



The Cyclically Adjusted and Standardized Budget Measures

April 2008

Notes

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

Unless otherwise indicated, all of the years referred to are federal fiscal years.

Spreadsheets showing historical values for the variables of the cyclically adjusted and standardized budgets are available at www.cbo.gov.



Preface

This report offers alternative measures of the budget that incorporate adjustments for cyclical and other factors. It is one of a series of reports that the Congressional Budget Office (CBO) issues each year to fulfill the requirement of section 202(e) of the Congressional Budget and Impoundment Control Act of 1974 that CBO submit to the Committees on the Budget periodic reports about fiscal policy and provide baseline projections of the federal budget. The report is based on information presented in CBO's *An Analysis of the President's Budgetary Proposals for Fiscal Year 2009*, published in March of this year.

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The Cyclically Adjusted and Standardized Budget Measures

Summary

In March 2008, the Congressional Budget Office (CBO) released its most recent baseline projections of federal revenues, outlays, and budget balances for the next 10 years.¹ Those projections are subject to baseline procedures under which CBO assumes the continuation of current laws and policies affecting taxes and mandatory programs and extrapolates the growth of discretionary spending by using projected rates of inflation. Those baseline projections incorporate the estimated effects of the Economic Stimulus Act of 2008 (Public Law 110-185), but they do not incorporate any additional funding for the wars in Iraq and Afghanistan beyond the \$88 billion in budget authority already enacted for 2008.

According to CBO's projections, under current tax and spending policies, the budget deficit would increase from \$162 billion in 2007 to \$357 billion in 2008 and then decline to \$207 billion in 2009. Measured relative to the size of the economy—that is, as a percentage of gross domestic product, or GDP—the deficit would be 2.5 percent of GDP in 2008 and 1.4 percent in 2009.²

The size of the budget deficit is influenced by temporary factors, such as the effects of the business cycle or one-time shifts in the timing of federal tax receipts and spending, and by the longer-lasting impact of such factors as tax and spending legislation, changes in the long-term (trend) growth rate of the economy, and movements in the distribution and proportion of income subject to taxation. To help separate out those factors, this report pre-

sents estimates of two adjusted budget measures: the cyclically adjusted deficit or surplus (which attempts to filter out the effects of the business cycle) and the standardized-budget deficit or surplus (which removes the effects of other factors in addition to those of the business cycle).

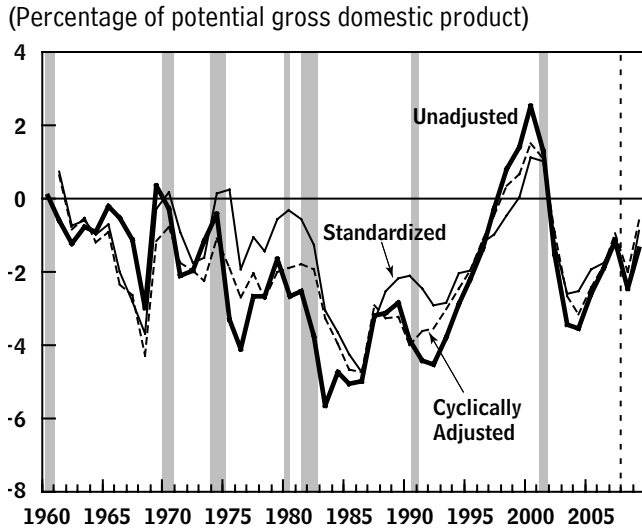
Under CBO's baseline assumptions, the cyclically adjusted budget deficit—the baseline budget deficit minus the estimated effects of the business cycle—will rise sharply in 2008 to 2.0 percent of potential GDP (from 0.9 percent in 2007) but decrease significantly in 2009 to 0.6 percent (see Figure 1).³ The standardized-budget deficit will increase by somewhat more, climbing from 1.1 percent of potential GDP in 2007 to 2.5 percent in 2008 and then falling to 0.9 percent in 2009 (see Table 1). CBO's projections of the cyclically adjusted and standardized budgets extend only through 2009 because the economic outlook on which they are based does not attempt to predict cyclical movements beyond that point. Consequently, projections of the cyclically adjusted budget deficit or surplus beyond 2009 would be very similar to CBO's baseline projections of the (unadjusted) budget deficit or surplus.

CBO anticipates that economic output will be further below its potential level in 2008 and 2009 than it was in 2007 and that business-cycle effects will thus add more to the federal budget deficit in those years. In 2007, those estimated cyclical effects amounted to 0.2 percent of potential GDP, up slightly from 0.1 percent in 2006. According to CBO's baseline projections, the cyclical contributions to the budget deficit will amount to

1. See Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2009* (March 2008).

2. Under the President's budgetary proposals, which include additional funding for the wars in Iraq and Afghanistan, the budget deficit would total \$396 billion (2.8 percent of GDP) in 2008 and \$342 billion (2.3 percent of GDP) in 2009.

