

BUDGET GLOSSARY

Aggregate economic data

Total expenditures and total production of goods and services related to the entire economy. For example, aggregate demand is the total spending on consumption, investment, government purchases, and net exports, while aggregate supply is the total amount of good and services produced in the economy.

Appropriation

Sometimes called an “allocation”, refers to the legal authority granted to the executive by the legislature to spend public funds. Appropriation legislation varies in terms of its detail; some provide funds for an entire department, while others provide funds for specific programs. Typically the term “allocation” will be in reference to appropriated funds dedicated to a particular purpose (for instance, the allocation for school building in the education budget).

Allocative efficiency

This is an economic term that refers to the efficient allocation of factors of production (labor, capital, land) between competing uses, with the ultimate goal of maximizing the economic welfare of consumers. Under standard conditions, a competitive market demonstrates allocative efficiency. With regard to the efficiency of public expenditures, see “Performance Budgeting”.

Benefit-incidence analysis

It refers to a type of analysis used to determine which group of people would benefit from a particular public policy.

Budget

It is a comprehensive statement of government finances, including spending, revenues, deficit or surplus, and debt. The budget is usually the government's main economic policy document, indicating how the government plans to use public resources to meet policy goals. As a statement of fiscal policy, the budget shows the nature and extent of the government's impact on the economy. The budget is prepared by the executive and then generally is submitted to the legislature to be reviewed, amended, and adopted as law.

Budget cycle

It consists of the major events or stages in making decisions about the budget, and implementing and assessing those decisions. The budget cycle usually has four stages: *budget formulation, enactment, execution, and auditing and assessment.*

Consolidated budget

Or “unified budget”, is the presentation of the budget in which revenues from all sources and spending for all activities are included. In countries where the budget is divided into pieces (for instance, where there are separate budgets for “current” and “capital” expenditures) the consolidated budget combines these pieces. It may also include extra-budgetary institutions. In some

cases, the term may also refer to combining budgets of different levels of government (federal, state and local).

Debt

Government debt is the outstanding amount that the government owes to private lenders at any given point in time. Governments borrow when they run deficits, but reduce outstanding debt when they run surpluses. Thus debt essentially represents the total of all annual deficits, minus any annual surpluses, over the years. Governments can borrow by taking out a loan directly from a financial institution, such as a bank. Governments can also issue bonds that are purchased by domestic and foreign businesses and individuals. Purchasers of government bonds are essentially lending money to the government with an agreement that the amounts will be repaid on a certain date and that interest will be paid periodically. The interest payments, also known as debt service costs, are a line-item in government budgets.

Expenditure

The term refers to government spending (or outlays) made to fulfill a government obligation, generally by issuing a check or disbursing cash. Expenditures can be **capital** and **current**. Capital expenditures are investments in physical assets such as roads and buildings that can be used for a number of years. Current expenditures are spending on wages, benefit payments and other goods and services that are consumed immediately.

Extra-governmental

Or “extra-budgetary”, term refers to government transactions that are not included in the annual budget. A variety of extra-budgetary arrangements are used, including funds set up under separate legislation that are financed by revenue used specifically for that purpose. In addition, state-sponsored businesses such as utilities or airlines have independence in certain respects, but the government may ultimately be responsible for bailing out these businesses when they run into financial trouble. Extra-budgetary activities may not be subject to the same level of scrutiny or accounting standards as programs in the annual budget (though they should be).

Fiscal envelope

This term refers to the aggregate level of expenditures and revenues (and the resulting deficit or surplus) in the budget. A government will frequently set the fiscal envelope consistent with its macroeconomic policy, and then the budget debate will focus on the composition of expenditures and revenues within these envelopes.

Fiscal policy

Government actions with respect to aggregate levels of revenue and spending. Fiscal policy is implemented through the budget and is the primary means by which the government can influence the economy. An “easy” fiscal policy is intended to stimulate short-term economic growth by increasing government spending or reducing revenues. A “tight” fiscal policy restrains short-term

demand by reducing spending or increasing taxes and is often intended to restrain inflation.

Fiscal Year

The government's 12-month accounting period; it frequently does not coincide with the calendar year. The fiscal year is named after the calendar year in which it ends.

Function

As in "functional classification": international standards (such as the IMF's Government Finance Statistics) exist for classifying government expenditures and revenue according to the broad purposes for which transactions are undertaken. A functional classification organizes government expenditure according to its various activities and policy objectives such as health, education, and transportation.

GDP

(Gross Domestic Product): this is the total value of final goods and services produced in a country during a calendar year. Economic growth is measured by the change in GDP from year to year.

Household income

This is money received by people that may or may not be earned from productive activities and, after adjusting for taxes, is saved or spent on consumption of goods and services.

Income transfer

Payments by the government to households intended to provide income support. For example, major income transfer payments in the US are for Social Security (old-age pensions), unemployment compensation, and welfare.

