Glossary

(Updated January 2012)

This glossary defines various economic and budgetary terms as they are commonly used in reports by the Congressional Budget Office. The document is updated periodically, principally to keep abreast of current laws. In some cases, the 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 Board of Governors of the Federal Reserve System, and
- NBER refers to the National Bureau of Economic Research (a private entity).

accrual accounting: A method of accounting that records expenses when they are incurred and revenues when they are earned rather than when payments are made or received. 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 for such things as alimony payments 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 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 year in which it will become available. Compare with **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) and the amendments made to that law by the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152).

aggregate demand: Total purchases by consumers, businesses, governments, and foreigners of a country's output of final goods and services 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 people 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.

American Recovery and Reinvestment Act of 2009 (ARRA, Public Law 111-5): This law was intended to boost aggregate demand in response to the recession that began at the end of calendar year 2007. It provided appropriations for a variety of federal programs and increased or extended some benefits from Medicaid, unemployment compensation, and nutrition assistance programs, among others. ARRA also reduced individual and corporate income taxes and made other changes to tax law.

AMT: See **alternative minimum tax.**

appropriation act: A law or legislation under the jurisdiction of the House and Senate Appropriations Committees 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 coming 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).

ARRA: See **American Recovery and Reinvestment Act of 2009.**

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.

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: A law or legislation under the jurisdiction of a committee other than the House and Senate Appropriations Committees that establishes or continues the operation of a federal program or agency, either indefinitely or for a specified period. An authorization act may suggest the 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.

automatic stabilizers: Provisions in law that decrease a government's revenues and increase its expenditures when the economy goes into a recession (and vice versa when the economy expands) without requiring any new action on the part of the government. Stabilizers tend to reduce the depth of recessions and dampen expansions.

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, this law has also been known as Gramm-Rudman-Hollings. Among other changes to the budget process, it established rules that governed the calculation of CBO's baseline. In addition, it set specific deficit targets, as well as procedures for sequestration to reduce spending if those targets were exceeded. The targets were changed to discretionary spending limits and pay-as-you-go controls by the Budget Enforcement Act of 1990. Although those limits and controls, and the sequestration procedures to enforce them, originally expired in late 2002, discretionary spending limits and sequestration to enforce them were reinstated by the Budget Control Act of 2011.

baseline: A benchmark against which the budgetary effects of proposed changes in federal revenues or spending are measured. As defined in the Deficit Control Act, the baseline is the projection of new budget authority, outlays, revenues, and the deficit or surplus into the budget year and out-years on the basis of current laws and policies, calculated following the rules set forth in section 257 of that law. Although section 257 originally expired in September 2006, the Budget Control Act of 2011 reinstated it without modification. 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.

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 and published monthly by Aspen Publishers.

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 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.

Budget Control Act of 2011 (Public Law 112-25): Among other changes, this law reinstated much of the Deficit Control Act, set caps on discretionary budget authority through 2021, established procedures for raising the debt limit, created the Joint Select Committee on Deficit Reduction to propose budgetary changes that would reduce deficits by at least $1.5 trillion over 10 years, and established distinct and automatic procedures to cut spending by as much as $1.2 trillion if legislation originating with the committee did not achieve the required deficit reduction.

Budget Enforcement Act of 1990 (Public Law 101-508, title XIII): Among other changes to the budget process, this law first established discretionary spending limits and pay-as-you-go controls by amending the 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.

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 outyears. The plan consists of targets for spending and revenues. Subsequent appropriation acts and authorization acts that affect revenues or direct spending are expected to comply with those targets. The 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: 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.

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)

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. 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. *Physical capital*—also known as *fixed capital* or the *capital stock*—consists of land and the stock of products set aside to support future production and consumption, including business inventories and *capital goods* (residential and nonresidential structures and producers' durable equipment). *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 sum advanced and put at risk by the business's owners; for example, *bank capital* is the sum put at risk by the owners of a bank. In an accounting sense, capital is a business's net worth or equity—the difference between its assets and liabilities. *Financial capital* is wealth held in the form of financial instruments (such as stocks, bonds, and mortgages) rather than held directly in the form of physical capital.

capital gains and losses: The increase or decrease in the value of an asset that comes from the increase or decrease in the asset's market price after its purchase. 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. Compare with **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 method of accounting that records revenues when they are actually received (rather than when they are earned) and outlays when payments are made (rather than when expenses are incurred). 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.