3. Potential GDP is the level of output that corresponds to a high level of resource—labor and capital—use. See the later discussion on its use in measuring the cyclically adjusted deficit or surplus.

Figure 1.**Three Measures of Budget Deficits and Surpluses**

Sources: Congressional Budget Office; Office of Management and Budget.

Notes: The cyclically adjusted deficit or surplus attempts to filter out the effects of the business cycle. The standardized-budget measure removes the effects of other factors in addition to those of the business cycle.

Potential gross domestic product is the level of output that corresponds to a high level of resource—labor and capital—use.

The shaded vertical bars indicate periods of recession. (A recession extends from the peak of a business cycle to its trough.) The dashed vertical line separates actual from projected data.

roughly 0.5 percent of potential GDP in 2008 and 0.8 percent in 2009. The additional adjustments that underlie the standardized-budget deficit (for shifts in the timing of tax receipts and outlays and for other factors) are projected to total 0.5 percent of potential GDP in 2008 and 0.3 percent in 2009, compared with 0.2 percent in 2007. Those additional adjustments fully offset the adjustment to the standardized budget for the effects of the business cycle in 2007 and 2008 but only partially offset it in 2009.

Why Adjust Measures of the Budget Deficit or Surplus?

Despite some limitations, both conceptual and empirical, budget measures that filter out cyclical and other tempo-

rary factors are useful in several ways. For example, some analysts use those measures to discern underlying trends in government saving or dissaving (that is, surpluses or deficits). Others use them to determine, in a rough way, whether the influence of the budget on aggregate demand and on the growth of real (inflation-adjusted) income in the short run is positive or negative. More generally, those measures provide estimates of the extent to which changes in the budget are caused by movements of the business cycle and thus are likely to prove temporary.

During cyclical slowdowns and recessions, the growth of revenues automatically declines and the growth of outlays (for programs such as unemployment insurance and Food Stamps) automatically increases. The opposite occurs during upturns in the business cycle. The cyclically adjusted deficit or surplus is calculated to show the underlying federal budget balance when those automatic movements are removed. The cyclical contribution—the difference between the unadjusted budget deficit or surplus and the cyclically adjusted deficit or surplus—is sometimes used as a measure of the so-called automatic stabilizers, which mitigate the decline of real income in recessions and dampen its growth in booms.⁴

Policy actions in the form of tax or spending legislation create changes in the budget deficit or surplus that are distinct from the automatic cyclical movements. Those legislative changes also result in movements in the cyclically adjusted deficit or surplus. However, under the procedures used to develop CBO's baseline, which take into account only current law, possible future legislation has no effect on either budget measure.

Other factors that affect taxes and spending but that are not directly connected with changes in policy may also alter cyclically adjusted measures of revenues or spending. For example, increases or decreases in receipts from capital gains taxes, which may be caused by movements in the stock market, raise or lower cyclically adjusted revenues just as they raise or lower total budget revenues. Because changes in those receipts are not closely tied to the business cycle, they are not treated as a cyclical factor and therefore are not removed from the cyclically adjusted budget measure. Similarly, the measure does not remove

4. Those stabilizers are the automatic decline or increase in tax liabilities and the increase or decrease in transfers to individuals (such as unemployment insurance benefits) that occur during economic downturns or upturns.

Table 1.**Measures of the Federal Budget Deficit**

	Actual				Projected	
	2004	2005	2006	2007	2008	2009
In Billions of Dollars						
Budget Deficit (Unadjusted)	-413	-318	-248	-162	-357	-207
Minus: Cyclical Contribution	<u>-46</u>	<u>-21</u>	<u>-10</u>	<u>-32</u>	<u>-67</u>	<u>-114</u>
Equals: Cyclically Adjusted Budget Deficit	-367	-297	-238	-130	-290	-93
Plus: Other Adjustments ^a	<u>73</u>	<u>58</u>	<u>9</u>	<u>-22</u>	<u>-71</u>	<u>-40</u>
Equals: Standardized-Budget Deficit	-294	-239	-229	-152	-361	-133
As a Percentage of Potential Gross Domestic Product^b						
Budget Deficit (Unadjusted)	-3.6	-2.6	-1.9	-1.2	-2.5	-1.4
Minus: Cyclical Contribution	<u>-0.4</u>	<u>-0.2</u>	<u>-0.1</u>	<u>-0.2</u>	<u>-0.5</u>	<u>-0.8</u>
Equals: Cyclically Adjusted Budget Deficit	-3.2	-2.4	-1.8	-0.9	-2.0	-0.6
Plus: Other Adjustments ^a	<u>0.6</u>	<u>0.5</u>	<u>0.1</u>	<u>-0.2</u>	<u>-0.5</u>	<u>-0.3</u>
Equals: Standardized-Budget Deficit	-2.5	-1.9	-1.8	-1.1	-2.5	-0.9

Sources: Congressional Budget Office; Office of Management and Budget.

