
The Standardized Budget: Details of the Projections

On January 26, 2000, the Congressional Budget Office (CBO) released its report *The Budget and Economic Outlook: Fiscal Years 2001-2010*, which presents CBO's projections of federal revenues and outlays over that period. This supplement provides projections of the standardized budget through fiscal year 2010 (see Tables 1 through 4). As in the January report, those projections are shown using three variants of the baseline, each of which reflects a different assumption about discretionary spending. The “inflated” variation assumes that discretionary spending grows at the rate of inflation after 2000. The “freeze” variation pegs discretionary budget authority to the level enacted for the current year, plus amounts already enacted for 2001. The “capped” variation assumes that discretionary spending equals CBO's estimates of the statutory caps through 2002 and grows at the rate of inflation thereafter.

The standardized budget adjusts revenues and outlays for the effects of the business cycle. During economic downturns, revenues automatically fall as incomes decline, and outlays automatically increase as unemployment rises. Because of those cyclical effects, changes in the actual budget surplus can give misleading signals about the stance of fiscal policy. The standardized budget also includes adjustments for factors that do not have an impact on short-term growth, such as asset sales and meaningless shifts in the timing of receipts between one fiscal year and the next.

The calculations of the standardized budget also incorporate several new adjustments.¹ The most important of those for the period from 1996 to 2010 are as follows:

- o An estimate of capital gains tax collections has been removed because large fluctuations in those taxes can distort the measured effects of the budget on short-term growth.
- o An estimate of the inflation component of interest payments is now excluded because those payments are simply an early return of principal to bondholders and are likely to be saved rather than spent.
- o An estimate of large changes in withheld taxes that are not matched by a change in tax liabilities is now largely excluded because such changes are not likely to have much effect on spending for the majority of consumers.

The overall stance of fiscal policy—as measured by the increase in the standardized-budget surplus as a share of potential gross domestic product (GDP)—moderately dampened short-term growth in 1999 and will do so again in 2000 (see Table 1). In part, that restraint reflects slower growth of real interest pay-

1. The new adjustments and revised historical estimates will be the subject of a forthcoming CBO memorandum.

ments. Tax and spending legislation in recent years has not been an important factor. If discretionary spending is held to the current caps in 2001, fiscal policy will be much more restrictive next year. Otherwise, its effect on short-term growth will be less restrictive.

In all three variations of the baseline, the projected improvement in the standardized-budget surplus during the next decade is substantial, reaching at least 2.8 percent of potential GDP by 2010. A significant decline in both discretionary spending and real interest payments measured relative to potential GDP is largely responsible for the rosier outlook (see Table 3). Even if discretionary spending keeps up with inflation, real economic growth will reduce that spending as a share of potential GDP from 6.5 percent in 2000 to 5.3 percent in 2010. The other variations of the baseline, which assume greater restraint in dis-

cretionary spending, imply larger declines relative to potential GDP.

In the case of revenues, the standardized-budget estimates rise from 18.9 percent of potential GDP in 2000 to 19.2 percent in 2010, despite a decline in the unadjusted estimates from 20.8 percent to 19.8 percent. That increase in standardized revenues, which excludes capital gains taxes and changes in revenues attributable to the business cycle, mainly reflects two factors that boost the growth of individual income taxes. First, effective tax rates rise over time as growth of real incomes pushes taxpayers into higher tax brackets—an effect known as real bracket creep. Second, the projection of revenues assumes that taxable retirement income grows faster than potential GDP. Consequently, taxes on that income are assumed to rise relative to potential GDP.

Table 1.
The Standardized-Budget Surplus, Fiscal Years 1996-2010

	Actual				Projected										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In Billions of Dollars															
Inflated Baseline	-93	-75	-35	-2	42	62	91	127	164	209	253	294	335	374	409
Freeze Baseline	-93	-75	-35	-2	42	73	115	172	229	293	357	420	484	548	609
Capped Baseline	-93	-75	-35	-2	42	120	175	219	259	311	358	401	451	496	537
As a Percentage of Potential GDP															
Inflated Baseline	-1.2	-0.9	-0.4	*	0.4	0.6	0.9	1.2	1.5	1.8	2.0	2.3	2.5	2.6	2.8
Freeze Baseline	-1.2	-0.9	-0.4	*	0.4	0.7	1.1	1.6	2.0	2.5	2.9	3.2	3.6	3.9	4.1
Capped Baseline	-1.2	-0.9	-0.4	*	0.4	1.2	1.7	2.0	2.3	2.6	2.9	3.1	3.3	3.5	3.6

SOURCE: Congressional Budget Office.

