# Glossary

This glossary defines economic and budgetary terms as they apply to *The Budget and Economic Outlook* and also acts as a general reference for readers. Some entries sacrifice technical precision for the sake of brevity and clarity. Where appropriate, entries note the sources of data for economic variables as follows:

(BEA) refers to the Bureau of Economic Analysis in the Department of Commerce;

(BLS) refers to the Bureau of Labor Statistics in the Department of Labor;

(CBO) refers to the Congressional Budget Office;

(FRB) refers to the Federal Reserve Board; and

(NBER) refers to the National Bureau of Economic Research, a private research organization.

**Accrual accounting:** A system of accounting in which revenues are recorded when they are earned and outlays 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. Compare with **cash accounting.**

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

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

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

**AGI:** See **adjusted gross income.**

**alternative minimum tax (AMT):** A tax intended to limit the extent to which higher-income taxpayers 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 taxpayer's AMT liability.

**appropriation act:** A law or legislation under the jurisdiction of the House and Senate Committees on Appropriations that provides authority for federal programs or agencies to incur obligations and make payments from the Treasury. Each year, the Congress considers regular appropriation acts, which fund the operations of the federal government for the upcoming fiscal year; 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 for that year is enacted). See **budget authority, fiscal year,** and **obligation.**

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

## B

**Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177):** Referred to in CBO's reports as the Deficit Control Act, it was originally known as Gramm-Rudman-Hollings. Among other changes to the budget process, the law establishes rules that govern the calculation of the baseline. It also set specific deficit targets and a sequestration procedure to reduce spending if those targets were exceeded; the targets were changed to discretionary spending limits and pay-as-you-go (PAYGO) controls by the Budget Enforcement Act of 1990. However, the discretionary spending limits and the sequestration procedure to enforce them expired on September 30, 2002. PAYGO and its sequestration procedure were rendered ineffective on December 2, 2002, when Public Law 107-312 reduced all PAYGO balances to zero. See **baseline, discretionary spending limits, pay-as-you-go,** and **sequestration.**

**baseline:** A benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending. For purposes of the Deficit Control Act, the baseline is the projection of current-year levels of new budget authority, outlays, revenues, and the deficit or surplus into the budget year and out-years based on current laws and policies, calculated following the rules set forth in section 257 of that act. See **fiscal year.**

**basis point:** 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 approximately 50 private-sector economic forecasts compiled and published monthly by Aspen Publishers, Inc.

**book depreciation:** See **depreciation.**

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

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

**Budget Enforcement Act of 1990:** See **Balanced Budget and Emergency Deficit Control Act of 1985.**

**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. See **budget authority, net interest, offsetting receipts,** and **outlays.**

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

**budget year:** See **fiscal year.**

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

**business cycle:** Fluctuations in overall business activity accompanied by swings in the unemployment rate, interest rates, and corporate profits. Over a business cycle, real activity rises to a peak (its highest level during the cycle) 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 **real** and **unemployment rate.**

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

# C

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

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

**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 they are actually received and outlays are recorded when payment is made. Compare with **accrual accounting.**

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

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

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

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

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

**consumption:** In principle, the value of goods and services purchased and used up during a given period by households and governments. In practice, the Bureau of Economic Analysis counts purchases of many longlasting goods (such as cars and clothes) as consumption even though the goods are not used up. Consumption by households alone is also called "consumer spending." See **national income and product accounts.**

**contract authority:** Authority in law to enter into contracts or incur other obligations in advance of, or in excess of, funds available for that purpose. Although it is a form of budget authority, contract authority 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. See **appropriation act, budget authority,** and **obligation.**

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

**CPI:** See **consumer price index.**

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

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

**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 factor income (primarily the capital income from foreign property received by residents of a country offset against the capital income from property in that country flowing to residents of a foreign country). (BEA) See **net exports** and **unilateral transfers.**

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

**current year:** See **fiscal year.**

**cyclical deficit or surplus:** The portion of the federal budget deficit or surplus that results from the business cycle. The cyclical component reflects the way in which the deficit or surplus automatically increases or decreases during economic expansions or recessions. (CBO) See **business cycle;** compare with **cyclically adjusted budget deficit or surplus.**