- a. "Other adjustments" include those made to account 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 licenses for the use of the electromagnetic spectrum, and federal outlays for deposit insurance.
- b. Potential gross domestic product is the level of output that corresponds to a high level of resource—labor and capital—use.

the effects of certain explicit budgetary decisions that produce temporary changes—sometimes of only a few days' duration—in the timing of tax receipts or government spending. Such actions may be viewed more as accounting decisions than as changes in policy.

CBO calculates a different measure, the standardized-budget deficit or surplus, that attempts to remove those factors as well as the effects of the business cycle. For example, the standardized-budget measure removes capital gains tax revenues and the effects of legislation that only temporarily changes the timing of revenues or outlays. As a result, the standardized-budget deficit or surplus is the more subjective of the two measures presented in this report.

The Cyclically Adjusted Deficit or Surplus

Calculations of cyclically adjusted budget measures attempt to remove the effects of the business cycle on revenues and outlays (that is, the cyclical part of the budget). For example, calculations of cyclically adjusted revenues

exclude estimates of the revenue losses or gains that automatically occur during a recession or boom. Likewise, calculations of cyclically adjusted outlays exclude estimates of the increases or reductions in spending that are associated with a rise or fall in unemployment. The difference between those two calculations is the cyclically adjusted deficit or surplus.

CBO's estimates of the cyclical component of revenues and outlays depend on the gap between actual GDP and potential GDP.⁵ Thus, different estimates of potential GDP will produce different estimates of the size of the cyclically adjusted deficit or surplus.⁶

5. For CBO's method of estimating potential GDP, see Congressional Budget Office, *CBO's Method for Estimating Potential Output: An Update* (August 2001). See also *A Summary of Alternative Methods for Estimating Potential GDP* (March 2004). For the agency's current estimate of potential output, see "Budget and Economic Information," www.cbo.gov.
6. For a discussion of the relationship between the cyclically adjusted budget and potential GDP, see Congressional Budget Office, *The Budget Adjusted for Effects of the Business Cycle* (July 1999).

CBO estimates that under the laws in place as of March 2008 (including the Economic Stimulus Act), the cyclically adjusted deficit will climb from 0.9 percent of potential GDP in 2007 to 2.0 percent in 2008 and then drop to 0.6 percent in 2009. Although the increase from 2007 to 2008 is large by historical standards, it is smaller than the increases of 2.0 percentage points from 2001 to 2002 and 1.8 percentage points from 2002 to 2003, movements that also reflected the effects of major tax laws that were designed in part to stimulate short-term growth.⁷

The impact of the business cycle on the budget deficit or surplus is measured by the cyclical contribution—the difference between the unadjusted budget deficit or surplus and the cyclically adjusted deficit or surplus. In 2000, the cyclical contribution amounted to a surplus of 1.0 percent of potential GDP, which indicated that the strength of the economy was temporarily augmenting the budget surplus by a significant amount. By 2002, the cyclical contribution had turned negative, reaching 0.8 percent of potential GDP by 2003—which meant that the economy, in operating below its potential, was adding to the budget deficit. A string of negative but diminishing cyclical contributions ensued for three years, reaching 0.1 percent of potential GDP in 2006. Cyclical contributions will remain negative, CBO projects, but will grow in size through 2009, when the effect of the economy on the budget will be approximately the same as it was in 2003.

In its annual report on the budget and the economy (usually issued in January), CBO presents estimates (or “rules of thumb”) that specify how the budget would respond if certain economic assumptions were changed.⁸ The estimates of the cyclical contribution presented in this report differ from those that would be obtained by using the rules of thumb. The rule-of-thumb estimates attempt to capture the budgetary effects of sustained changes in the rate of growth of GDP and other economic variables, whereas the estimates presented in this report are meant to filter out temporary cyclical fluctuations.

7. Those measures were the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and Worker Assistance Act of 2002, and the Jobs and Growth Tax Relief Reconciliation Act of 2003.

8. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018* (January 2008), Appendix C.

Economic research suggests that fundamental changes in the economy in the early 1980s have led to fewer and milder cyclical movements since that time.⁹ For instance, in the first 37 years after World War II, there were eight recessions; in contrast, in the 25 years from 1982 through 2007, there were just two recessions—both of them milder than the average of the previous eight.

A more stable economy since the early 1980s has tended to reduce budget swings that stem from business cycles. For example, the cyclical component went from reducing the budget deficit by 1.1 percent of potential GDP in 1973 to raising the deficit by 1.4 percent of potential GDP in 1975. The back-to-back recessions of 1980 and 1981–1982 widened the budget deficit even more. By contrast, the swings in the cyclical contribution to the deficit in the 1990–1991 and 2001 recessions were significantly smaller.