NOTE: * = less than 0.05 percent.

Table 2.
Details of the Standardized-Budget Surplus, Fiscal Years 1996-2010 (In billions of dollars)

	Actual				Projected											
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Revenues																
Budget	1,453	1,579	1,722	1,827	1,945	2,016	2,096	2,177	2,263	2,361	2,465	2,572	2,686	2,813	2,946	
Cyclical adjustments	20	-10	-38	-64	-76	-72	-63	-51	-37	-26	-17	-8	*	2	2	
Other adjustments	-51	-70	-89	-96	-102	-91	-91	-89	-87	-87	-87	-88	-89	-91	-94	
Standardized	1,422	1,499	1,595	1,668	1,767	1,854	1,942	2,037	2,138	2,248	2,361	2,476	2,597	2,724	2,854	
Mandatory Spending																
Less Offsetting Receipts																
Budget	786	809	853	898	942	986	1,028	1,088	1,156	1,231	1,282	1,352	1,437	1,524	1,619	
Cyclical adjustments	-1	2	7	8	9	7	6	4	2	2	1	*	*	*	*	
Other adjustments	17	30	17	10	6	4	13	8	3	-8	8	10	4	3	3	
Standardized	802	841	877	915	957	997	1,046	1,099	1,162	1,225	1,291	1,362	1,440	1,527	1,622	
Discretionary Spending																
Inflated baseline	534	548	555	575	603	635	650	669	684	702	716	730	750	768	786	
Freeze baseline	534	548	555	575	603	624	628	627	624	625	623	620	622	621	621	
Capped baseline	534	548	555	575	603	578	571	585	600	615	630	646	662	679	696	
Interest Payments																
Net of Earnings from Excess Cash																
Budget																
Inflated baseline	241	244	243	230	224	218	209	194	177	160	142	122	101	77	52	
Freeze baseline	241	244	243	230	224	218	208	191	171	150	127	101	72	39	3	
Capped baseline	241	244	243	230	224	217	204	183	162	139	115	89	62	31	-2	
Inflation adjustment																
Inflated baseline	-64	-59	-45	-51	-60	-57	-55	-52	-48	-45	-41	-35	-29	-22	-15	
Freeze baseline	-64	-59	-45	-51	-60	-57	-55	-51	-47	-42	-37	-29	-21	-12	-1	
Capped baseline	-64	-59	-45	-51	-60	-57	-54	-49	-44	-39	-33	-26	-17	-9	1	
Standardized																
Inflated baseline	177	185	198	179	164	162	155	142	129	115	101	87	72	55	37	
Freeze baseline	177	185	198	179	164	162	153	139	124	108	90	71	51	28	2	
Capped baseline	177	185	198	179	164	160	150	134	117	100	82	64	44	22	-1	
Total Surplus																
Budget																
Inflated baseline	-107	-22	70	124	176	177	209	227	246	268	325	368	399	444	489	
Freeze baseline	-107	-22	70	124	176	188	232	271	312	355	434	500	556	628	703	
Capped baseline	-107	-22	70	124	176	235	294	321	345	376	438	485	526	579	633	
Cyclical adjustments	20	-12	-45	-72	-85	-79	-69	-54	-39	-28	-18	-9	1	3	2	
Other adjustments^a																
Inflated baseline	-6	-41	-60	-55	-50	-36	-49	-45	-43	-31	-54	-66	-64	-73	-82	
Freeze baseline	-6	-41	-60	-55	-50	-36	-49	-45	-44	-34	-58	-71	-72	-83	-96	
Capped baseline	-6	-41	-60	-55	-50	-36	-50	-47	-47	-37	-62	-75	-76	-86	-98	
Standardized																
Inflated baseline	-93	-75	-35	-2	42	62	91	127	164	209	253	294	335	374	409	
Freeze baseline	-93	-75	-35	-2	42	73	115	172	229	293	357	420	484	548	609	
Capped baseline	-93	-75	-35	-2	42	120	175	219	259	311	358	401	451	496	537	

SOURCE: Congressional Budget Office.

