

Methodology Used to Compute Real Growth

- Apparent growth (or decline) is defined as movement measured in current dollars. Real growth (or decline) is defined as movement measured in constant dollars.
- To measure real growth, we have used the Consumer Price Index - All Urban Consumers (CPIU) with two years (1989, 1993) as the index of 100. For trend analysis purposes, the CPIU has been used to deflate each year's current dollars. Since each organization has been treated the same in the analysis, the result should present a fair trend of where we have invested, in real terms, over the past 9 to 28 years.
- The CPIU as the deflator may overstate the real growth of many of the Department's organizations over the past 28 years. Because a majority of the resources of the organizations are used for pay and pay related benefits, the CPIU used as a deflator against pay over the past 28 years overstates the real growth in organizations' resources. Why? Because federal employee legislative pay increases have been increasing at a faster rate than the consumer price index.
- With 1989 as the base index of 100, the federal pay index rises to 161.2 by 2002 and an estimated 165.4 by 2003, while the CPIU index rises to 145.6 by 2002 and an estimated 148.8 by 2003.
  - An organization with 70 percent of its budget devoted to pay and pay related benefits:
    - . 1989 Budget of \$100 million
    - . 2003 Budget of \$384 million
  
    - . Apparent Growth . . . . . \$284.0 million or 284 percent
    - . Real Growth
    - . Deflated by CPIU . . . . . \$258.1 million or 158.1 percent
  - Real Growth
    - Deflated by Federal Pay Index
    - for 70 percent of Budget related to
    - Pay and deflated by CPIU for the
    - remaining 30 percent
    - of the budget . . . . . \$139.9 million or 139.9 percent
  - Given that most of the organizations' resources are composed of 50 percent or more pay and pay related benefit dollars, using the CPIU as the deflator overstates real resource growth in those organizations.
  - The next three pages display the CPIU data used in the analysis and the federal pay raise index compared to the CPIU for 1975 through 2003.