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)

Congressional Budget Act of 1974: The short name for titles I–IX of the Congressional Budget and Impoundment Control Act of 1974, as amended (2 U.S.C. 601–661). This law established a process through which the Congress could systematically consider the total spending policy of the United States and determine priorities for allocating budgetary resources. The process called for procedures to coordinate Congressional revenue and spending decisions made in separate tax, appropriation, and legislative measures. It established the House and Senate Budget Committees, the Congressional Budget Office, the requirements for adopting concurrent resolutions on the budget, and the reconciliation process.

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.

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. Compare with **current dollar** and **nominal.**

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 at least three years. Examples include automobiles and major household appliances.

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)

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 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: Authority provided by law to enter into contracts or incur other obligations in advance of, or in excess of, funds available for that purpose. 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.

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

counterparty: Either party (but usually referring to the other party) that enters into a contract or participates in a financial transaction. In the financial services sector, counterparty can refer to a broker, investment bank, or other securities dealer that serves as the contracting party in completing an "over-the-counter" securities transaction. Counterparty is generally used in that context in relation to *counterparty risk*—the risk of monetary loss that a firm may be exposed to if the counterparty to an over-the-counter securities trade has difficulty meeting its obligations under the terms of the transaction.

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 reform: A system of budgeting and accounting for federal credit activities that focuses on the cost of the subsidies conveyed in federal credit assistance. The system was established by the Federal Credit Reform Act of 1990 and took effect at the beginning of fiscal year 1992.

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, adjusted 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.

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 by the capital income from property in that country flowing to residents of foreign countries). (BEA)

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. Compare with **constant dollar** and **real.**

current year: The fiscal year in progress.

cyclical deficit or surplus: The part 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 decreases or increases during economic expansions or recessions. (CBO) Compare with **cyclically adjusted budget deficit or surplus.**

cyclically adjusted budget deficit or surplus: The federal budget deficit or surplus that would occur under current law if the influence of the business cycle was removed—that is, if the economy operated at potential gross domestic product. (CBO) Compare with **cyclical deficit or surplus.**

D

debt: In the case of the federal government, the total value of outstanding bills, notes, bonds, and other debt instruments issued by the Treasury and other federal agencies. *Debt held by the public* consists mainly of securities that the Treasury issues to raise cash in order 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 scheduled interest obligations on outstanding debt. As used in the Congressional Budget Office's semiannual report *The Budget and Economic Outlook,* 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 federal government's total outlays exceed its total revenues in a given period, typically a fiscal year. Compare with **surplus.**

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

deflation: A persistent drop in prices 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.

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.

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.

direct spending: See **mandatory spending.**

discount rate: The interest rate that the Federal Reserve System charges on a loan it makes to a bank through its so-called discount window. 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 income or payments.

discouraged workers: Jobless people who are available for work but are 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)

discretionary spending: The budget authority that is provided and controlled by appropriation acts and the outlays that result from that budget authority. Compare with **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, which cover fiscal years 2012 to 2021, were established in the Budget Control Act of 2011 and apply only to budget authority. Under that law, if the estimated budget authority provided in all appropriation acts for a fiscal year exceeded 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) Compare with **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)

ECI: See **employment cost index**.

Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, Public Law 107-16): This law significantly reduced tax liabilities (the amount of tax owed) between 2001 and 2010 by cutting individual income tax rates, increasing the child tax credit, repealing estate taxes, raising deductions for married couples who file a joint return, increasing tax benefits for pensions and individual retirement accounts, and creating additional tax benefits for education. EGTRRA phased in many of those changes, including some that did not become fully effective until 2010. For legislation that modified or extended provisions of EGTRRA, see **Jobs and Growth Tax Relief Reconciliation Act of 2003** and **Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.**

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.

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. Compare with **marginal tax rate** and **statutory tax rate.**

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

Emergency Economic Stabilization Act of 2008 (Public Law 110-343, Division A): This law created the Troubled Asset Relief Program to purchase and insure some types of assets, thus promoting stability in financial markets.

emergency liquidity facilities: Programs that the Federal Reserve established in response to the 2008–2009 financial crisis to provide short-term loans to financial institutions. Such loans helped to avert the distressed sale of assets, which could have caused some institutions to become insolvent or enter bankruptcy.

employment: Work performed or services rendered in exchange for compensation. Two estimates of employment are commonly used. One comes from the so-called *establishment survey* of employers (the Department of Labor's Current Employment Statistics Survey), which measures employment as the estimated number of nonfarm 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 the so-called *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 it yields a more volatile estimate of employment.