NOTE: * = less than \$500 million.

a. These adjustments, which include timing adjustments that affect discretionary spending but are not shown above, are detailed in Table 4.

Table 3.
Details of the Standardized-Budget Surplus, Fiscal Years 1996-2010 (As a percentage of potential GDP)

	Actual				Projected										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues															
Budget	18.7	19.4	20.2	20.5	20.8	20.6	20.4	20.2	20.0	19.9	19.9	19.8	19.8	19.8	19.8
Cyclical adjustments	0.3	-0.1	-0.4	-0.7	-0.8	-0.7	-0.6	-0.5	-0.3	-0.2	-0.1	-0.1	*	*	*
Other adjustments	-0.7	-0.9	-1.0	-1.1	-1.1	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6
Standardized	18.3	18.4	18.8	18.7	18.9	18.9	18.9	18.9	18.9	19.0	19.0	19.1	19.1	19.2	19.2
Mandatory Spending															
Less Offsetting Receipts															
Budget	10.1	9.9	10.0	10.1	10.1	10.1	10.0	10.1	10.2	10.4	10.3	10.4	10.6	10.7	10.9
Cyclical adjustments	*	*	0.1	0.1	0.1	0.1	0.1	*	*	*	*	*	*	*	*
Other adjustments	0.2	0.4	0.2	0.1	0.1	*	0.1	0.1	*	-0.1	0.1	0.1	*	*	*
Standardized	10.3	10.3	10.3	10.3	10.3	10.2	10.2	10.2	10.3	10.3	10.4	10.5	10.6	10.7	10.9
Discretionary Spending															
Inflated baseline	6.9	6.7	6.5	6.5	6.5	6.5	6.3	6.2	6.0	5.9	5.8	5.6	5.5	5.4	5.3
Freeze baseline	6.9	6.7	6.5	6.5	6.5	6.4	6.1	5.8	5.5	5.3	5.0	4.8	4.6	4.4	4.2
Capped baseline	6.9	6.7	6.5	6.5	6.5	5.9	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.8	4.7
Interest Payments															
Net of Earnings from Excess Cash															
Budget															
Inflated baseline	3.1	3.0	2.9	2.6	2.4	2.2	2.0	1.8	1.6	1.4	1.1	0.9	0.7	0.5	0.4
Freeze baseline	3.1	3.0	2.9	2.6	2.4	2.2	2.0	1.8	1.5	1.3	1.0	0.8	0.5	0.3	*
Capped baseline	3.1	3.0	2.9	2.6	2.4	2.2	2.0	1.7	1.4	1.2	0.9	0.7	0.5	0.2	*
Inflation adjustment															
Inflated baseline	-0.8	-0.7	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1
Freeze baseline	-0.8	-0.7	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.2	-0.2	-0.1	*
Capped baseline	-0.8	-0.7	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.3	-0.3	-0.2	-0.1	-0.1	*
Standardized															
Inflated baseline	2.3	2.3	2.3	2.0	1.8	1.7	1.5	1.3	1.1	1.0	0.8	0.7	0.5	0.4	0.2
Freeze baseline	2.3	2.3	2.3	2.0	1.8	1.6	1.5	1.3	1.1	0.9	0.7	0.5	0.4	0.2	*
Capped baseline	2.3	2.3	2.3	2.0	1.8	1.6	1.5	1.2	1.0	0.8	0.7	0.5	0.3	0.2	*
Total Surplus															
Budget															
Inflated baseline	-1.4	-0.3	0.8	1.4	1.9	1.8	2.0	2.1	2.2	2.3	2.6	2.8	2.9	3.1	3.3
Freeze baseline	-1.4	-0.3	0.8	1.4	1.9	1.9	2.3	2.5	2.8	3.0	3.5	3.8	4.1	4.4	4.7
Capped baseline	-1.4	-0.3	0.8	1.4	1.9	2.4	2.9	3.0	3.1	3.2	3.5	3.7	3.9	4.1	4.3
Cyclical adjustments	0.3	-0.2	-0.5	-0.8	-0.9	-0.8	-0.7	-0.5	-0.3	-0.2	-0.1	-0.1	*	*	*
Other adjustments^a															
Inflated baseline	-0.1	-0.5	-0.7	-0.6	-0.5	-0.4	-0.5	-0.4	-0.4	-0.3	-0.4	-0.5	-0.5	-0.5	-0.6
Freeze baseline	-0.1	-0.5	-0.7	-0.6	-0.5	-0.4	-0.5	-0.4	-0.4	-0.3	-0.5	-0.5	-0.5	-0.6	-0.6
Capped baseline	-0.1	-0.5	-0.7	-0.6	-0.5	-0.4	-0.5	-0.4	-0.4	-0.3	-0.5	-0.6	-0.6	-0.6	-0.7
Standardized															
Inflated baseline	-1.2	-0.9	-0.4	*	0.4	0.6	0.9	1.2	1.5	1.8	2.0	2.3	2.5	2.6	2.8
Freeze baseline	-1.2	-0.9	-0.4	*	0.4	0.7	1.1	1.6	2.0	2.5	2.9	3.2	3.6	3.9	4.1
Capped baseline	-1.2	-0.9	-0.4	*	0.4	1.2	1.7	2.0	2.3	2.6	2.9	3.1	3.3	3.5	3.6

