CBO REPORT

The Standardized and Cyclically Adjusted Budgets: Updated Estimates

September 2002

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, SW
WASHINGTON, DC 20515

The Standardized and Cyclically Adjusted Budgets: Updated Estimates

September 2002

The Congress of the United States
Congressional Budget Office

Notes

Numbers in the text and tables of this report may not add up to totals because of rounding.

All of the years referred to in relation to the budget and the business cycle are federal fiscal years.

Contents

Tables

The Standardized and Cyclically Adjusted Budgets: Updated Estimates

In August 2002, the Congressional Budget Office (CBO) released its updated baseline projections of federal revenues, outlays, surpluses, and deficits for the next 10 years.[1] Those projections show that the federal budget has gone from a surplus of $236 billion in 2000 to a deficit of about $157 billion in 2002 and that, if current policies continue, it is likely to show a deficit of $145 billion in 2003. The size of the budget surplus or deficit reflects temporary factors, such as the effects of the business cycle or of one-time shifts in the timing of federal spending and tax receipts, as well as the longer lasting impact of legislation, such as the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Job Creation and Worker Assistance Act of 2002 (JCWAA). To help separate out those factors, this report presents updated estimates of two adjusted budget measures. Those measures are the cyclically adjusted surplus or deficit (which filters out the effects of the business cycle) and the standardized-budget surplus or deficit (which removes the effects of the business cycle and other factors).

By those measures, roughly one-third of the projected decline in the total surplus between 2000 and 2003 results from "automatic stabilizers"—the automatic response of the budget to the business cycle. Most of the remaining two-thirds is attributable to legislative action: primarily EGTRRA, JCWAA, and increases in discretionary spending (including emergency appropriations enacted in response to the terrorist attacks of September 11). The largest increase in the deficit during that period occurs in 2002. Legislation accounts for roughly half of that increase, and automatic stabilizers for about one-quarter. The rest results from a variety of factors, including unusually large tax refunds this year (stemming from overpayment of

1. See Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2002).

estimated and withheld taxes in 2001) and, most likely, weakness in tax payments on capital gains realizations.

The year-to-year changes in the standardized and cyclically adjusted budgets suggest that fiscal stimulus (a reduction in government saving that increases total demand) during the recent recession was unusual in both its magnitude and timing. During some past periods of recession, by contrast, the passage of stimulative measures was delayed, resulting in fiscal restraint during the recession and stimulus that began only after the recovery was under way.

Why Adjust Measures of the Total Surplus or Deficit?

Despite some limitations, both conceptual and empirical, budget measures that separate out cyclical and other temporary factors are useful in a number of ways. For example, some analysts use those measures to determine whether fiscal policy is providing stimulus to short-term growth. Others use them to discern underlying trends in government saving. More generally, those measures provide an estimate of the extent to which changes in the budget are caused by normal movements of the business cycle and thus are likely to prove temporary.

Drops in revenues and increases in outlays occur automatically during a cyclical downturn and then correct themselves in a cyclical upturn. Those changes are called *automatic stabilizers* because they help even out cyclical swings in the overall level of demand for goods and services, adding to demand during recessions and reducing it during booms. The *cyclically adjusted surplus or deficit* shows the underlying outcome of the federal budget when those automatic stabilizers are removed.

Policy actions by the Congress and the President, such as legislated tax cuts or increases in spending during recessions, can also affect demand. Those actions create changes in the total budget surplus or deficit that are separate from the automatic cyclical movements. The cyclically adjusted surplus or deficit includes those legislated changes. It also reflects other factors, not directly connected with changes in policy, that alter revenues or spending. For example, drops in the stock market can cause revenue shortfalls because receipts from capital gains taxes decline, as has happened in the past two years. (Movements in capital gains tax receipts are not treated as cyclical because the correlation between those receipts and the business cycle is usually tenuous.) Similarly, even explicit budget decisions can produce temporary changes in the timing of tax receipts or government spending. CBO calculates another measure, the *standardized-budget surplus or deficit*, that attempts to adjust for those factors as well. To calculate that measure, CBO must judge whether each factor is likely to affect total demand significantly. As a result, the standardized-budget surplus or deficit is the more speculative of the two measures presented here.