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 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. Compare with **mandatory spending.**

establishment survey: See **employment**.

estate and gift taxes: A linked set of federal taxes on estates, gifts, and generation-skipping transfers 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 life to avoid taxation at death.

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 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.

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)

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. Compare with **receipt account.**

F

Fannie Mae (Federal National Mortgage Association): 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.

Federal Credit Reform Act of 1990 (title V of the Congressional Budget Act of 1974): This law changed the treatment of direct loans and loan guarantees in the federal budget from a cash basis to an accrual basis. It requires that the federal budget record nonadministrative costs and collections associated with a new loan or loan guarantee on a present-value basis in the year in which the loan is disbursed. Under credit reform, the federal cash flows associated with loans and loan guarantees are discounted to that time of disbursement using the interest rates on Treasury securities of comparable maturity.

federal funds: In the federal accounting structure, 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. Compare with **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 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 required for a credit program (by the Federal Credit Reform Act of 1990) that reconciles 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 an *other means of financing.* Compare with **liquidating account** and **program 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 stimulus: A type of economic stimulus consisting of changes in tax rates or government spending intended to encourage economic activity. Fiscal stimulus typically takes the form of temporary or permanent reductions in tax rates or debt-financed increases in the government's transfer payments or its purchases of goods and services. Compare with **monetary stimulus.**

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 2013 will begin on October 1, 2012, and end on September 30, 2013. 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 began.

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: 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. Forward funding typically finances ongoing education grant programs. Compare with **advance appropriation, obligation delay,** and **unobligated balances.**

Freddie Mac (Federal Home Loan Mortgage Corporation): 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 (MBSs) in the secondary market. The company also holds MBSs and whole mortgages in its portfolio. Since September 2008, Freddie Mac has been in federal conservatorship.

GDI: 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 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.

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.

Ginnie Mae (Government National Mortgage Association): 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. Two of the housing GSEs, Fannie Mae and Freddie Mac, were put into federal conservatorship in September 2008.

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

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

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

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

gross national product (GNP): The total market value of 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 gross domestic product primarily by including the capital income that residents earn from investments abroad and excluding the capital income that nonresidents earn from domestic investment.

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

Health Care and Education Reconciliation Act of 2010 (Public Law 111-152): One of two laws enacted in March 2010 that made major changes to the U.S. health care and health insurance systems, this law amended many provisions that were created or amended by the Patient Protection and Affordable Care Act. It also amended the Higher Education Act of 1965, replacing the federal program that provides guarantees for student loans with direct loans and increasing spending for the Pell Grant program. See **Affordable Care Act** and **Patient Protection and Affordable Care Act.**

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**.

Inflation: Growth in a general measure of prices, usually expressed as an annual rate of change.

insurance exchange: Established in March 2010 by the Patient Protection and Affordable Care Act and scheduled to begin operating in 2014, state-level insurance exchanges will serve as marketplaces in which consumers can compare the premiums and benefits of health insurance plans available where they live. Each state's exchange will verify eligibility for, and help administer, federal tax credits and subsidies that will reduce premiums and cost-sharing requirements for certain individuals and families.

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 and 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.

Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA, Public Law 108-27): This law reduced taxes by advancing to 2003 the effective date of several tax reductions previously enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001. JGTRRA also increased the exemption amount for the individual alternative minimum tax, reduced tax rates for income from dividends and capital gains, and expanded the portion of capital purchases that businesses could immediately deduct through 2004. Its tax provisions were set to expire on various dates, and some have been extended temporarily. (JGTRRA also provided roughly $20 billion for fiscal relief to states.)

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.) The *labor force participation rate* is 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. Compare with **capital income.**

labor productivity: See **productivity**.

liquidating account: A budgetary account associated with a credit program that records all cash flows resulting from direct loan obligations and loan guarantee commitments made under the program before October 1, 1991. Compare with **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 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.