**cyclically adjusted budget deficit or surplus:** The level of the federal budget deficit or surplus that would occur under current law if the influence of the business cycle was removed—in other words, if the economy operated at potential GDP. (CBO) See **business cycle** and **potential GDP;** compare with **cyclical deficit or surplus.**

# D

**Debt:** The total value of outstanding notes, bonds, bills, and other debt instruments issued by the federal government is referred to as *federal debt* or *gross debt*. It has two components: *debt held by the public* (federal debt held by nonfederal investors, including the Federal Reserve System) and *debt held by government accounts* (federal debt held by federal government trust funds, deposit insurance funds, and other federal accounts). *Debt subject to limit* is federal debt that is subject to a statutory limit on its issuance. The limit applies to federal debt, excluding a small portion of the debt issued by the Department of the Treasury and all of the small amount of debt issued by other federal agencies (primarily the Tennessee Valley Authority and the Postal Service).

**debt service:** Payment of scheduled interest obligations on outstanding debt. As used in CBO's *Budget and Economic Outlook*, debt service refers to a change in interest payments resulting from a change in estimates of the deficit or surplus. See **net interest.**

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

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

**deflation:** A drop in general price levels that is so broadly based that general indexes of prices, such as the consumer price index, register continuing declines. Deflation is usually caused by a collapse in aggregate demand. See **aggregate demand** and **consumer price index.**

**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 (up to $100,000) 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). *Book depreciation* (also known as tax depreciation) is the depreciation that the tax code allows businesses to deduct when they calculate their taxable profits. It typically occurs at a faster rate than *economic depreciation*, which is the actual decline in the value of the asset. Both measures of depreciation appear as part of the national income and product accounts. See **book profits** and **national income and product accounts.**

**devaluation:** The act of a government to lower the fixed exchange rate of its currency. The government implements a devaluation by announcing that it will no longer maintain the existing rate by buying and selling its currency at that rate. See **exchange rate**.

**direct spending:** Synonymous with mandatory spending, direct spending is budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority. (As used in CBO's *Budget and Economic Outlook*, direct spending refers only to the outlays that result from budget authority provided in laws other than appropriation acts). For the purposes of the Deficit Control Act, direct spending includes entitlement authority and the Food Stamp program. See **appropriation act, budget authority, entitlement,** and **outlays;** compare with **discretionary spending.**

**discount rate:** The interest rate that the Federal Reserve System charges on a loan it makes to a bank. Such loans, when allowed, enable a bank to meet its reserve requirements without reducing its lending. Alternatively, the discount rate is the interest rate used to compute the present value of future payments (such as for pension plans). See **present value.**

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

**discretionary spending:** Budget authority that is provided and controlled by appropriation acts and the outlays that result from that budget authority. See **appropriation act** and **outlays;** compare with **direct spending.**

**discretionary spending limits (or caps):** Statutory ceilings imposed on the amount of budget authority provided in appropriation acts in a fiscal year and on the outlays that are made in that fiscal year. The limits were originally established in the Budget Enforcement Act of 1990. Under the law, if the estimated budget authority provided in all appropriation acts for a fiscal year (or the outlays that resulted from that budget authority) exceeded the spending limit for that year, a sequestration—a cancellation of budget authority provided for programs funded by appropriation acts—would be triggered. All discretionary spending limits and the sequestration procedure to enforce them expired on September 30, 2002. See **appropriation act, Balanced Budget and Emergency Deficit Control Act of 1985, budget authority, discretionary spending, outlays,** and **sequestration.**

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

**domestic demand:** Total purchases of 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 **gross domestic product** and **net exports;** compare with **aggregate demand.**

# E

**ECI:** See **employment cost index.**

**Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16):** This law significantly reduces tax liabilities (the amount of tax owed) over the 2001-2010 period by cutting individual income tax rates, increasing the child tax credit, repealing estate taxes, raising deductions for married couples filing jointly, increasing tax benefits for pensions and individual retirement accounts, and creating additional tax benefits for education. The law phases in many of those changes over time, including some that are not fully effective until 2010. Although one provision has been made permanent, the remainder of the law's provisions are scheduled to expire on or before December 31, 2010. See **Jobs and Growth Tax Relief Reconciliation Act of 2003** and **Job Creation and Worker Assistance Act of 2002.**