Those measures consider only the short-run impact of the government's budget on total demand in the economy. But federal taxes and spending affect the economy in many ways and alter the prospects for economic growth in the longer run, by changing incentives to work, save, and invest. Frequently—as when EGTRRA was enacted—both short-term and longer-term effects are intended. However, budget measures are generally not useful in identifying the economic effects of changes in incentives.[2] CBO's estimates of those longer-term effects are incorporated in its economic forecasts.[3]

Automatic Stabilizers

The automatic stabilizers built into the fiscal system help sustain total demand during a recession, thus dampening the severity of the recession.[4] The main automatic stabilizer occurs when tax revenues decline as wages and salaries, corporate profits, and other tax bases shrink in a business downturn. Because of the progressivity of the tax system, revenues drop slightly more in percentage terms than those tax bases do. The effect of the drop in revenues is that consumers' after-tax income declines by less during a recession than their pretax income does, thus cushioning the effect of the recession on consumption.[5] Another automatic stabilizer is the increase in spending for entitlement programs such as unemployment insurance, Food Stamps, and Medicaid that occurs as unemployment rises. Because those stabilizers are automatic, they do not require that policymakers recognize the downturn and act quickly—they automatically occur on time. Moreover, when a recession ends, the automatic stabilizers turn themselves off without the need for policy intervention.

---

2. The supply-side effects on work and investment are generally thought to be smaller in the short run than in the long run. In the end, however, the impact of fiscal stimulus on the supply of labor and capital will largely depend on how the stimulus is financed. In general, if it is ultimately financed by reducing federal spending, supply-side effects will be enhanced; but if current tax cuts are financed by raising future taxes, the stimulus could have adverse supply-side effects.

3. See Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2001), Box 2-3, pp. 34-35.

4. For theoretical and empirical discussions of automatic stabilizers, see Darrell Cohen and Glenn Follette, "The Automatic Fiscal Stabilizers: Quietly Doing Their Own Thing," *Economic Policy Review*, Federal Reserve Bank of New York, vol. 6, no. 1 (2000), pp. 35-68. See also Thomas J. Kniesner and James P. Ziliak, "Tax Reform and Automatic Stabilization," *American Economic Review*, vol. 92, no. 3 (June 2002), pp. 590-613.

5. By contrast with tax liabilities, many financial obligations of taxpayers, such as mortgage payments, do not decline when people lose their jobs.

Table 1.
Adjusted Measures of the Surplus or Deficit, 1998-2003

	Actual				Projected	
	1998	1999	2000	2001	2002	2003
Surplus or Deficit (-) in Billions of Dollars						
Total Budget Surplus	69	126	236	127	-157	-145
Less: Cyclical Surplus (Automatic stabilizers)	44	67	96	20	-40	-28
Equals: Cyclically Adjusted Surplus	25	58	140	107	-117	-117
Less: Other Factors[a]	60	59	40	39	65	28
Equals: Standardized-Budget Surplus	-35	-1	101	68	-182	-145
Memorandum:						
Effects of Legislation Enacted Since January 2001 (Minus timing shifts)[b]	n.a.	n.a.	n.a.	-52	-183	-239
EGTRRA	n.a.	n.a.	n.a.	-37	-71	-91
JCWAA	n.a.	n.a.	n.a.	n.a.	-51	-43
Defense	n.a.	n.a.	n.a.	-1	-38	-45
Other legislation	n.a.	n.a.	n.a.	-14	-23	-61
Surplus or Deficit (-) as a Percentage of Potential GDP						
Total Budget Surplus	0.8	1.4	2.5	1.3	-1.5	-1.3
Less: Cyclical Surplus (Automatic stabilizers)	0.5	0.7	1.0	0.2	-0.4	-0.3
Equals: Cyclically Adjusted Surplus	0.3	0.7	1.5	1.1	-1.1	-1.1
Less: Other Factors[a]	0.7	0.7	0.4	0.4	0.6	0.3
Equals: Standardized-Budget Surplus	-0.4	*	1.1	0.7	-1.7	-1.3
Memorandum:						
Effects of Legislation Enacted Since January 2001 (Minus timing shifts)[b]	n.a.	n.a.	n.a.	-0.5	-1.8	-2.2
EGTRRA	n.a.	n.a.	n.a.	-0.4	-0.7	-0.8
JCWAA	n.a.	n.a.	n.a.	n.a.	-0.5	-0.4
Defense	n.a.	n.a.	n.a.	*	-0.4	-0.4
Other legislation	n.a.	n.a.	n.a.	-0.1	-0.2	-0.6

(Continued)

The automatic stabilizers have provided a less-than-average amount of stimulus during the most recent recession period, but that simply reflects the fact that the recession was less severe than average. The automatic stimulus shows up as a decline in the cyclical surplus from 1.0 percent of potential gross domestic product (GDP) in 2000 to 0.2 percent in 2001, followed by a cyclical deficit of 0.4 percent of potential GDP in 2002 (see Table 1). Under current economic and budget projections, that stimulus is expected to shut off automatically next year (and instead be replaced by very minimal automatic restraint), as indicated by a slight decrease in the projected cyclical deficit between 2002 and 2003.

