employed at maximum sustainable rates. (Procedures for calculating potential GDP are described in *CBO's Method for Estimating Potential Output: An Update*, August 2001, www.cbo.gov/publication/13250.)

potential hours worked: An estimate of the number of hours worked that has been adjusted to exclude the effects of business-cycle fluctuations. CBO estimates potential hours worked in the nonfarm business sector, which accounts for about three-quarters of domestic economic activity.

potential labor force: An estimate of the size of the labor force that has been adjusted to exclude the effects of business-cycle fluctuations.

potential output: See **potential gross domestic product**.

premium assistance tax credit: Premium assistance tax credits are subsidies provided to eligible people to cover a

portion of their premium for health insurance purchased through a health insurance marketplace established by the Affordable Care Act. See **Affordable Care Act** and **health insurance marketplaces**.

present value: A single number that expresses a flow of revenues or outlays over time in terms of an equivalent lump sum received or paid at a specific time. That single number allows for more level comparisons of the costs of programs or projects that differ in the timing of their cash flows. The present value depends on the rate of interest (known as the *discount rate*) that is used to translate past and future cash flows into current dollars. For example, if \$100 is invested on January 1 at an annual interest rate of 5 percent, it will grow to \$105 by January 1 of the next year. Hence, at an annual 5 percent interest rate, the present value of \$105 payable a year from today is \$100. See **discount rate**.

price index for personal consumption expenditures (PCE price index): An index designed to measure the change over time in the prices of all goods and services that make up personal consumption expenditures. The Federal Reserve uses measures based on the PCE price index as its primary measures of inflation in conducting monetary policy, because those measures are more representative of current consumer spending patterns than is the consumer price index.

primary deficit or surplus: The total budget deficit or surplus excluding net interest.

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

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 services. 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)

program account: A budgetary account associated with a credit program that receives an appropriation of the subsidy cost of that program's loan obligations or commitments as well as (in some cases) the program's administrative expenses. From the program account, the subsidy cost is disbursed to the applicable financing account. See **financing account** and **liquidating account**.

R**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. A *real interest rate* is a nominal interest rate adjusted to remove the effects of expected inflation; in many cases, it is approximated by subtracting an estimate of the expected inflation rate from the nominal interest rate. See **constant dollar**, **current dollar**, and **nominal**.

recession: A significant decline in economic activity spread across the economy, lasting more than a few months, and normally visible in production, employment, real income, and other indicators. A recession begins just after the economy reaches a peak of activity and ends when the economy reaches its trough. (NBER) See **business cycle**.

reconciliation: A process that the Congress uses to reconcile amounts determined by tax, spending, credit, and debt legislation for a given fiscal year with levels set in the concurrent resolution on the budget for the year. The budget resolution may contain *reconciliation instructions*, which direct Congressional committees to make changes in laws under their jurisdictions that affect revenues or direct spending to achieve a specified budgetary result. The legislation to implement those instructions is usually combined into a comprehensive *reconciliation bill*, which is considered under special rules. Reconciliation affects revenues, direct spending, and offsetting receipts but usually not discretionary spending.

recovery: A significant, broad-based increase in economic activity that begins just after the economy reaches a trough of activity and ends when the economy reaches the level of its previous peak.

rescission: Legislation enacted by the Congress that cancels the availability of budget authority previously enacted before the authority would otherwise expire.

revenues: Funds collected from the public that arise from the government's exercise of its sovereign or governmental powers. They come from a variety of sources, including individual and corporate income taxes, excise taxes, customs duties, estate and gift taxes, payroll taxes for social insurance programs, and miscellaneous receipts (primarily remittances of the Federal Reserve System, fees, and fines). Federal revenues are also known as *federal governmental receipts*. See **offsetting receipts and collections**.

risk premium: The additional return (over the risk-free rate) that investors require to hold assets whose returns are risky. The risk premium is generally associated with aggregate or market risk—risks that cannot be eliminated by diversifying a portfolio. The risk premium for equities is also called the *equity premium*. See **market risk**.

