

## Budget Gimmicks or the Destructive Art of Creative Accounting

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There are many budget gimmicks that U.S. government officials use to hide the size of deficits, debts, program costs, and revenue losses. Some strategies include pretending spending does not exist, pretending spending is smaller than it is, pretending spending is really an investment, pretending tax revenues will be bigger than should reasonably be expected, and pretending future pension liabilities do not exist. Given the many spending limits in place that elected officials nonetheless manage to avoid, this paper concludes that few methods will successfully cap spending short of shrinking the size of government.

### RESEARCH FINDINGS

- There are powerful incentives for using tricks to disguise the size of budget deficits and to bypass formal budget process requirements. The outcome is that we end up with more spending, more deficits, and more debt. Budget gimmicks, however, have consequences beyond letting lawmakers get away with spending money. With a limited budget, policy makers—like nearly everyone else in the world—must prioritize spending. They must choose the best policies to adopt based on available funds and forgo other projects. When legislators manipulate numbers in order to fund programs that might not otherwise pass muster, they are not obligated to show that the programs serve genuine social or financial policy objectives.
- To spend more, lawmakers go around the budget rules. That is what budget gimmicks accomplish. Advocates of new spending programs seek cost projections that are low enough for the programs to fit under the budget caps. Similarly, tax-cut proponents look for projections that minimize revenue loss so that cuts do not appear to be growing deficits. Below are some of the most common gimmicks.
  - **The Emergency Loophole:** Originally intended as a way to address pressing and unforeseen spending needs, the supplemental process is now regularly contravened by “emergency” spending where no emergency exists.
  - **Keeping Off the Record:** Another classic gimmick is keeping spending off the official budget (as Greece did with its defense spending). Technically speaking, the term “off-budget” only refers to entities explicitly excluded from the budget by statute. Currently, some of the largest sources of spending are not subject to budgeting, such as Social Security and the Postal Service.
  - **Timing Gimmicks:** Timing gimmicks manipulate spending around the budget year. For instance, large payments to contractors or vendors due by the end of one fiscal year (September 30) are often paid on October 1, which occurs in the next fiscal year. That lets Congress “save” money in the current year at the cost of having to double up on expenses the year after. The shift of \$5.2

billion in outlays from 2006 to 2007 by temporarily halting payments to Medicare providers for the last six business days of FY 2006 is an example of this gimmick at work.

- **Cherry Picking Numbers:** To assess the financial impact of legislation, lawmakers rely on two key pieces of economic information. The first is the base that is used for purposes of comparison, called the budget baseline. Baseline projections are used to gauge the extent to which proposed legislation, if enacted into law, would alter current spending and revenue levels. The second piece of information is an estimation of revenue that would be generated, or cost that would be incurred, as a result of proposed legislation, referred to as the legislative proposal’s “score.” Playing with the numbers that inform the baseline and the score allows for more spending by understating the true budgetary impact of legislation.
- **Rosy Scenarios:** Projections are made for future budgets based on an unrealistic, best case scenarios of economic growth. The obvious benefit of these rosy projections—a recurring element in every administration’s budget projections—is that billions of dollars in phantom revenues can alter the size of the deficit or mask a new increase in spending. At fictional growth rates, fewer people are unemployed and collecting welfare benefits. Ultimately, this allows more room for other spending and makes deficit projections look better. When reality kicks in, it is too late – spending decisions have already been made and programs have been implemented.
- **While forces behind the political abuses of budget gimmicks are strong and pervasive, we must put an end to them.** Political actions have real consequences. In this case, the main consequence is a level of spending that never ceases to grow. In FY2010 so far, the deficit of the United States has reached \$1.4 trillion or 10 percent of GDP. That’s the deepest in the red this country has been since the Second World War. If these growing deficits continue, there will come a time where we will embark on the most massive transfer of wealth from younger taxpayers to older ones in American history. It will be not just unprecedented but unfair—our children will have to pay for the decisions we make today. **For all these reasons, it is important to put an end to deceptive accounting so that the United States does not become the next Greece.**

## ABOUT DR. DE RUGY



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