Table 1.
Continued

	Actual				Projected	
	1998	1999	2000	2001	2002	2003
Annual Change in the Surplus or Deficit as a Percentage of Potential GDP						
Total Budget Surplus	n.a.	0.6	1.2	-1.1	-2.7	0.1
Less: Cyclical Surplus (Automatic stabilizers)	n.a.	0.3	0.3	-0.8	-0.6	0.1
Equals: Cyclically Adjusted Surplus	n.a.	0.4	0.9	-0.3	-2.2	*
Less: Other Factors[a]	n.a.	*	-0.2	*	0.2	-0.3
Equals: Standardized-Budget Surplus	n.a.	0.4	1.1	-0.3	-2.4	0.3
Memorandum:						
Effects of Legislation Enacted Since January 2001 (Minus timing shifts)[b]	n.a.	n.a.	n.a.	-0.5	-1.3	-0.5
EGTRRA	n.a.	n.a.	n.a.	-0.4	-0.3	-0.2
JCWAA	n.a.	n.a.	n.a.	n.a.	-0.5	0.1
Defense	n.a.	n.a.	n.a.	*	-0.4	0
Other legislation	n.a.	n.a.	n.a.	-0.1	-0.1	-0.3

SOURCES: Congressional Budget Office; Joint Committee on Taxation; Office of Management and Budget.

NOTE: EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; JCWAA = Job Creation and Worker Assistance Act of 2002; n.a. = not applicable; * = between -0.05 percent and 0.05 percent.

a. Other factors include adjustments for unusually large discrepancies between tax payments and liabilities, swings in collections of taxes on capital gains, changes in the inflation component of the government's net interest payments, temporary legislative changes in the timing of revenues and outlays, receipts from the government's sale of assets and from auctions of spectrum licenses, as well as federal outlays for deposit insurance.

b. Excludes a $23 billion shift in corporate tax payments from 2001 to 2002 enacted in EGTRRA.

The Cyclically Adjusted Surplus or Deficit

Calculations of cyclically adjusted budget measures attempt to remove the effects of the business cycle on revenues and outlays (that is, the automatic stabilizers that are measured by the cyclical part of the budget). For example, cyclically adjusted revenues exclude the revenue loss that automatically occurs during recessions.[6] Like-

6. Estimates of the cyclical component of revenues and outlays for 1998 through 2003 are presented in the appendix to this report. Those estimates differ from CBO's rule-of-thumb estimates of the effects of changes in economic assumptions, which appear in *The Budget and Economic Outlook: Fiscal Years 2003-2012* (January 2002), Appendix A. The rule-of-thumb estimates attempt to capture sustained changes in the rate of GDP growth and other economic variables, whereas the estimates in this report are based on temporary, cyclical fluctuations. *(Continued on next page)*

wise, cyclically adjusted outlays exclude the additional spending that follows from a rise in unemployment. The difference between those two measures is the cyclically adjusted surplus or deficit.

Between 2000 and 2003, CBO estimates, the cyclically adjusted budget will decline from a surplus of 1.5 percent of potential GDP to a deficit of 1.1 percent (see Table 1). That decline equals roughly two-thirds of the change from the surplus of $236 billion recorded for 2000 to the deficit of $145 billion projected for 2003. It suggests that the other one-third is attributable to the business cycle. The difference between the total and cyclically adjusted surplus was smaller in 2001 than in previous years and turned into a deficit in 2002, reflecting the budgetary effects of the recent recession. That cyclical difference changes relatively little between 2002 and 2003.

The Standardized-Budget Surplus or Deficit

CBO routinely publishes another adjusted budget measure, the standardized-budget surplus or deficit. That measure excludes the effects not only of cyclical fluctuations but also of certain more-or-less-temporary factors that are likely to prove economically insignificant.[7] Four such factors are unusually large discrepancies between tax payments and liabilities, swings in collections of capital gains taxes, changes in the inflation component of the government's net interest payments, and temporary legislative changes in the timing of revenues and outlays.