SOURCE: Congressional Budget Office.

NOTE: * = less than 0.05 percent.

a. These adjustments, which include timing adjustments that affect discretionary spending but are not shown above, are detailed in Table 4.

Table 4.
Other Adjustments to the Standardized-Budget Surplus, Fiscal Years 1996-2010

	Actual				Projected										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In Billions of Dollars															
Revenues															
Capital gains	-51	-71	-82	-91	-98	-94	-91	-89	-87	-87	-87	-88	-89	-91	-94
Timing	0	1	4	-5	-4	4	0	0	0	0	0	0	0	0	0
Other	0	0	-11	0	0	0	0	0	0	0	0	0	0	0	0
Mandatory Outlays															
Deposit insurance	-8	-14	-4	-5	-2	*	*	1	1	2	1	-1	-1	*	*
Asset sales	-4	-5	-10	-3	-4	-4	-3	-3	-3	-3	-3	-3	-3	-3	-3
Spectrum auctions	*	-11	-3	-2	-1	-4	-6	-5	-1	-1	-1	-1	*	0	0
Timing	-5	0	0	0	0	4	-4	0	0	11	-5	-5	0	0	0
Interest Payments (Inflation adjustment)															
Inflated baseline	64	59	45	51	60	57	55	52	48	45	41	35	29	22	15
Freeze baseline	64	59	45	51	60	57	55	51	47	42	37	29	21	12	1
Capped baseline	64	59	45	51	60	57	54	49	44	39	33	26	17	9	-1
Discretionary Outlays (Timing adjustment)															
Inflated baseline	2	0	0	0	2	-2	0	0	0	-3	*	3	0	0	0
Freeze baseline	2	0	0	0	2	-2	0	0	0	-2	0	2	0	0	0
Capped baseline	2	0	0	0	2	-2	0	0	0	-3	*	3	0	0	0
As a Percentage of Potential GDP															
Revenues															
Capital gains	-0.7	-0.9	-1.0	-1.0	-1.1	-1.0	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6
Timing	0	**	**	-0.1	**	**	0	0	0	0	0	0	0	0	0
Other	0	0	-0.1	0	0	0	0	0	0	0	0	0	0	0	0
Mandatory Outlays															
Deposit insurance	-0.1	-0.2	-0.1	-0.1	**	**	**	**	**	**	**	**	**	**	**
Asset sales	**	-0.1	-0.1	**	**	**	**	**	**	**	**	**	**	**	**
Spectrum auctions	**	-0.1	**	**	**	**	-0.1	**	**	**	**	**	**	0	0
Timing	-0.1	0	0	0	0	**	**	0	0	0.1	**	**	0	0	0
Interest Payments (Inflation adjustment)															
Inflated baseline	0.8	0.7	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1
Freeze baseline	0.8	0.7	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.1	**
Capped baseline	0.8	0.7	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.2	0.1	0.1	**
Discretionary Outlays (Timing adjustment)															
Inflated baseline	**	0	0	0	**	**	0	0	0	**	**	**	0	0	0
Freeze baseline	**	0	0	0	**	**	0	0	0	**	0	**	0	0	0
Capped baseline	**	0	0	0	**	**	0	0	0	**	**	**	0	0	0

SOURCE: Congressional Budget Office.

NOTE: * = less than \$500 million; ** = less than 0.05 percent.