**economic profits:** Corporations' profits, adjusted to remove distortions in depreciation allowances caused by tax rules and to exclude the effect of inflation on the value of inventories. Economic profits are a better measure of profits from current production than are the book profits reported by corporations. Economic profits are referred to as "corporate profits with inventory valuation and capital consumption adjustments" in the national income and product accounts. (BEA) See **book profits, depreciation,** and **national income and product accounts.**

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

**EGTRRA:** See **Economic Growth and Tax Relief Reconciliation Act of 2001.**

**employment:** Work performed or services rendered in exchange for compensation. Two estimates of employment are commonly used: those from the *establishment survey,* which is based on a survey of employers (the Current Employment Statistics Survey), and from the *household survey,* which is based on a survey of households (the Current Population Survey). The establishment survey measures employment as the estimated number of nonfarm wage and salary jobs (so a person with more than one job may be counted more than once). That survey does not include the unincorporated self-employed, unpaid family workers, agriculture and related workers (except in the area of logging), private household workers, and workers who are temporarily absent from their jobs (for instance, those on leave without pay or on strike). The household survey measures employment as the estimated number of employed people (so a person with more than one job is counted only once). The household survey is based on a smaller sample than the establishment survey and thus yields a more volatile estimate of employment. See **compensation** and **unemployment rate.**

**employment cost index (ECI):** An index of the weighted-average cost of an hour of labor—comprising the cost to the employer of wage and salary payments, employee benefits, and contributions for social insurance programs, such as Social Security. The ECI is structured so that it is not affected by changes in the population's mix of occupations or 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 the eligibility criteria and benefit or payment rules. The best-known entitlements are the major benefit programs, such as Social Security and Medicare. See **appropriation act, budget authority,** and **direct spending.**

**establishment survey:** See **employment.**

**exchange rate:** The number of units of a foreign currency that can be bought with one unit of the domestic currency, or vice versa.

**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 extending from the date that gross domestic product exceeds its previous peak to the next peak. (NBER) See **business cycle, gross domestic product,** and **recovery;** compare with **recession.**

**expenditure account:** An account established within federal funds and trust funds to record appropriations, obligations, and outlays (as well as offsetting collections) that are usually financed from an associated receipt account. See **federal funds** and **trust funds;** compare with **receipt account.**

# F

**fan chart:** A graphic representation of CBO's baseline projections that includes not only a single line representing the outcome expected under the baseline's economic assumptions but also the various possible outcomes surrounding that line, based on the reasonable expectations of error in the underlying assumptions.

**federal funds:** In the federal accounting structure, federal funds are all accounts through which collections of money and expenditures are recorded, except those classified by law as trust funds. Federal funds include several types of funds, one of which is the general fund. See **general fund;** compare with **trust funds.**

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

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

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

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

**fiscal policy:** The government's tax and spending policies, which influence the amount and maturity of government debt as well as the level, composition, and distribution of national output and income.

**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 2007 will begin on October 1, 2006, and end on September 30, 2007. The *budget year* is the fiscal year for which the budget is being considered; in relation to a session of Congress, it is the fiscal year that starts on October 1 of the calendar year in which that session of Congress begins. An *out-year* is a fiscal year following the budget year. The *current year* is the fiscal year in progress.

**foreign direct investment:** Financial investment by which a person or an entity acquires a lasting interest in, and a degree of influence over, the management of a business enterprise in a foreign country. (BEA)

**forward funding:** The provision of budget authority that becomes available for obligation in the last quarter of a fiscal year and remains available during the following fiscal year. This form of funding typically finances ongoing education grant programs. See **budget authority** and **fiscal year;** compare with **advance appropriation, obligation delay,** and **unobligated balances.**

## G

**GDI:** See **gross domestic income.**

**GDP:** See **gross domestic product.**

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

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

**general fund:** One category of federal funds in the government's accounting structure. The general fund records all revenues and offsetting receipts not earmarked by law for a specific purpose and all spending financed by those revenues and receipts. See **federal funds, offsetting receipts,** and **revenues;** compare with **trust funds.**

**GNP:** See **gross national product.**

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

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

**gross debt:** See **debt.**

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

**gross domestic product (GDP):** The total market value of goods and services produced domestically during a given period. That value is conceptually equal to gross domestic income, but measurement difficulties result in a statistical discrepancy between the two. The components of GDP are consumption (both household and government), gross investment (both private and government), and net exports. (BEA) See **consumption, gross investment,** and **net exports.**