A substantial discrepancy between tax payments and liabilities emerged in 2001, when people did not reduce their estimated and withheld tax payments even though their tax liabilities declined because of such factors as stock market losses and smaller-than-expected bonuses at the end of the year. CBO estimates that those temporary tax overpayments in 2001 (and corresponding increases in refunds in 2002) totaled about $25 billion for individuals.[8] Those overpayments should have little impact on the spending of taxpayers whose financial liquidity is not a binding factor—a group

---

CBO's estimates of the cyclical component of revenues and outlays depend on the gap between actual GDP and potential GDP, which is the level of output consistent with stable inflation. Those estimates of the cyclical component, however, may not capture all of the movement in revenues and outlays that some analysts might view as cyclical. For example, different estimates of potential GDP would produce different estimates of the size of the cyclically adjusted surplus or deficit. For a discussion of the relationship between the cyclically adjusted budget and potential GDP, see Congressional Budget Office, *The Budget Adjusted for the Effects of the Business Cycle* (July 30, 1999).

7. See Congressional Budget Office, *The Standardized Budget: Revised Historical Estimates* (June 2000), and *The Budget and Economic Outlook: Fiscal Years 2003-2012* (January 2002), Appendix F, Tables F-11, F-12, and F-13.

8. See Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2002), p. 15.

that accounts for perhaps 70 percent of total consumption.[9] For that reason, in calculating the standardized budget, CBO treated 70 percent of those overpayments (and 70 percent of similar discrepancies between tax payments and liabilities in the past) as if they affected only the timing of tax payments and not consumption. That adjustment removes most of the temporary overpayments from 2001 and reduces refunds in 2002 by the same amount.

CBO removes capital gains tax receipts from the standardized budget because movements in those receipts are not captured by the cyclical adjustments to revenues. Moreover, removing those tax receipts avoids the misleading effects that can arise, for example, when a cut in the tax rate on capital gains stimulates taxable capital gains realizations by enough to increase the standardized-budget surplus, causing that measure to incorrectly indicate fiscal restraint.

The inflation component of net interest is removed because it primarily maintains the inflation-adjusted value of outstanding federal debt. Since it does not raise that value, it is likely to have little impact on total demand in the economy.

Legislation enacted by the Congress and the President sometimes temporarily shifts the timing of receipts or outlays (usually from the end of one fiscal year to the beginning of the next one). Those small timing shifts are excluded from the standardized budget because they are unlikely to alter significantly the timing of people's plans for investment or consumption.

In addition, the standardized budget excludes receipts from the government's sale of assets and from auctions of spectrum licenses as well as federal outlays for deposit insurance. The effects of asset sales and spectrum auctions are removed because those transactions are voluntary exchanges of existing assets that have no effect on private net worth and thus little economic impact (except on the businesses whose liquidity they may adversely affect). CBO removes outlays for deposit insurance because the economic impact of those outlays occurred in earlier years, when various thrift institutions failed.[10]

The standardized-budget surplus is projected to decline by a total of 2.4 percent of potential GDP between 2000 and 2003—slightly less than the decline in the cyclically adjusted surplus during that period (see Table 1). For both measures, the declines stem mainly from the revenue effects of the tax cuts enacted in those years and from additional discretionary spending (partly in response to the September 11 terrorist attacks). Because the standardized-budget surplus includes other adjust-

---

9. See Congressional Budget Office, *The Standardized Budget: Revised Historical Estimates* (June 2000).

10. The short-term fiscal impact of deposit insurance is discussed in Congressional Budget Office, *The Economic and Budget Outlook: An Update* (August 1991).

ments, it shows a slightly larger decline in 2002 than the cyclically adjusted surplus does and some increase in 2003. More details of the standardized-budget surplus and its components through 2003 are contained in the appendix.

The Effects of Recent Tax and Spending Legislation

The estimated effects of legislation enacted since January 2001 account for roughly two-thirds of the decline in the total budget surplus between 2000 and 2003—twice as much as the estimated effects of the business cycle over that period. That legislation also accounts for most of the decline in the cyclically adjusted and standardized-budget surpluses.

Laws enacted since January 2001 lowered those surpluses by 0.5 percent of potential GDP in 2001, 1.8 percent in 2002, and 2.2 percent in 2003 (see Table 1). Almost all of those changes result from EGTRRA, from higher appropriations for defense, and from the tax cuts and additional spending enacted in the Job Creation and Worker Assistance Act.

Measuring Budgetary Trends and Fiscal Stimulus

Some analysts use the annual change in a cyclically adjusted surplus (measured relative to potential GDP) as an indicator of the federal government's fiscal posture. When viewed that way, a decline in the cyclically adjusted or standardized-budget surplus indicates fiscal stimulus. Other analysts use cyclically adjusted measures of the budget surplus over several years to discern the underlying trend in government saving and thus the government's contribution to longer-term movements in national saving. For both purposes, the cyclically adjusted and standardized-budget surpluses are probably better than the unadjusted surplus because they filter out changes that stem from the budgetary effects of the business cycle.