The Standardized-Budget Deficit or Surplus

CBO routinely calculates another adjusted budget measure, the standardized-budget deficit or surplus. That measure excludes the effects of both cyclical fluctuations and factors that are short-lived and unlikely to significantly affect real income in the short term.¹⁰ Such factors include unusually large discrepancies between tax payments and liabilities, swings in collections of capital gains taxes, changes in the inflation component of the government’s interest payments, temporary legislative changes that affect the timing of revenues and outlays, receipts from the government’s sale of assets and from auctions of licenses for use of the electromagnetic spectrum, and federal outlays for deposit insurance.

For example, a substantial discrepancy—by CBO’s estimates, \$20 billion—between tax liabilities and payments

9. Greater macroeconomic stability appears to stem from various interrelated causes—changes in the conduct of monetary policy; structural changes in the economy (such as increased competition and the use of information technology); and, perhaps, a reduction in shocks to the global economy. For a discussion of those arguments, see Congressional Budget Office, *The Economic Effects of Recent Increases in Energy Prices* (July 2006), Chapter 3; and the statement of Peter R. Orszag, Director, Congressional Budget Office, *Economic Volatility*, before the House Committee on Ways and Means, January 31, 2007.

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

emerged in 2003, when tax liabilities were lowered for the entire year (because of the enactment of the Jobs and Growth Tax Relief Reconciliation Act of 2003) but estimated and withheld tax payments were reduced for only about half of the year. The discrepancy meant that taxpayers generally expected to receive larger refunds (or make smaller final settlements) in the spring of 2004 than they would have if their withheld and estimated tax payments in 2003 had been reduced to fully match the drop in their tax liabilities. Consequently, consumers might have boosted their 2003 spending in anticipation—resulting in a greater effect on overall demand in that year than the effect implied solely by the reduction in 2003 tax payments. Accordingly, in calculating the standardized budget, CBO treated those overpayments of taxes in 2003 (and similar discrepancies between tax payments and liabilities that occurred in the past) as if they affected only the timing of tax payments and had no significant implications for consumer spending (and in turn overall demand). That adjustment removed the overpayments from standardized revenue totals for 2003 and reduced refunds (thus increasing standardized revenues) for 2004 by the same amount.

CBO removes capital gains tax receipts from the standardized budget for two reasons. First, removing those tax receipts avoids the misleading effects that may arise, for example, when a cut in the tax rate on capital gains temporarily encourages investors to realize taxable gains to such an extent that revenues are increased. If the standardized budget included capital gains tax receipts, that rise in revenues would cause the measure to indicate—incorrectly—that a lowered tax rate would reduce the growth of real income in the short term. Second, although capital gains tax receipts move up and down over the business cycle, they are not tied closely enough to the cycle to be fully represented in the cyclical adjustments to revenues.

CBO also removes changes in the inflation component of interest in calculating the standardized budget. That component reflects the effect of inflation on the value of outstanding federal debt and does not add to or subtract from real income.

Legislation sometimes temporarily shifts the timing of receipts or outlays (usually from the end of one fiscal year to the beginning of the next). CBO excludes those small timing shifts from the standardized budget because they are unlikely to significantly affect aggregate demand and the growth of real income. CBO also excludes receipts

from the government's sale of assets and auctions of licenses to use the electromagnetic spectrum. Those transactions are voluntary exchanges of existing assets that have little or no effect on private net worth or on the growth of real income. In addition, CBO removes outlays and receipts for deposit insurance because their effects on real income occurred in earlier years (when financial institutions incurred losses that led to failure).

On average, the net result of the various adjustments described above is a decrease in the standardized-budget deficit relative to the actual budget deficit. However, it is the *change* in the standardized-budget deficit from one year to the next, rather than the level in any year, that is important for assessing the budget's effects on real income in the short term.

CBO projects that under current laws and policies, the standardized-budget deficit will rise from 1.1 percent of potential GDP in 2007 to 2.5 percent in 2008, which is somewhat more than the rise in the cyclically adjusted deficit projected for that year. In 2009, the standardized-budget deficit is projected to fall to 0.9 percent of potential GDP—again, slightly more than the fall in the cyclically adjusted figure. As a percentage of potential output, CBO's estimate of the standardized-budget deficit for 2008 is about the same as its estimate of the unadjusted budget deficit for that year—that is, the cyclical and other adjustments that affect the standardized deficit more or less offset each other. In contrast, CBO's estimate of the standardized deficit for 2009 is less than its estimate of the unadjusted deficit—by 0.5 percent of potential GDP (about \$70 billion)—mostly because the weakness of the economy is expected to add to the deficit in that year.