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

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

## H

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

**household survey:** See **employment.**

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

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

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

**investment:** *Physical investment* is the current product set aside during a given period to be used for future production—in other words, an addition to the stock of capital goods. As measured by the national income and product accounts, private domestic investment consists of investment in residential and nonresidential structures, producers' durable equipment, and the change in business inventories. *Financial investment* is the purchase of a financial security, 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. See **capital, inventories,** and **national income and product accounts.**

**JCWAA:** See **Job Creation and Worker Assistance Act of 2002.**

**JGTRRA:** See **Jobs and Growth Tax Relief Reconciliation Act of 2003.**

**Job Creation and Worker Assistance Act of 2002 (Public Law 107-147):** This law reduced business taxes by allowing businesses to immediately deduct a portion of capital purchases, increasing and extending certain other deductions and exemptions, and expanding the ability of unprofitable corporations to receive refunds of past taxes paid. Those provisions expire on varying dates. The law also provided tax benefits for areas of New York City damaged on September 11, 2001, and additional weeks of unemployment benefits to recipients who exhausted their eligibility for regular state benefits. See **Economic Growth and Tax Relief Reconciliation Act of 2001** and **Jobs and Growth Tax Relief Reconciliation Act of 2003.**

**Jobs and Growth Tax Relief Reconciliation Act of 2003 (Public Law 108-27):** This law reduced taxes by advancing to 2003 the effective date of several tax reductions previously enacted in EGTRRA. It also increased the exemption amount for the individual alternative minimum tax, reduced the tax rates for income from dividends and capital gains, and expanded the portion of capital purchases that businesses could immediately deduct under JCWAA. The tax provisions expire on varying dates. (The law also provided an estimated $20 billion for fiscal relief to states.) See **Economic Growth and Tax Relief Reconciliation Act of 2001** and **Job Creation and Worker Assistance Act of 2002.**

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

**labor productivity:** See **productivity.**

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

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

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

# M

**Mandatory spending:** See **direct spending.**

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

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

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

# N

**National income:** Total income earned by U.S. residents from all sources, including employee compensation (wages, salaries, benefits, and employers' contributions to social insurance programs), corporate profits, net interest, rental income, and proprietors' income. See **gross national product.**

**national income and product accounts (NIPAs):** Official U.S. accounts that track the level and composition of gross domestic product, the prices of its components, and the way in which the costs of production are distributed as income. (BEA) See **gross domestic product**.

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

**natural rate of unemployment:** The rate of unemployment arising from all sources except fluctuations in aggregate demand. Those sources include *frictional unemployment*, which is associated with normal turnover of jobs; *structural unemployment*, which includes unemployment caused by mismatches between the skills of available workers and the skills necessary to fill vacant positions; and unemployment caused by such institutional factors as legal minimum wages, the presence of unions, social conventions, or employer wage-setting practices intended to increase workers' morale and effort. See **aggregate demand** and **unemployment rate**.

**net exports:** Exports of goods and services produced in a country minus the country's imports of goods and services produced elsewhere; also referred to as the trade balance.

**net federal government saving:** A term used in the national income and product accounts 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). See **national income and product accounts**.

**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. See **budget function** and **debt**.

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

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

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

# O

**obligation:** A legally binding commitment by the federal government that will result in outlays, immediately or in the future. See **outlays.**

**obligation delay:** Legislation that precludes the obligation of an amount of budget authority provided in an appropriation act or in some other law until some time after the first day on which that budget authority would normally be available. For example, language in an appropriation act for fiscal year 2006 that precludes obligation of an amount until March 1 is an obligation delay; without that language, the amount would have been available for obligation on October 1, 2005 (the first day of fiscal year 2006). See **appropriation act** and **fiscal year;** compare with **advance appropriation, forward funding,** and **unobligated balances.**

**obligation limitation:** A provision of a law or legislation that restricts or reduces the availability of budget authority that would have become available under another provision of law. Typically, an obligation limitation is included in an appropriation act. The limitation may affect budget authority provided in that act, but more often, the limitation affects direct spending that has been provided in an authorization act. Generally, when it becomes routine for an appropriation act to place an obligation limitation on direct spending, the limitation is treated as a discretionary resource and the associated outlays are treated as discretionary spending. See **appropriation act, authorization act, budget authority, direct spending, discretionary spending,** and **outlays.**