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

S corporation: A domestically owned corporation with no more than 100 owners who have elected to pay taxes under subchapter S of the Internal Revenue Code. An S corporation is taxed in the same way as a partnership: It is exempt from the corporate income tax, but its owners pay individual income taxes on all of the business's profits, even if some of those profits are retained by the company.

savings bond: A nontransferable security denominated between \$50 and \$10,000 and sold by the Treasury either at a discount or at face value with an interest payment. The interest earned is exempt from state and local taxation and exempt from federal taxation until the bond is redeemed or reaches maturity.

securitization: A financial process that involves aggregating a number of assets into a pool (in many cases, by selling the assets to an entity specifically created for that purpose) and then issuing a new set of securities backed by the assets and the flows of income they generate. The aggregation of assets is intended to redistribute (and thus dilute) the risk that any of the assets will fail to generate the expected income flows. See **asset-backed security** and **mortgage-backed security**.

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. Seigniorage is considered a means of financing and is not included in budget totals. See **means of financing**.

sequestration: An enforcement mechanism by which the President orders the cancellation of budgetary resources in amounts sufficient to eliminate a debit on the statutory pay-as-you-go scorecards, a breach of discretionary caps under the Balanced Budget and Emergency Deficit Control Act of 1985, or a reduction in funding to certain mandatory programs under the Budget Control Act of 2011. First established in the Deficit Control Act as a means to eliminate deficits and, later, breaches of discretionary spending limits, the sequestration mechanism originally expired in 2006. However, it was implemented again in the Statutory Pay-As-You-Go Act of 2010 as the means to eliminate a debit on a pay-as-you-go scorecard caused by enacted legislation that affects direct spending or revenues. The Budget Control Act reinstated the sequestration mechanism to enforce its discretionary spending caps on budget authority—if those caps are exceeded, the President will order the cancellation of discretionary budgetary resources for that year (or the following one, if the excess occurs late in the current year) in an amount sufficient to eliminate any breach. The Budget Control Act also implemented a separate sequestration procedure to reduce mandatory spending; that procedure has been legislated to extend beyond 2021.

short-term interest rate: An interest rate associated with a security that matures within one year.

state and local government security: A timed deposit sold by the Treasury to issuers of state and local government tax-exempt debt to facilitate compliance with the Internal Revenue Code's arbitrage provisions, which restrict state and local governments from earning profits by investing bond proceeds in higher-yielding investments.

statutory tax rate: A tax rate specified by law. In some cases, such as with individual and corporate income taxes, the statutory tax rate varies with the amount of taxable income. (For example, under the federal corporate income tax, the statutory tax rate for companies with taxable income below \$50,000 is 15 percent, whereas the

rate for corporations with taxable income greater than \$18.3 million is 35 percent.) In other cases, the statutory tax rate is uniform. (For instance, the statutory federal excise tax rate on gasoline is 18.4 cents per gallon for all taxpayers.) See **effective tax rate** and **marginal tax rate**.

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

subsidy cost: See **credit subsidy**.

surplus: The amount by which the government's total receipts exceed its total outlays for a given period, usually a fiscal year. See **deficit**.

Taylor rule: A rule for the conduct of monetary policy—specifically, the setting of the federal funds rate on the basis of how much inflation differs from a target inflation rate and how much the unemployment rate differs from an estimated natural rate of unemployment. In some formulations of the Taylor rule, the difference between gross domestic product and an estimate of potential gross domestic product is used instead of the difference in unemployment rates. (Named after John Taylor, an economist who proposed such a rule in 1993.) See **federal funds rate**, **monetary policy**, and **natural rate of unemployment**.