Details of CBO's Projections of the Standardized-Budget Deficit

The standardized-budget deficit in 2007 was the smallest such shortfall in this decade, amounting to 1.1 percent of potential GDP, down from 1.8 percent in 2006 (see Tables 2 and 3). Roughly half of the decline in 2007 was due to an increase in the ratio of standardized revenues to potential GDP, from 17.7 percent in 2006 to 18.0 percent in 2007; the rest reflected a drop in standardized outlays. The rise in standardized revenues was about the same as the rise in cyclically adjusted revenues, but the fall in standardized outlays (0.3 percent) was smaller than the decline in cyclically adjusted outlays (0.5 percent).

Table 2.**Details of the Standardized-Budget Deficit in Billions of Dollars**

	Actual				Projected	
	2004	2005	2006	2007	2008	2009
Revenues						
Budget (Unadjusted)	1,880	2,154	2,407	2,568	2,546	2,793
Minus: Cyclical contribution	-33	-20	-15	-35	-60	-103
Equals: Cyclically adjusted	1,914	2,174	2,422	2,604	2,606	2,896
Plus: Other adjustments	-42	-90	-111	-117	-120	-113
Equals: Standardized	1,871	2,084	2,311	2,486	2,486	2,783
Mandatory Spending Less Offsetting Receipts						
Budget (Unadjusted)	1,237	1,321	1,413	1,451	1,577	1,664
Minus: Cyclical contribution	12	1	-4	-4	7	11
Equals: Cyclically adjusted	1,225	1,320	1,417	1,455	1,570	1,652
Plus: Other adjustments	7	-2	16	23	38	16
Equals: Standardized	1,232	1,318	1,433	1,478	1,608	1,668
Discretionary Spending						
Budget (Unadjusted)	895	968	1,016	1,042	1,092	1,122
Plus: Timing adjustment	0	-4	*	2	2	0
Equals: Standardized	895	964	1,016	1,044	1,094	1,122
Interest Payments						
Budget (Unadjusted)	160	184	227	237	234	214
Plus: Inflation adjustment	-122	-143	-136	-121	-90	-88
Equals: Standardized	38	41	91	116	144	126
Deficit						
Budget (Unadjusted)	-413	-318	-248	-162	-357	-207
Minus: Cyclical contribution	-46	-21	-10	-32	-67	-114
Equals: Cyclically adjusted	-367	-297	-238	-130	-290	-93
Plus: Other adjustments ^a	73	58	9	-22	-71	-40
Equals: Standardized	-294	-239	-229	-152	-361	-133

Sources: Congressional Budget Office; Office of Management and Budget.

Notes: The cyclical contribution to revenues is negative when actual gross domestic product (GDP) is less than potential GDP (the level of output that corresponds to a high level of resource—labor and capital—use). The cyclical contribution to mandatory spending is positive when the unemployment rate is higher than the natural rate of unemployment (the rate arising from all sources except fluctuations in aggregate demand). The cyclical contribution to the budget deficit equals the cyclical contribution to revenues minus the cyclical contribution to mandatory spending. (No cyclical adjustment is estimated for discretionary spending or interest payments.)

* = between -\$500 million and zero.

a. "Other adjustments" to the 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 3.**Details of the Standardized-Budget Deficit as a Percentage of Potential Gross Domestic Product**

	Actual				Projected	
	2004	2005	2006	2007	2008	2009
Revenues						
Budget (Unadjusted)	16.2	17.5	18.4	18.6	17.6	18.5
Minus: Cyclical contribution	-0.3	-0.2	-0.1	-0.3	-0.4	-0.7
Equals: Cyclically adjusted	16.5	17.7	18.5	18.9	18.0	19.2
Plus: Other adjustments	-0.4	-0.7	-0.8	-0.8	-0.8	-0.7
Equals: Standardized	16.1	16.9	17.7	18.0	17.2	18.4
Mandatory Spending Less Offsetting Receipts						
Budget (Unadjusted)	10.6	10.7	10.8	10.5	10.9	11.0
Minus: Cyclical contribution	0.1	*	*	*	*	0.1
Equals: Cyclically adjusted	10.5	10.7	10.8	10.5	10.9	10.9
Plus: Other adjustments	0.1	*	0.1	0.2	0.3	0.1
Equals: Standardized	10.6	10.7	11.0	10.7	11.1	11.0
Discretionary Spending						
Budget (Unadjusted)	7.7	7.9	7.8	7.6	7.6	7.4
Plus: Timing adjustment	0	*	*	*	*	0
Equals: Standardized	7.7	7.8	7.8	7.6	7.6	7.4
Interest Payments						
Budget (Unadjusted)	1.4	1.5	1.7	1.7	1.6	1.4
Plus: Inflation adjustment	-1.0	-1.2	-1.0	-0.9	-0.6	-0.6
Equals: Standardized	0.3	0.3	0.7	0.8	1.0	0.8
Deficit						
Budget (Unadjusted)	-3.6	-2.6	-1.9	-1.2	-2.5	-1.4
Minus: Cyclical contribution	-0.4	-0.2	-0.1	-0.2	-0.5	-0.8
Equals: Cyclically adjusted	-3.2	-2.4	-1.8	-0.9	-2.0	-0.6
Plus: Other adjustments ^a	0.6	0.5	0.1	-0.2	-0.5	-0.3
Equals: Standardized	-2.5	-1.9	-1.8	-1.1	-2.5	-0.9

Sources: Congressional Budget Office; Office of Management and Budget.