**off-budget:** Spending or revenues excluded from the budget totals by law. 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. As a result, they are excluded from the totals and other amounts in the budget. See **budget resolution, outlays, revenues,** and **trust funds.**

**offsetting collections:** Funds collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are required by law to be credited directly to an expenditure account. Offsetting collections, treated as negative budget authority and outlays, are credits against the budget authority and outlays (either direct or discretionary spending) of the account to which the collections are credited. Collections that result from the government's exercise of its sovereign or governmental powers are ordinarily classified as revenues but will be classified as offsetting collections when the law requires that treatment. See **budget authority, direct spending, discretionary spending, expenditure account,** and **outlays**; compare with **offsetting receipts** and **revenues.**

**offsetting receipts:** Funds collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are credited to a receipt account. Offsetting receipts, treated as negative budget authority and outlays, offset gross budget authority and outlays in calculations of total direct spending. Collections that result from the government's exercise of its sovereign or governmental powers are ordinarily classified as revenues but will be classified as offsetting receipts when the law requires that treatment. See **budget authority, direct spending, outlays,** and

**receipt account;** compare with **offsetting collections** and **revenues.**

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

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

**out-year:** See **fiscal year**.

**P**

**ay-as-you-go (PAYGO):** A procedure established in the Budget Enforcement Act of 1990 that was intended to ensure that all laws enacted before September 30, 2002, that affected direct spending and revenues were budget neutral. The budgetary effect of each direct spending and revenue law was estimated over a five-year period and entered on the PAYGO scorecard. If, in any budget year, the deficit increased as a result of the total budgetary effects of laws on that scorecard, a PAYGO sequestration—a cancellation of budgetary resources available for direct spending programs—would be triggered. PAYGO and its sequestration procedure were rendered ineffective on December 2, 2002, when Public Law 107-312 reduced all PAYGO balances to zero. See **Balanced Budget and Emergency Deficit Control Act of 1985, direct spending, fiscal year, revenues,** and **sequestration.**

**peak:** See **business cycle.**

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

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

**point of order:** The procedure by which a member of a legislature (or similar body) questions an action being taken, or that is proposed to be taken, as contrary to that body's rules, practices, or precedents.

**potential GDP:** The level of real gross domestic product that corresponds to a high level of resource (labor and capital) use. (CBO's procedure for estimating potential GDP is described in *CBO's Method for Estimating Potential Output: An Update*, August 2001.) See **gross domestic product, potential output,** and **real**.

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

**potential output:** The level of production that corresponds to a high level of resource (labor and capital) use. Potential output for the national economy is also referred to as potential GDP. (CBO's procedure for estimating potential output is described in *CBO's Method for Estimating Potential Output: An Update*, August 2001.) See **potential GDP**.

**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 present value depends on the rate of interest used (the discount rate). 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.

**primary surplus:** See **surplus**.

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

**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) See **capital services.**

**program account:** Any budgetary account associated with a credit program that receives an appropriation of the subsidy cost of that program's loan obligations or commitments as well as, in most cases, the program's administrative expenses. From the program account, the subsidy cost is disbursed to the applicable financing account. See **credit subsidy** and **financing 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. *Real data* at the finest level of disaggregation are constructed by dividing the corresponding nominal data, such as spending or wage rates, by a price index. Real aggregates, such as real GDP, are constructed by a procedure that allows the real growth of the aggregate to reflect the real growth of its components, appropriately weighted by the importance of the components. A *real interest rate* is a nominal interest rate adjusted for expected inflation; it is often approximated by subtracting an estimate of the expected inflation rate from the nominal interest rate. See **inflation**; compare with **current dollar** and **nominal.**

**real trade-weighted value of the dollar:** See **trade-weighted value of the dollar.**

**receipt account:** An account established within federal funds and trust funds to record offsetting receipts or revenues credited to that fund. The receipt account typically finances the obligations and outlays from an associated expenditure account. See **federal funds** and **trust funds;** compare with **expenditure account.**