M

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 the Congressional Budget Office's semiannual report *The Budget and Economic Outlook*, mandatory spending refers only to the outlays that result from budget authority provided in laws other than appropriation acts.) Compare with **discretionary spending** and **entitlement.**

marginal tax rate: The tax rate that would apply to an additional dollar of a taxpayer's income. Compare with **effective tax rate** and **statutory tax rate.**

market risk: Risks that investors cannot protect themselves against by diversifying their portfolios. Market risk is the common component of risk in the prices of all assets. Because investments exposed to market risk are more likely to have low returns when the economy as a whole is weak and resources are highly valued, investors require compensation for market risk. That compensation typically takes the form of a higher expected return, known as a *risk premium.*

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

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.

monetary policy: The strategy of influencing the availability and cost of money and credit to affect output and inflation. 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. The Federal Reserve System sets monetary policy in the United States.

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). Compare with **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.

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): Official U.S. accounts that track the amount 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)

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,* which is associated with normal turnover of jobs, and *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 when wages exceed their market-clearing levels because of institutional factors, such as legal minimum wages, the presence of unions, social conventions, or wage-setting practices by employers that are intended to increase workers' morale and effort.

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 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. The *nominal interest rate* on debt is the promised dollar return, without an adjustment 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. Compare with **constant dollar** and **real.**

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

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 the budget authority would normally be available. For example, language in an appropriation act for fiscal year 2010 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, 2009 (the first day of fiscal year 2010). 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 law. 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. Generally, when an appropriation act routinely places an obligation limitation on direct spending, the limitation is treated as a discretionary resource, and the associated outlays are treated as discretionary spending.

off-budget: Spending or revenues sometimes 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 (but are included in the total budget).

offsetting collections and 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 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. Compare with **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; 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, and outlays for direct loans and loan guarantees reflect estimated subsidy costs instead of cash transactions.

output gap: See **GDP gap.**

out-year: A fiscal year following the budget year.

Patient Protection and Affordable Care Act (Public Law 111-148): One of two laws enacted in March 2010 that made major changes to the U.S. health care and health insurance systems, this law established a mandate for most legal residents to obtain health insurance, provided subsidies for health insurance, and expanded Medicaid. It offset the costs of those provisions with increased taxes and other revenues and with reduced Medicare spending. The law also included several changes to the private health insurance market and measures designed to enhance the delivery and quality of care. See **Affordable Care Act** and **Health Care and Education Reconciliation Act of 2010.**

pay-as-you-go (PAYGO): A procedure established in law that is intended to ensure that laws affecting direct spending or revenues are deficit neutral over some period of time. The procedure was first created in the Deficit Control Act, 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 time 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) Compare with **private saving.**

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

potential hours worked: The number of hours worked by the potential labor force.

potential labor force: The labor force adjusted for movements in the business cycle. Specifically, it is the labor force that exists when the unemployment rate equals the natural rate of unemployment.

potential output: The level of production that corresponds to a high level of use of labor and capital. Potential output for the national economy is also referred to as *potential gross domestic product.* (Procedures for calculating potential output are described in *CBO's Method for Estimating Potential Output: An Update,* August 2001.)

premium assistance credit: A refundable tax credit that will be available beginning in 2014 for the purchase of health insurance through an insurance exchange. Some nonelderly people with modified adjusted gross income between 138 percent and 400 percent of the federal poverty level will be eligible for the credit. People who have offers of health insurance coverage from their employer generally will not be eligible.

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 (known as the discount rate) that is used to translate 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.

price index for personal consumption expenditures (PCE price index): A summary measure of 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. The PCE price index is also referred to as the *chained price index for personal consumption expenditures.*

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) Compare with **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. Compare with **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. *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 gross domestic product, 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 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. Compare with **current dollar** and **nominal.**

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. Compare with **expenditure account.**

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)

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

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, payroll taxes 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 (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*.

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 business's profits, even if some of those profits are retained by the company.

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

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.

seigniorage: The gain to the government from the difference between the face value of currency and coins put into circulation and the cost of producing them. Seigniorage is considered a means of financing and is not included in the budget totals.