Notes: The cyclical contribution to revenues is negative when actual gross domestic product (GDP) is less than potential GDP (the level of output that corresponds to a high level of resource—labor and capital—use). The cyclical contribution to mandatory spending is positive when the unemployment rate is higher than the nonaccelerating inflation rate of unemployment (the rate arising from all sources except fluctuations in aggregate demand). The cyclical contribution to the budget deficit equals the cyclical contribution to revenues minus the cyclical contribution to mandatory spending. (No cyclical adjustment is estimated for discretionary spending or interest payments.)

* = between -0.05 percent and 0.05 percent.

a. "Other adjustments" to the 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.

Under the assumptions embodied in CBO's baseline projections for March 2008 (which do not incorporate the effects of future legislation but do include the impact of the Economic Stimulus Act of 2008), the ratio of the standardized-budget deficit to potential GDP is forecast to increase substantially in 2008 and then decline in 2009. The large increase that CBO projects for 2008 is attributable mostly to a fall in standardized revenues amounting to 0.8 percent of potential GDP, which largely stems from the Economic Stimulus Act. (In the unadjusted budget, revenues are projected to decline by a similar amount measured as a percentage of potential GDP.) Also a factor, however, is a projected boost in standardized outlays of 0.6 percent of potential GDP, which reflects an increase in projected budget outlays and a decrease in the inflation component of interest payments. The combined effects of changes in all other adjustments to standardized outlays are small.

An upward shift in standardized revenues of 1.2 percent of potential GDP accounts for most of the decrease projected in the standardized deficit for 2009. That rise in standardized revenues is similar to the increase in cycli-

cally adjusted revenues; it results from the temporary nature of the 2008 tax reductions in the Economic Stimulus Act and the rise in cyclically adjusted revenues attributable to CBO's baseline assumption that the recent legislated increase in the exemption amounts for the alternative minimum tax is temporary and will not be extended.

The overall decrease of 0.2 percentage points of potential GDP in the standardized-budget deficit that CBO anticipates during the 2007–2009 period is similar to the decrease in the cyclically adjusted deficit, because the additional adjustments to the standardized deficit are similar as a percentage of potential GDP in 2007 and 2009. On the revenue side, the largest of those adjustments is for capital gains (see Table 4). On the outlay side, the largest is for the inflation component of interest payments. The overall increase in the unadjusted budget deficit that CBO projects for 2007 to 2009 is mostly the result of cyclical factors.

Historical estimates of the standardized-budget measures and related series are presented in Tables 5 and 6.

Table 4.**Details of the “Other Adjustments” to the Standardized-Budget Deficit**

	Actual				Projected	
	2004	2005	2006	2007	2008	2009
In Billions of Dollars						
Revenues						
Capital gains	-61	-86	-108	-120	-120	-113
Timing adjustment	-1	-5	-3	3	0	0
Other	20	0	0	0	0	0
Mandatory Spending						
Deposit insurance	-2	-1	-1	-1	-3	-3
Asset sales	-5	-6	-7	-7	-17	-11
Spectrum auctions	0	*	*	-14	-19	-1
Timing adjustment	0	9	-8	-2	0	0
Discretionary Spending—Timing Adjustment	0	4	*	-2	-2	0
Interest Payments—Inflation Adjustment	<u>122</u>	<u>143</u>	<u>136</u>	<u>121</u>	<u>90</u>	<u>88</u>
Total	73	58	9	-22	-71	-40
As a Percentage of Potential Gross Domestic Product^a						
Revenues						
Capital gains	-0.5	-0.7	-0.8	-0.9	-0.8	-0.7
Timing adjustment	**	**	**	**	0	0
Other	0.2	0	0	0	0	0
Mandatory Spending						
Deposit insurance	**	**	**	**	**	**
Asset sales	**	**	-0.1	**	-0.1	-0.1
Spectrum auctions	0	**	**	-0.1	-0.1	**
Timing adjustment	0	0.1	-0.1	**	0	0
Discretionary Spending—Timing Adjustment	0	**	**	**	**	0
Interest Payments—Inflation Adjustment	<u>1.0</u>	<u>1.2</u>	<u>1.0</u>	<u>0.9</u>	<u>0.6</u>	<u>0.6</u>
Total	0.6	0.5	0.1	-0.2	-0.5	-0.3

Sources: Congressional Budget Office; Office of Management and Budget.

Notes: The adjustments to spending in this table have the opposite sign from the corresponding adjustments to spending in Tables 2 and 3 because the adjustments in this table sum to show the total effect on the deficit.