The adjusted budget measures give only a partial view of the effect of the budget on total demand. Changes in private saving may partly offset changes in government saving if some people think their future tax liabilities are affected by how much the government currently saves. Furthermore, those measures reflect the budget's bottom line rather than its underlying components of spending and revenues, although those components probably affect demand in different ways. For example, to the extent that tax cuts are saved, they have little effect on current consumption, whereas increases in spending on roads and bridges show up fully in demand. In a recent paper, CBO examined the fiscal stimulus that would result from several kinds of changes in taxes.[11] That analysis showed a wide range of short-term effects on demand from different policy actions, for reasons unrelated to their effect on the budget surplus (whether standardized or not).

In addition to those limitations, the estimates of cyclically adjusted and standardized surpluses do not take into account anticipations of fiscal stimulus. Economists generally agree that, in theory, anticipated fiscal stimulus will have an impact before the stimulus is enacted. However, it is not always clear how to separate anticipated from unanticipated changes in fiscal stimulus.[12]

The government's current fiscal stimulus appears to be unusual in both its size and timing. The declines in the standardized-budget and cyclically adjusted surpluses (relative to potential GDP) are larger for 2001 and 2002 combined (2.8 percent and 2.6 percent, respectively) than they were for any other recession years since 1960, including the period of 1981, 1982, and 1983 combined (see Table 2). (Historical estimates for the standardized budget appear in the appendix in Tables A-4 and A-5.) Moreover, in contrast to most past recessions, when significant lags accompanied the adoption and implementation of fiscal stimulus, a major source of stimulus this time began in only the fourth month of the recession (July 2001) in the form of tax rebates.

As noted above, the change in the cyclically adjusted and standardized surpluses between 2000 and 2003 is mostly explained by recent legislation. But changes in those budget measures also reflect movements in receipts and outlays attributable to factors that are not captured by the various adjustments discussed above. Those other factors include noncyclical movements in the proportion of taxable income going to people in the top tax bracket, in the size of various tax bases as a share of GDP, and in outlays for entitlement programs such as Medicare and Medicaid.

---

11. See Congressional Budget Office, *Economic Stimulus: Evaluating Proposed Changes in Tax Policy* (January 2002).

12. Several empirical studies find that, contrary to accepted theory, individual consumption rises when fully anticipated increases in after-tax income are realized. See, for example, Jonathan Parker, "The Reaction of Household Consumption to Predictable Changes in Social Security Taxes," *American Economic Review* (September 1999), pp. 959-973; and Nicholas Souleles, "The Response of Household Consumption to Income Tax Refunds," *American Economic Review* (September 1999), pp. 947-958.

Table 2.
Fiscal Stimulus in Periods of Recession

	Cumulative Change in Budget Measure During the Period (As a percentage of potential GDP)	
Fiscal Years	Standardized-Budget Surplus or Deficit	Cyclically Adjusted Budget Surplus or Deficit
1960-1961	2.3	2.7
1970-1971	*	-0.7
1974-1975	1.5	0.3
1980	0.3	0.2
1981-1983	-2.7	-1.3
1990-1991	-0.2	-0.4
2001-2002	-2.8	-2.6

SOURCE: Congressional Budget Office.

NOTES: The first fiscal year in each period includes the peak of the business cycle; the final year includes the cyclical trough. (In 1980, the peak and trough occurred in the same year.)

A negative number indicates fiscal stimulus—a cumulative decrease in the adjusted surplus or a cumulative increase in the adjusted deficit. A positive number indicates fiscal restraint.

All changes are calculated relative to the preceding fiscal year, and the cumulative numbers include the stimulus in the peak year.

* = between -0.05 percent and zero.

Appendix

Details of CBO's Projections of the Standardized Budget

In 2001, the budgetary changes that are measured by the standardized surplus or deficit tended to stimulate the growth of total demand. The standardized-budget surplus declined to 0.7 percent of potential gross domestic product (GDP) in 2001 from 1.1 percent the year before (see Table A-1). All of that decline can be attributed to a decrease in standardized-budget revenues, which fell from 19.2 percent of potential GDP to 18.7 percent. In turn, that decline in standardized revenues (0.5 percent of potential GDP) reflected the effects of the Economic Growth and Tax Relief Reconciliation Act of 2001 (not counting the $23 billion shift in corporate tax payments from September to October 2001). Movements in standardized-budget outlays in 2001 were relatively small and offset each other to some extent.

