Introduction to Quarterly Estimates of the Federal Budget Deficit or Surplus With and Without Automatic Stabilizers

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The Congressional Budget Office (CBO) routinely publishes fiscal year estimates of the federal budget deficit that would occur under current law if the influences of the business cycle on the budget—the automatic stabilizers—were removed.[1] Those estimates are based on the accounting framework of the *Budget of the United States Government,* which is prepared by the Office of Management and Budget and generally used by executive branch agencies and the Congress and reported in the press. The accounting framework focuses on the cash receipts and outlays of the federal government.

To supplement CBO's estimates of the federal budget deficit without automatic stabilizers, the spreadsheet accompanying this introduction provides quarterly estimates of net federal government saving without automatic stabilizers based on the national income and product accounts (NIPAs), which are maintained by the Department of Commerce's Bureau of Economic Analysis. The NIPA measure of net federal government saving (which is akin to but not the same as the federal budget deficit or surplus) translates the cash flows of the official budget into measures that are better suited for national saving in the NIPA framework.[2] Estimates of net federal saving, without automatic stabilizers, that are based on the NIPAs tend to be more useful for researchers, especially for statistical analysis related to economic issues such as the effect of fiscal policy on economic growth and national saving.[3] By comparison, estimates of the deficit with and without automatic stabilizers that are tied to the federal budget tend to be more useful for policymakers.

CBO makes the quarterly estimates of net federal government saving without automatic stabilizers by relating quarterly NIPA data on federal receipts and expenditures to economic conditions.[4] Those results produce estimates of the effect of the business cycle on net federal government saving, which are then converted to fiscal years and used to adjust the official numbers of the federal budget.

Users of the quarterly numbers for net federal government saving without stabilizers should note that the underlying historical NIPA data are subject to significant revision; historical budget data, by contrast, are rarely revised significantly. Every year (usually in July), the Bureau of Economic Analysis issues revisions for previous years. When the revisions are large, quarterly changes in the NIPA measure of net federal government saving can change from positive to negative or vice versa. Thus, a particular quarter that had been viewed as temporarily stimulative to short-term growth (shown by a decrease in net federal government saving) could, after the NIPA revisions, appear restrictive, or vice versa.

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[1] See Congressional Budget Office, *The Effects of Automatic Stabilizers on the Federal Budget as of 2013* (March 2013), www.cbo.gov/publication/43977.

[2] Because of many conceptual and accounting differences between those two presentations of the federal deficit or surplus, the average of the four fiscal year quarters of the NIPA numbers (for example, 2008Q4 through 2009Q3) does not match the corresponding fiscal year number in the federal budget. For a discussion of differences between the official budget of the United States and the federal budget as measured in the national income and product accounts, see Congressional Budget Office, *CBO's Projections of Federal Receipts and Expenditures in the Framework of the National Income and Product Accounts* (May 2012), www.cbo.gov/publication/43230.

[3] An important difference between the official budget deficit and the NIPA measure of net federal government saving is that the latter excludes such purely financial transactions as the sale of government assets, and most transactions under the Troubled Asset Relief Program, because those transactions do not help to measure current production and income.

[4] For a discussion of a methodology similar to that used by CBO, see Darrel Cohen and Glenn Follette, "The Automatic Fiscal Stabilizers: Quietly Doing Their Thing," *Economic Policy Review,* Federal Reserve Bank of New York, vol. 6, no. 1 (April 2000), pp. 35–68, http://ideas.repec.org/a/fip/fednep/y2000iaprp35-67nv.6no.1.html. See also Glenn Follette and Byron Lutz, *Fiscal Policy in the United States: Automatic Stabilizers, Discretionary Fiscal Policy Actions, and the Economy*, Finance and Economic Discussion Series, 2010-43 (Federal Reserve Board, June 2010), http://ideas.repec.org/p/fip/fedgfe/2010-43.html.