TIPS: See **Treasury security**.

total factor productivity: See **productivity**.

trade balance: See **net exports**.

trade-weighted value of the dollar: The value of the U.S. dollar relative to the currencies of U.S. trading partners, with the weight of each country's currency equal to that country's share of U.S. trade. The *real trade-weighted value of the dollar* is an index of the trade-weighted value of the dollar whose movement is adjusted for the difference between U.S. inflation and inflation among U.S. trading partners. An increase in the real trade-weighted value of the dollar means that the price of goods and services produced in the United States has increased relative to the price of goods and services produced overseas.

transfer payment: A payment made for which no current or future goods or services are required in return. Federal transfer payments include Social Security and unemployment benefits. (BEA)

Treasury security: A debt instrument of the U.S. Treasury issued to finance the operations of the government or to refinance the government's debt. A *Treasury bill* is the shortest-term federal debt instrument or security. Treasury bills mature within 1 year after the date of issue. A *Treasury note* is a federal debt instrument with an original maturity of more than a year but not more than 10 years. A *Treasury bond* is a federal debt instrument with an original maturity of more than 10 years. A *Treasury inflation-protected security (TIPS)* is a security issued by the Treasury that is designed to protect investors from inflation by offering a fixed real rate of interest. The principal of such securities is linked to the consumer price index and thus adjusted to reflect the change in that index; at maturity, the security pays the greater of the original or the adjusted principal. Holders of TIPS receive semiannual coupon payments that are based on the fixed rate of interest and the adjusted principal amount.

trust fund: In the federal accounting structure, an account designated by law as a trust fund (regardless of any other meaning of that term). A trust fund records the revenues, offsetting receipts, or offsetting collections earmarked for the purpose of the fund, as well as budget authority and outlays of the fund that are financed by those revenues or receipts. The largest and best known trust funds finance major benefit programs (such as the Social Security and Medicare trust funds) or infrastructure spending (such as the Highway Trust Fund and the Airport and Airway Trust Fund). See **federal funds** and **general fund**.

U**nemployment rate:** As defined by the Bureau of Labor Statistics, the number of people who do not have jobs but have actively looked for work in the previous four weeks and are currently available for work, expressed as a percentage of the civilian labor force. (BLS) See **natural rate of unemployment**.

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 during the years specified. When budget authority is provided for an unspecified number of years, unobligated balances are carried forward indefinitely, until one of the following occurs: the balances are expended or rescinded, the purpose for which they were provided is accomplished, or no disbursements have been made for two consecutive years. See **advance appropriation**, **forward funding**, and **obligation delay**.

user fee: Money that the federal government charges for services, or for the sale or use of federal goods or resources, that generally provide benefits to the recipients beyond those that may accrue to the general public. The amount of a user fee is typically related to the cost of the service provided or the value of the good or resource used. In the federal budget, user fees can be classified as offsetting collections, offsetting receipts, or revenues. See **offsetting receipts and collections** and **revenues**.

W**ages and salaries:** The monetary (or cash) portion of the income due to an employee for his or her work during a given period, including wages, salaries, bonuses, and stock options. It excludes fringe benefits and the employer's share of payroll taxes for social insurance programs, such as Social Security. See **compensation**.

withholding: The deduction of taxes by an employer or other payer from wages or other taxable payments to be transmitted directly to a government. Federal tax withholding includes deductions for income taxes, as well as contributions to Social Security and Medicare (payroll taxes). When taxpayers file their tax returns at the end of the taxable year, they either pay the balance of unpaid tax liability or receive any overpayment as a refund. Federal tax withholding is classified as revenues in the federal budget when received by the Treasury.

Yield: The average annual rate of return promised on an investment. For a fixed-income security, such as a bond, the yield is determined by several factors, including the security's interest rate, face value, current price, and assumed holding period. The *yield to maturity* is the effective interest rate earned on a fixed-income security if it is held until the date on which it comes due for payment.

yield curve: The relationship formed by plotting the yields of otherwise comparable fixed-income securities (such as Treasury securities) against their terms to maturity. Typically, yields increase as maturities lengthen, and the rate of increase determines the "steepness" or "flatness" of the yield curve.