For 2002, the change in the standardized budget indicates substantially more fiscal stimulus than in 2001, reflected in a record shift—from a surplus of 0.7 percent of potential GDP to a deficit of 1.7 percent. That is the largest single-year decline in the standardized surplus, surpassing the previous records (1.9 percent of potential GDP) observed in 1976 and 1983. Standardized revenues account for roughly three-fifths of this year's stimulus, and the reduction in standardized revenues (1.4 percent of potential GDP) equals the decline registered in 1983 as a result of the Economic Recovery Tax Act of 1981. Nevertheless, only about half of the stimulus from the revenue side in 2002 reflects recent legislation; the rest results from a decline in the economy's effective tax rate that is not captured by the cyclical and other adjustments used to calculate standardized revenues.

The remainder of the stimulus in 2002 comes from increases in discretionary and mandatory spending, which each amount to 0.5 percent of potential GDP (see Tables A-2 and A-3). In large part, those increases were caused by emergency appropriations enacted in the wake of the September 11 attacks and by additional spending for unemployed workers in the Job Creation and Worker Assistance Act.

In contrast with the stimulus of 2001 and 2002, the standardized-budget projections suggest some fiscal restraint next year. That restraint results from a projected decline in inflation-adjusted interest payments (from 1.3 percent of potential GDP to 1.0 percent) and a small increase in standardized revenues (from 17.3 percent to 17.5 percent of potential GDP). Mandatory outlays are expected to remain essentially unchanged relative to potential GDP, while discretionary spending rises by 0.2 percent of potential GDP.

Table A-1.
The Standardized-Budget Surplus or Deficit, 1998-2003

	Actual				Projected	
	1998	1999	2000	2001	2002	2003
	In Billions of Dollars					
Surplus or Deficit (-)	-35	-1	101	68	-182	-145
Revenues	1,596	1,663	1,818	1,871	1,798	1,901
Outlays	1,631	1,664	1,717	1,802	1,980	2,047
	As a Percentage of Potential GDP					
Surplus or Deficit (-)	-0.4	*	1.1	0.7	-1.7	-1.3
Revenues	18.7	18.6	19.2	18.7	17.3	17.5
Outlays	19.1	18.6	18.2	18.0	19.0	18.9

SOURCES: Congressional Budget Office; Department of the Treasury; Office of Management and Budget; Department of Commerce, Bureau of Economic Analysis.

NOTE: * = between -0.05 percent and zero.

Table A-2.
Details of the Standardized-Budget Surplus or Deficit, 1998-2003
(In billions of dollars)

	Actual				Projected	
	1998	1999	2000	2001	2002	2003
Revenues						
Budget	1,722	1,827	2,025	1,991	1,860	1,962
Cyclical adjustments	-37	-60	-88	-17	26	21
Other adjustments	-88	-104	-120	-103	-88	-82
Standardized	1,596	1,663	1,818	1,871	1,798	1,901
Mandatory Spending (Minus offsetting receipts)						
Budget	859	900	951	1,008	1,113	1,161
Cyclical adjustments	7	7	9	3	-14	-7
Other adjustments	17	10	3	11	10	6
Standardized	883	917	963	1,022	1,110	1,161
Discretionary Spending						
Budget	552	572	615	649	733	782
Timing adjustment	0	0	-3	3	0	0
Standardized	552	572	612	652	733	782
Interest Payments						
Budget	241	230	223	206	170	164
Inflation adjustment	-45	-55	-81	-78	-33	-61
Standardized	196	175	142	128	138	103
Total Surplus or Deficit (-)						
Budget	69	126	236	127	-157	-145
Cyclical adjustments	-44	-67	-96	-20	40	28
Other adjustments[a]	-60	-59	-40	-39	-65	-28
Standardized	-35	-1	101	68	-182	-145

SOURCES: Congressional Budget Office; Department of the Treasury; Office of Management and Budget.

NOTE: The cyclical adjustments to revenues are negative when actual GDP exceeds potential GDP. By contrast, the cyclical adjustments to mandatory spending are positive when the unemployment rate is less than the nonaccelerating inflation rate of unemployment. The cyclical adjustments to the budget surplus or deficit equal the cyclical adjustments to revenues minus the cyclical adjustments to mandatory spending.

a. Other adjustments to the total surplus or deficit comprise other adjustments to revenues minus the sum of other adjustments to mandatory spending, the timing adjustment to discretionary spending, and the inflation adjustment to interest payments.