* = between -\$500 million and \$500 million; ** = between -0.05 percent and 0.05 percent.

a. Potential gross domestic product is the level of output that corresponds to a high level of resource—labor and capital—use.

Table 5.**The Standardized-Budget Surplus or Deficit and Related Series in Billions of Dollars, 1962 to 2009**

	Budget (Unadjusted)	-	Cyclical Contributions	=	Cyclically Adjusted	+	Other Adjustments ^a	=	Standardized- Budget	Standardized-Budget	
	Surplus or Deficit (-)			Surplus or Deficit (-)	Surplus or Deficit (-)			Revenues	Outlays		
1962	-7		-2		-5		1		-4	99	104
1963	-5		-2		-3		*		-4	106	110
1964	-6		2		-8		1		-6	109	115
1965	-1		5		-6		1		-5	110	115
1966	-4		13		-17		2		-14	115	130
1967	-9		12		-21		-1		-22	131	153
1968	-25		11		-36		5		-31	140	171
1969	3		14		-11		8		-3	171	173
1970	-3		5		-8		10		2	186	184
1971	-23		-4		-19		9		-10	187	197
1972	-23		*		-23		2		-21	199	220
1973	-15		14		-29		8		-20	214	234
1974	-6		9		-16		18		2	251	249
1975	-53		-22		-31		35		4	301	297
1976	-74		-25		-49		14		-35	309	344
1977	-54		-13		-40		20		-21	357	378
1978	-59		2		-61		29		-32	390	422
1979	-41		9		-50		35		-14	446	460
1980	-74		-21		-53		43		-9	523	532
1981	-79		-23		-56		38		-17	606	623
1982	-128		-62		-66		23		-43	655	698
1983	-208		-88		-119		7		-112	653	765
1984	-185		-30		-155		12		-143	672	815
1985	-212		-17		-196		17		-179	723	902
1986	-221		-12		-210		-1		-211	748	958
1987	-150		-13		-137		-20		-157	816	972
1988	-155		7		-162		37		-126	869	995
1989	-153		19		-172		55		-117	938	1,055

Continued

Table 5.

Continued

The Standardized-Budget Surplus or Deficit and Related Series in Billions of Dollars, 1962 to 2009

	Budget (Unadjusted)	-	Cyclical	=	Cyclically Adjusted	+	Other	=	Standardized- Budget	Standardized-Budget	
	Surplus or Deficit (-)		Contributions		Surplus or Deficit (-)		Adjustments ^a		Surplus or Deficit (-)	Revenues	Outlays
1990	-221		8		-229		109		-120	993	1,113
1991	-269		-49		-220		70		-150	1,070	1,219
1992	-290		-63		-227		41		-186	1,125	1,312
1993	-255		-52		-203		11		-192	1,166	1,358
1994	-203		-29		-174		30		-144	1,246	1,390
1995	-164		-18		-146		*		-146	1,331	1,477
1996	-107		-20		-88		-6		-93	1,417	1,510
1997	-22		15		-37		-44		-81	1,494	1,575
1998	69		41		29		-67		-38	1,594	1,632
1999	126		67		59		-57		2	1,661	1,660
2000	236		94		142		-38		105	1,820	1,715
2001	128		19		109		-7		102	1,897	1,795
2002	-158		-62		-96		-35		-131	1,815	1,946
2003	-378		-84		-294		6		-288	1,782	2,070
2004	-413		-46		-367		73		-294	1,871	2,166
2005	-318		-21		-297		58		-239	2,084	2,323
2006	-248		-10		-238		9		-229	2,311	2,540
2007	-162		-32		-130		-22		-152	2,486	2,639
2008 ^b	-357		-67		-290		-71		-361	2,486	2,846
2009 ^b	-207		-114		-93		-40		-133	2,783	2,916

Sources: Congressional Budget Office; Office of Management and Budget.

Note: * = between -\$500 million and \$500 million.

a. "Other adjustments" include those made to account 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 licenses for the use of the electromagnetic spectrum, federal outlays for deposit insurance, and contributions from allied nations for Operation Desert Storm (which were received in 1991 and 1992).

b. Projected.

Table 6.