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

**reconciliation:** A special Congressional procedure often used to implement the revenue and spending targets established in the budget resolution. The budget resolution may contain *reconciliation instructions*, which direct Congressional committees to make changes in revenue or direct-spending laws under their jurisdictions to achieve a specified budgetary result. The legislation to implement those instructions is usually combined into one comprehensive *reconciliation bill*, which is then considered under special rules. Reconciliation affects revenues, direct spending, and offsetting receipts but usually not discretionary spending. See **budget resolution, direct spending, discretionary spending, offsetting receipts,** and **revenues.**

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

**rescission:** The withdrawal of authority to incur financial obligations that was previously provided by law and has not yet expired. See **budget authority** and **obligation.**

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

**risk premium:** The additional return that investors require to hold assets whose returns are more variable than those of riskless assets. The risk can arise from many sources, such as the possibility of default (in the case of corporate or municipal debt) or the volatility of interest rates or earnings (in the case of corporate stock).

## S

**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 like a partnership: it is exempt from the corporate income tax, but its owners pay individual income taxes on all of the firm's income, even if some of the earnings are retained by the firm.

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

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

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

**sequestration:** An enforcement mechanism established in the Balanced Budget and Emergency Deficit Control Act of 1985 that resulted in the cancellation of budgetary resources available for a fiscal year. The mechanism enforced the discretionary spending limits and pay-as-you-go (PAYGO) procedures of that act, as amended. A sequestration of discretionary budget authority would occur in a fiscal year if the budget authority or outlays provided in appropriation acts exceeded the applicable discretionary spending limit for that year. A PAYGO sequestration would occur in a fiscal year if the total budgetary effect of direct spending and revenue laws was not deficit neutral in that year. The discretionary spending limits and the sequestration procedure to enforce them expired on September 30, 2002. PAYGO and its sequestration procedure were rendered ineffective on December 2, 2002, when Public Law 107-312 reduced all PAYGO balances to zero. See **appropriation act, budget authority, direct spending, discretionary spending limits, outlays, pay-as-you-go,** and **revenues.**

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

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

**subsidy cost:** See **credit subsidy.**

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

## T

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

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

**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 the trade-weighted value of the dollar that takes account of the difference between U.S. price inflation and price inflation among U.S. trading partners. An increase in the real trade-weighted value of the dollar means that the price of U.S.-produced goods and services has increased relative to the price of foreign-produced goods and services.

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

**trough:** See **business cycle.**

**trust funds:** In the federal accounting structure, trust funds are accounts designated by law as trust funds (regardless of any other meaning of that term). Trust funds record the revenues, offsetting receipts, or offsetting collections earmarked for the purpose of the fund, and budget authority and outlays of that fund financed by those revenues or receipts. The federal government has more than 200 trust funds. The largest and best known finance major benefit programs (including Social Security and Medicare) and infrastructure spending (the Highway and the Airport and Airway Trust Funds). See **offsetting collections, offsetting receipts, outlays,** and **revenues;** compare with **federal funds.**

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

**unilateral transfers:** Payments from sources within the United States to sources abroad, and vice versa, that are not made in exchange for goods or services, such as a private gift sent abroad, a pension payment from a U.S. employer to an eligible person living in a foreign country, or taxes paid to the United States by people living overseas.

**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, the unobligated balances are carried forward indefinitely, until either they are expended or rescinded, the purpose for which they were provided is accomplished, or no disbursements have been made for two consecutive years. See **budget authority** and **obligation;** compare with **advance appropriation, forward funding,** and **obligation delay.**

**user fee:** Money charged by the federal government for federal 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 the fee is 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 collections, offsetting receipts,** and **revenues.**

**WFTRA:** See **Working Families Tax Relief Act of 2004.**

**Working Families Tax Relief Act of 2004 (Public Law 108-311):** This law retained JGTRRA's acceleration of the tax reductions originally phased in under EGTRRA and extended numerous other provisions of the Internal Revenue Code that had expired or were set to expire, including the research and experimentation tax credit, parity in the application of certain mental health benefits, and the increased share of rum excise tax revenues that is paid to Puerto Rico and the U.S. Virgin Islands. In addition, the law established a uniform definition of a "qualifying child" for determining taxpayers' filing status and eligibility for certain tax credits and exemptions. See **Economic Growth and Tax Relief Reconciliation Act of 2001** and **Jobs and Growth Tax Relief Reconciliation Act of 2003.**

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

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