Table A-3.
Details of the Standardized-Budget Surplus or Deficit, 1998-2003
(As a percentage of potential GDP)

	Actual				Projected	
	1998	1999	2000	2001	2002	2003
Revenues						
Budget	20.2	20.4	21.4	19.9	17.9	18.1
Cyclical adjustments	-0.4	-0.7	-0.9	-0.2	0.3	0.2
Other adjustments	-1.0	-1.2	-1.3	-1.0	-0.8	-0.8
Standardized	18.7	18.6	19.2	18.7	17.3	17.5
Mandatory Spending (Minus offsetting receipts)						
Budget	10.1	10.1	10.1	10.1	10.7	10.7
Cyclical adjustments	0.1	0.1	0.1	*	-0.1	-0.1
Other adjustments	0.2	0.1	*	0.1	0.1	0.1
Standardized	10.3	10.2	10.2	10.2	10.7	10.7
Discretionary Spending						
Budget	6.5	6.4	6.5	6.5	7.0	7.2
Timing adjustment	0	0	*	*	0	0
Standardized	6.5	6.4	6.5	6.5	7.0	7.2
Interest Payments						
Budget	2.8	2.6	2.4	2.1	1.6	1.5
Inflation adjustment	-0.5	-0.6	-0.9	-0.8	-0.3	-0.6
Standardized	2.3	1.9	1.5	1.3	1.3	1.0
Total Surplus or Deficit (-)						
Budget	0.8	1.4	2.5	1.3	-1.5	-1.3
Cyclical adjustments	-0.5	-0.7	-1.0	-0.2	0.4	0.3
Other adjustments[a]	-0.7	-0.7	-0.4	-0.4	-0.6	-0.3
Standardized	-0.4	*	1.1	0.7	-1.7	-1.3

SOURCES: Congressional Budget Office; Department of the Treasury; Office of Management and Budget; Department of Commerce, Bureau of Economic Analysis.

NOTES: The cyclical adjustments to revenues are negative when actual GDP exceeds potential GDP. By contrast, the cyclical adjustments to mandatory spending are positive when the unemployment rate is less than the nonaccelerating inflation rate of unemployment. The cyclical adjustments to the budget surplus or deficit equal the cyclical adjustments to revenues minus the cyclical adjustments to mandatory spending.

* = between -0.05 percent and 0.05 percent.

a. Other adjustments to the total surplus or deficit comprise other adjustments to revenues minus the sum of other adjustments to mandatory spending, the timing adjustment to discretionary spending, and the inflation adjustment to interest payments.

Table A-4.
The Standardized-Budget Surplus or Deficit and Related Series, 1960-2001
(In billions of dollars)

	Total Budget Surplus or Deficit (-)	Cyclical Adjustment[a]	Other Adjustments[b]	Standardized-Budget Surplus or Deficit (-)	Standardized-Budget Revenues	Standardized-Budget Outlays
1960	*	*	*	1	91	90
1961	-3	6	1	4	98	94
1962	-7	2	1	-4	99	104
1963	-5	1	-1	-4	106	110
1964	-6	-2	2	-6	109	115
1965	-1	-5	2	-4	111	115
1966	-4	-13	3	-14	116	130
1967	-9	-12	1	-20	133	153
1968	-25	-11	7	-29	141	171
1969	3	-14	1	-10	164	173
1970	-3	-6	1	-7	177	184
1971	-23	3	8	-12	185	197
1972	-23	*	5	-19	201	220
1973	-15	-14	9	-20	214	234
1974	-6	-10	17	1	250	249
1975	-53	22	31	-1	297	298
1976	-74	24	14	-36	309	345
1977	-54	12	22	-20	358	378
1978	-59	-3	31	-32	390	421
1979	-41	-12	38	-15	444	460
1980	-74	18	46	-10	522	532
1981	-79	27	40	-13	609	622
1982	-128	64	23	-40	658	698
1983	-208	87	8	-112	653	766
1984	-185	29	13	-144	672	816
1985	-212	17	20	-175	724	900
1986	-221	11	*	-210	750	961
1987	-150	12	-15	-153	813	966
1988	-155	-8	36	-128	869	997
1989	-152	-20	55	-117	937	1,054
1990	-221	-9	110	-120	992	1,111
1991	-269	51	73	-146	1,070	1,216
1992	-290	67	39	-184	1,125	1,309
1993	-255	57	14	-184	1,170	1,354
1994	-203	31	30	-142	1,248	1,391
1995	-164	15	6	-143	1,329	1,472
1996	-108	15	-7	-100	1,413	1,512
1997	-22	-18	-32	-71	1,493	1,564
1998	69	-44	-60	-35	1,596	1,631
1999	126	-67	-59	1	1,663	1,664
2000	236	-96	-40	101	1,818	1,717
2001	127	-20	-39	68	1,871	1,802

SOURCE: Congressional Budget Office.