Inputs

Good and services that go into providing government services. For instance, typical inputs funded by a health budget would be the salaries of doctors and nurses, the construction of clinics and hospitals, and the purchase of medical supplies and drugs.

Macro-economic

This term refers to the part of economics that studies the economy as a whole and particularly topics such as gross production, unemployment, inflation, and business cycles. Macro-economics can be thought of as the study of the economic "forest", as compared to micro-economics, which is study of the economic "trees".

Micro-economic

The term is related to the part of economics that studies topics such as individual markets, prices, industries, demand, and supply. Micro-economics can be thought of as the study of the economic "trees", as compared to macroeconomics, which is study of the entire economic "forest".

Nominal

Actual monetary value in terms of the purchasing power of the day (at current prices). E.g. nominal terms/nominal values. Nominal terms do not take into account the effect of inflation on the real value of money. Annual government budgets are in

nominal terms. Occasionally multi-year budgets are presented in real or inflation adjusted terms.

Non-contributory income support

Income payments by government to households where eligibility for benefits does not depend on having made prior contributions for that purpose. Welfare payments are an example of this type of support in the US. In contrast, other types of income support in the US, such as unemployment benefits and pension payments, require that the beneficiary have made contributions (generally through payroll deductions) to the program in order to receive benefits.

Opportunity cost

The highest valued alternative foregone in the pursuit of an activity. For example if a sum of money is lent to a friend at no charge it cannot be deposited in the bank and earn interest. In this case the forgone interest earnings are the opportunity cost of lending the money to the friend.

Output/Outcomes

The performance of government programs is assessed by examining whether they have delivered the desired outputs and outcomes. Outputs are defined as the goods or services provided by government agencies. Some examples include: teaching hours delivered, immunizations provided, or welfare benefits paid. Outcomes are a broader concept and include the impact of the program on social, economic, or other indicators, such as whether an increase in hours taught improved student test scores, whether more immunizations reduced sickness, or whether higher welfare benefits increased social equity. Outputs tend to be easier to measure than outcomes. Further, factors beyond the control of a government program can affect outcomes, making it difficult to assess the impact of the program. For instance, even at a time when welfare benefits are increased, the number of people in poverty could increase as a result of a slowdown in the economy.

**Performance
Budgeting**

As a general concept, performance budgeting refers to a budget process that integrates information about the impact of government spending. In its simplest form, performance budgeting places more emphasis on the outputs and outcomes associated with government expenditure and takes this information into account when setting future funding levels. Performance budgeting is often associated with giving managers of government programs more flexibility to achieve specific policy goals within a set budget. Efficiency of expenditure therefore is an important goal.

Projections

These are estimates of future revenues and expenditures. In multi-year budgets projections over several years and they are based on technical and economic assumptions. Budgets often will present “actual” expenditure and revenue from past years

and projections or estimates for the current year and the future budget years. Projections become more uncertain the further into the future they go.

**Real (e.g., real terms/
real value/real growth)**

Value measured in terms of the purchasing power of money at a particular time. For instance, GDP may be measured in constant 1995 prices by taking the devaluing effect of inflation into account.

Resources

This term is often used in a budgetary sense to mean the amount of funds available to the government to spend. Resources generally will come either from revenues or borrowing.

Revenue

The annual income collected from taxes by the government as a result of its sovereign powers. Typical revenues include individual and corporate income taxes, payroll taxes, value-added taxes, sales taxes, excise taxes.

Sectoral analysis

It refers to the analysis of a particular sector of the economy or the government to which the budget allocates substantial resources. This analysis can review a sector such as health, education, and defense in relation to other sectors, the entire economy, or its historic levels of support. Military budget analyses, for instance, can focus attention on how much is spent on the military in comparison to how much is spent on social sectors. Analyses of sectors like health and education often include cross-country comparisons, or comparisons between the states of a country.

Spending ratios

These are ratios of specific expenditures as a share of GDP or overall expenditures. These ratios are often used to analyze spending in particular sectors of the budget.

Take-up rate

It indicates the percentage of people participating in a government program as a share of all those who are eligible to take part in the program. Typically not all those eligible for the benefits will participate in the program. Outreach efforts to inform the eligible population of available benefits can be used to improve a program's take-up rate.

Time-series data

These are data that span over a number of years. Time-series data are used to analyze expenditure and revenue trends over time.

Total resource availability

See "fiscal envelope".

Total revenue

Total taxes, user fees, and most other receipts received by the federal government.

(Budgetary or fiscal) viability

This term generally refers to whether or not the fiscal policy is sustainable or viable over time, such that available revenues are

able to cover anticipated costs. A prolonged mismatch between revenues and expenses can lead to excessive borrowing and an increase of debt. Consequently the interest payments associated with a higher level of debt consume a rising share of the budget. Such increases in borrowing are not sustainable over time. A viable fiscal policy is when revenues and expenditures are aligned.