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, or a breach of discretionary caps under the Deficit Control Act, or a deficit calculated under the Budget Control Act. 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 of 2011 reinstated the sequestration mechanism to enforce its discretionary spending caps on budget authority—the President will order the cancellation of discretionary budgetary resources for a fiscal year in an amount sufficient to eliminate any breach of those caps in any budget year. The Budget Control Act also implemented a separate sequestration procedure for each fiscal year from 2013 through 2021 to reduce the deficit over that period by at least $1.2 trillion.

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

state and local government security (SLGS): 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 Pay-As-You-Go Act of 2010 (Public Law 111-139, title I): This law established requirements generally intended to ensure that laws affecting revenues or direct spending do not worsen federal budget deficits. The Office of Management and Budget maintains pay-as-you-go (PAYGO) scorecards for rolling 5-year and 10-year periods. Each scorecard displays a running tally of the average annual budgetary effects of enacted legislation subject to the PAYGO requirements. If, at the end of a session of Congress, there is a debit on either the 5-year or the 10-year scorecard for the budget year, the President implements a sequestration of available budgetary resources for nonexempt direct spending programs sufficient to eliminate the debit for that year. For legislation subject to the PAYGO requirements, the Chairs of the House and Senate Budget Committees submit an estimate of the budgetary effects of the legislation for printing in the *Congressional Record* before the legislation is voted on. The pay-as-you-go legislation contains a statement requiring its budgetary effects to be determined by reference to that estimate. If that procedure is not followed, the Office of Management and Budget is responsible for preparing the cost estimates of enacted legislation.

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.) Compare with **effective tax rate** and **marginal tax rate.**

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. Compare with **deficit.**

sustainable growth rate (SGR): The formula that determines updates to payment rates for physicians under the Medicare program. The SGR sets annual and cumulative spending targets for those payments. If total spending exceeds the targets, an across-the-board reduction is supposed to be made in future payment rates to bring spending back into line (both annually and cumulatively).

Since 2003, however, the Congress and the President have overridden such reductions.

T

TARP: See **Troubled Asset Relief Program.**

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 tax act, Public Law 111-312): This law extended through 2012 various provisions set to expire in 2010 that were initially enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, or the American Recovery and Reinvestment Act of 2009. The extensions affected individual income tax rates, credits, and deductions. The 2010 tax act also increased the exemption amount for the alternative minimum tax, reduced employees' share of the Social Security payroll tax, modified other tax provisions, and extended benefits for the long-term unemployed.

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.)

TIPS: See **Treasury inflation-protected 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 U.S.-produced goods and services has increased relative to the price of foreign-produced goods and services.

transfer payments: Payments made to a person 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)

Treasury bill: A security issued by the Treasury with an original maturity of no more than one year. Interest on a Treasury bill is the difference between the purchase price and the value paid at redemption.

Treasury bond: A fixed-rate, interest-bearing security issued by the Treasury with an original maturity of more than 10 years.

Treasury inflation-protected security (TIPS): 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 a TIPS is linked to the consumer price index and is 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 interest payments that are based on the fixed rate of interest and the adjusted principal amount.

Treasury note: A fixed-rate, interest-bearing security issued by the Treasury with an original maturity of more than a year but not more than 10 years.

Troubled Asset Relief Program (TARP): A program that permits the Secretary of the Treasury to purchase or insure troubled financial assets. Authority for the program was initially set by the Emergency Economic Stabilization Act of 2008 at $700 billion in assets outstanding at any one time; the authority to make new investments has expired. The TARP's activities have included the purchase of preferred stock from financial institutions, support for automakers and related businesses, a program to avert housing foreclosures, and partnerships with the private sector.

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 federal government has more than 200 trust funds. The largest and best known of those 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). Compare with **federal funds.**

U

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

Unfunded Mandates Reform Act of 1995 (UMRA, Public Law 104-4): This law, parts of which are incorporated as title IV of the Congressional Budget Act of 1974, was enacted to address concerns about federal statutes and regulations that require state, local, and tribal governments or the private sector to expend resources (or forgo revenues) to achieve a legislative goal. In addition to such mandates, requirements that are not tied to conditions of assistance or that add responsibilities in some large entitlement programs are defined in the law as federal mandates. UMRA requires Congressional committees, the Congressional Budget Office, the Office of Management and Budget, and agencies in the executive branch to provide information about the nature and cost of potential federal mandates to help the Congress and agency decisionmakers as they consider proposed legislation and rules.

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. Compare with **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.

W

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.

Y

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, purchase 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.