NOTE: * = between -$500 million and $500 million.

a. The cyclical adjustment is positive when cyclical conditions are temporarily depressing GDP below its potential level and lowering revenues and raising outlays.

b. Consists of deposit insurance, receipts from auctions of licenses to use portions of the electromagnetic spectrum, timing adjustments, asset sales, adjustments for certain changes in the amount of taxes overwithheld, adjustments for temporary tax changes, the inflation component of federal interest payments, tax receipts from capital gains, and contributions from allied nations for Operation Desert Storm (which were received in 1991 and 1992).

Table A-5.
The Standardized-Budget Surplus or Deficit and Related Series, 1960-2001
(As a percentage of potential GDP)

	Total Budget Surplus or Deficit (-)	Cyclical Adjustment[a]	Other Adjustments[b]	Standardized-Budget Surplus or Deficit (-)	Standardized-Budget Revenues	Standardized-Budget Outlays
1960	0.1	0	0.1	0.1	17.4	17.3
1961	-0.6	1.1	0.1	0.7	17.9	17.3
1962	-1.2	0.4	0.2	-0.7	17.3	18.0
1963	-0.8	0.2	-0.1	-0.7	17.4	18.1
1964	-0.9	-0.3	0.2	-1.0	17.1	18.1
1965	-0.2	-0.7	0.3	-0.6	16.4	17.0
1966	-0.5	-1.8	0.4	-1.9	16.1	18.0
1967	-1.1	-1.6	0.1	-2.6	17.1	19.7
1968	-3.0	-1.3	0.8	-3.5	16.8	20.3
1969	0.4	-1.5	0.1	-1.1	17.9	18.9
1970	-0.3	-0.6	0.1	-0.7	17.6	18.4
1971	-2.1	0.3	0.8	-1.1	17.0	18.1
1972	-2.0	*	0.4	-1.6	17.0	18.6
1973	-1.2	-1.1	0.7	-1.6	16.8	18.4
1974	-0.4	-0.7	1.2	0.1	17.7	17.6
1975	-3.3	1.3	1.9	-0.1	18.4	18.4
1976	-4.1	1.3	0.8	-2.0	17.3	19.3
1977	-2.7	0.6	1.1	-1.0	17.9	18.9
1978	-2.7	-0.1	1.4	-1.4	17.6	19.0
1979	-1.6	-0.5	1.5	-0.6	18.0	18.6
1980	-2.7	0.7	1.7	-0.3	18.8	19.1
1981	-2.5	0.8	1.3	-0.4	19.5	19.9
1982	-3.7	1.9	0.7	-1.2	19.1	20.3
1983	-5.6	2.4	0.2	-3.1	17.7	20.8
1984	-4.7	0.7	0.3	-3.7	17.1	20.8
1985	-5.1	0.4	0.5	-4.2	17.3	21.5
1986	-5.0	0.2	*	-4.7	16.9	21.7
1987	-3.2	0.3	-0.3	-3.3	17.3	20.6
1988	-3.1	-0.2	0.7	-2.6	17.4	19.9
1989	-2.9	-0.4	1.0	-2.2	17.5	19.7
1990	-3.9	-0.2	1.9	-2.1	17.4	19.5
1991	-4.4	0.8	1.2	-2.4	17.6	20.0
1992	-4.5	1.1	0.6	-2.9	17.6	20.4
1993	-3.8	0.8	0.2	-2.7	17.4	20.2
1994	-2.9	0.4	0.4	-2.0	17.7	19.8
1995	-2.2	0.2	0.1	-1.9	18.0	19.9
1996	-1.4	0.2	-0.1	-1.2	18.2	19.5
1997	-0.3	-0.2	-0.4	-0.8	18.3	19.2
1998	0.8	-0.5	-0.7	-0.4	18.7	19.1
1999	1.4	-0.7	-0.7	*	18.6	18.6
2000	2.5	-1.0	-0.4	1.1	19.2	18.2
2001	1.3	-0.2	-0.4	0.7	18.7	18.0

SOURCE: Congressional Budget Office.
NOTE: * = between -0.05 percent and 0.05 percent.
a. The cyclical adjustment is positive when cyclical conditions are temporarily depressing GDP below its potential level and lowering revenues and raising outlays.
b. Consists of deposit insurance, receipts from auctions of licenses to use portions of the electromagnetic spectrum, timing adjustments, asset sales, adjustments for certain changes in the amount of taxes overwithheld, adjustments for temporary tax changes, the inflation component of federal interest payments, tax receipts from capital gains, and contributions from allied nations for Operation Desert Storm (which were received in 1991 and 1992).