



CURBING THE SURGE IN YEAR-END FEDERAL GOVERNMENT SPENDING Reforming “Use It or Lose It” Rules—2016 Update

At the end of every fiscal year, US government agencies spend large sums of their budgets in a potentially wasteful manner. These year-end spending surges are described by the “use it or lose it” phenomenon, which is driven by a fear that leftover resources will prompt future budget cuts. Every year the media documents examples of wasteful year-end spending, but there has been little empirical research on the phenomenon.

An updated study published by the Mercatus Center at George Mason University examines existing literature on the prevalence, consequences, wastefulness, and causes of year-end spending surges. The study provides comprehensive reports of executive department year-end contract expenditure patterns, and it concludes with policy recommendations for curbing year-end spending surges.

To read this new research paper in its entirety and learn about its authors, Mercatus Senior Research Fellow [Jason J. Fichtner](#) and Mercatus Program Manager [Adam N. Michel](#), please see [“Curbing the Surge in Year-End Federal Government Spending: Reforming ‘Use It or Lose It’ Rules—2016 Update.”](#)

KEY POINTS

- Data from the past 13 years (FY 2003–2015) show that a remarkably large percentage of executive branch contract spending occurred in the last month of the fiscal year. Over this time period, 16.3 percent of expenditures occurred during September, the last month of the fiscal year—close to twice what would be expected if spending were split evenly over the year’s 12 months.
- Existing literature on year-end spending suggests that federal contract expenditures in the last week of the fiscal year tend to be wasteful, funding projects that are of substantially lower quality, as well as more risky non-competitive and one-bid contracts.

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- A potential remedy for wasteful year-end spending is to allow agencies limited rollover (also known as carry-over) authority for funds not spent by the end of the fiscal year. To maximize success in reducing waste, rollover accounts should be segregated by agency subcomponent. Separate accounts increase the incentive to save because only the agency subcomponents that achieve cost savings will be able to deploy those savings in subsequent fiscal years.

POLICY RECOMMENDATION

To test the merits of rollover authority, the federal government should begin with a pilot exercise. Departments or agencies that wish to participate should be given the authority to roll over up to 5 percent of their contract budget authority into the next fiscal year. Congress should direct the Government Accountability Office to oversee, audit, and evaluate the program.