The Standardized-Budget Surplus or Deficit and Related Series as a Percentage of Potential Gross Domestic Product, 1962 to 2009

	Budget (Unadjusted)	-	Cyclical Contributions	=	Cyclically Adjusted	+	Other Adjustments ^a	=	Standardized- Budget	Standardized-Budget	
	Surplus or Deficit (-)			Surplus or Deficit (-)	Surplus or Deficit (-)			Revenues	Outlays		
1962	-1.2		-0.4		-0.8		0.1		-0.7	17.3	18.0
1963	-0.8		-0.3		-0.5		-0.1		-0.6	17.5	18.1
1964	-0.9		0.3		-1.2		0.2		-1.0	17.1	18.0
1965	-0.2		0.7		-0.9		0.2		-0.7	16.3	17.0
1966	-0.5		1.8		-2.3		0.3		-2.0	16.0	18.0
1967	-1.1		1.5		-2.6		-0.2		-2.8	16.9	19.7
1968	-3.0		1.3		-4.3		0.6		-3.7	16.6	20.3
1969	0.4		1.5		-1.2		0.9		-0.3	18.6	18.9
1970	-0.3		0.5		-0.8		1.0		0.2	18.5	18.4
1971	-2.1		-0.3		-1.8		0.9		-0.9	17.1	18.1
1972	-2.0		*		-2.0		0.2		-1.8	16.9	18.6
1973	-1.2		1.1		-2.2		0.6		-1.6	16.8	18.4
1974	-0.4		0.7		-1.1		1.3		0.2	17.8	17.6
1975	-3.3		-1.4		-1.9		2.1		0.2	18.6	18.4
1976	-4.1		-1.4		-2.7		0.8		-1.9	17.2	19.2
1977	-2.7		-0.7		-2.0		1.0		-1.0	17.8	18.9
1978	-2.7		0.1		-2.7		1.3		-1.4	17.6	19.0
1979	-1.6		0.4		-2.0		1.4		-0.6	18.0	18.5
1980	-2.7		-0.8		-1.9		1.6		-0.3	18.8	19.2
1981	-2.5		-0.8		-1.8		1.2		-0.6	19.4	20.0
1982	-3.7		-1.8		-1.9		0.7		-1.3	19.1	20.4
1983	-5.6		-2.4		-3.2		0.2		-3.0	17.7	20.8
1984	-4.7		-0.8		-4.0		0.3		-3.6	17.1	20.7
1985	-5.1		-0.4		-4.7		0.4		-4.3	17.3	21.5
1986	-5.0		-0.3		-4.7		*		-4.7	16.9	21.6
1987	-3.2		-0.3		-2.9		-0.4		-3.3	17.4	20.7
1988	-3.1		0.1		-3.2		0.7		-2.5	17.4	19.9
1989	-2.9		0.4		-3.2		1.0		-2.2	17.5	19.7

Continued

Table 6.

Continued

The Standardized-Budget Surplus or Deficit and Related Series as a Percentage of Potential Gross Domestic Product, 1962 to 2009

	Budget (Unadjusted) Surplus or Deficit (-)	- Cyclical Contributions	= Cyclically Adjusted Surplus or Deficit (-)	+ Other Adjustments ^a	= Standardized- Budget Surplus or Deficit (-)	Standardized-Budget	
						Revenues	Outlays
1990	-3.9	0.1	-4.0	1.9	-2.1	17.4	19.5
1991	-4.4	-0.8	-3.6	1.1	-2.5	17.6	20.0
1992	-4.5	-1.0	-3.5	0.6	-2.9	17.6	20.5
1993	-3.8	-0.8	-3.0	0.2	-2.9	17.4	20.2
1994	-2.9	-0.4	-2.5	0.4	-2.0	17.7	19.8
1995	-2.2	-0.2	-2.0	*	-2.0	18.0	20.0
1996	-1.4	-0.3	-1.1	-0.1	-1.2	18.3	19.5
1997	-0.3	0.2	-0.5	-0.5	-1.0	18.4	19.4
1998	0.8	0.5	0.3	-0.8	-0.4	18.7	19.2
1999	1.4	0.7	0.7	-0.6	*	18.6	18.6
2000	2.5	1.0	1.5	-0.4	1.1	19.3	18.2
2001	1.3	0.2	1.1	-0.1	1.0	18.9	17.9
2002	-1.5	-0.6	-0.9	-0.3	-1.2	17.2	18.5
2003	-3.4	-0.8	-2.7	0.1	-2.6	16.1	18.8
2004	-3.6	-0.4	-3.2	0.6	-2.5	16.1	18.6
2005	-2.6	-0.2	-2.4	0.5	-1.9	16.9	18.9
2006	-1.9	-0.1	-1.8	0.1	-1.8	17.7	19.4
2007	-1.2	-0.2	-0.9	-0.2	-1.1	18.0	19.1
2008 ^b	-2.5	-0.5	-2.0	-0.5	-2.5	17.2	19.7
2009 ^b	-1.4	-0.8	-0.6	-0.3	-0.9	18.4	19.3

Sources: Congressional Budget Office; Office of Management and Budget.

Notes: Potential gross domestic product is the level of output that corresponds to a high level of resource—labor and capital—use.

* = between -0.05 percent and 0.05 percent.

a. "Other adjustments" include those made to account 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 licenses for the use of the electromagnetic spectrum, federal outlays for deposit insurance, and contributions from allied nations for Operation Desert Storm (which were received in 1991 and 1992).

b. Projected.

