Good afternoon, Chairman Paul, Ranking Member Baldwin, and members of the Subcommittee. Thank you for inviting me to testify today.

My name is Jason Fichtner, and I am a senior research fellow at the Mercatus Center at George Mason University, where I research fiscal and economic issues, including Social Security. I am also an affiliated professor at Georgetown University, Johns Hopkins University, and Virginia Tech, where I teach courses in economics and public policy. Previously I served in several positions at the Social Security Administration, including deputy commissioner (acting) and chief economist. All opinions I express today are my own and do not necessarily reflect the views of my employers.

I would like to begin by thanking Chairman Paul and Senator Baldwin for the leadership you provide this committee to ensure that important public policy issues involving the federal budget and the stewardship of federal tax dollars get the attention and debate they deserve. I also appreciate that you ensure ideas and viewpoints from all sides are shared in a collegial and respectful manner. It is a privilege for me to testify before you today.

My testimony focuses on two key issues: first, the extent to which perception of a year-end spending problem is reality and second, how various reforms would improve the efficiency of spending by federal government agencies and departments.
From this discussion, I hope to leave you with the following takeaways:

1. While anecdotes and media stories of year-end spending surges are widespread, empirical evidence for year-end spending surges and use-it-or-lose-it spending—or the motivation behind this spending—is significantly less available. However, my research and recent research by other scholars is beginning to demonstrate empirical evidence that a year-end spending phenomenon is real and potentially wasteful.

2. Allowing federal agencies limited rollover or carryover authority could reduce wasteful year-end spending splurges. Similar reforms at the state level and internationally have shown promise, but more research is still needed.

YEAR-END SPENDING: ANECDOTAL VS. EMPIRICAL EVIDENCE

The use-it-or-lose-it phenomenon refers to the propensity of US government agencies to spend unused financial resources toward the end of the fiscal year. This spending is allegedly driven by fear that leftover resources will be returned to the Department of the Treasury and will prompt future congressional budget cuts for the agency. Anecdotes and media stories of year-end spending surges are widespread, but empirical evidence for year-end spending surges and use-it-or-lose-it spending, or the motivation behind them, is significantly less available.

Recent research suggests that year-end spending surges exist and may facilitate wasteful spending. In their 2013 paper, economists Jeffrey Liebman and Neale Mahoney analyze data from the Federal Procurement Data System and the White House’s IT Dashboard to show that not only is there a surge in federal spending at the end of the year, but also this spending is of lower quality. According to Liebman and Mahoney, at the end of a fiscal year, “the prospect of expiring funds” causes agencies to spend all their remaining resources, “even if the marginal value is below the social costs of funds (our definition of wasteful spending).” A 2009 International Monetary Fund report found that year-end spending surges are a “commonly observed phenomenon in government administrations.”

Such surges have occurred in Canada, Taiwan, and the United Kingdom, to name a few countries.

Given how few empirical analyses of year-end US agency spending exist, I developed my own analysis of federal contract spending trends with my coauthor, Robert Greene. We analyzed publicly available data from USASpending.gov related to spending on prime contracts awarded by executive departments. My analysis focused

3. Liebman and Mahoney, “Expiring Budgets.”
4. Ibid., 1. “Our definition of wasteful spending” refers to Liebman and Mahoney’s definition.
8. All data were accessed on June 30, 2014. All data used from FY 2003–FY 2013 were last updated by USASpending.gov on June 17, 2014. Data from FY 2000–FY 2002 were last updated on July 15, 2013.
on this type of spending—which comprised roughly 12 percent of total 2013 federal spending9—because the data are readily available through the USAspending.gov data archive. Data were downloaded containing detailed information on all contracts executed by each executive branch department for fiscal years 2000 through 2013.

My research shows that a remarkably large percentage of executive branch contract spending occurred near the end of the fiscal year. If an agency were to spread its contract spending evenly over a 12-month period, roughly 8.3 percent of spending would occur in each month. However, in the last month of fiscal year 2013, September,10 the Department of State spent 38.8 percent of its contracting expenditures and the Department of Health and Human Services spent 28.7 percent. Not all agencies exhibited a year-end surge in spending. For example, the Department of Energy spent only 6.0 percent of its annual contract expenditures. But as the data show, most federal agencies were well above 8 percent, and many were above 16 percent. Between 2003 and 2013, across all executive departments, 16.9 percent of obligated contract expenditures occurred during the month of September—more than twice what we would expect if spending were split evenly over 12 months at 8.3 percent per month.

The pattern of year-end spending surges is evident across all the fiscal years analyzed and is not unique to the current administration or the past few Congresses. Year-end spending surges have become the norm, regardless of administration, party control of Congress, or delays in finalizing agency appropriations.

POLICY RECOMMENDATIONS

Academic research and some anecdotal evidence suggests that the current budget rule of use it or lose it is not optimal and may be encouraging wasteful spending of taxpayer dollars. The question remains: If such spending is indeed wasteful, what can be done to reduce it?

One idea is to allow agencies limited rollover (also known as carryover) authority for funds not spent by the end of the fiscal year. The federal government could begin with a pilot exercise to test the merits of limited rollover authority. Within certain federal departments, agency subcomponents should be given the authority to roll over up to 5 percent of the contract budget authority into the next fiscal year. To maximize success in reducing waste, the rollover accounts of agency subcomponents should be segregated. The separation of accounts increases the incentive to save, as only the agency subcomponents that achieve cost savings will be able to deploy those savings in subsequent fiscal years. Departments or agencies that wish to participate in the pilot program could submit a request to Congress, which could direct the Government Accountability Office (GAO) to oversee, audit, and evaluate the program.

A legitimate concern regarding carryover accounts is that they could have the perverse consequence of decreasing government accountability by serving as annual “rat holes.”11 Requiring midyear budget reviews could help address this concern and would further curb year-end spending surges. Executive departments should be required to submit midyear budget reviews to Congress and the GAO. These reviews would detail, by agency subcomponent, the anticipated expenditures for the remainder of the fiscal year, the anticipated surpluses at the end of the fiscal year, and the reasons for these surpluses. Midyear reports with similar components have yielded success in reducing use-it-or-lose-it pressures and year-end spending surges when tried at home in Oklahoma and overseas in Taiwan.12 Of course, these midyear reviews would have limited value if Congress fails to conduct appropriate

9. Figure calculated by dividing the total amount of contract spending across the entire federal government in FY 2013 ($461,565,303,165.53, as reported by USAspending.gov) by the total amount of estimated federal government outlays during FY 2013 ($3,803,400,000,000.00, as reported by the Office of Management and Budget). USAspending.gov, “Data Feeds, Data Archives for Prime Award Spending Data,” accessed June 30, 2014, https://www.usaspending.gov/data; Office of Management and Budget, Executive Office of the President, “Fiscal Year 2013 Historical Tables,” 27 (table 1.3).
10. The federal fiscal year runs from October 1 to September 30.
oversight. If Congress fails to do so, these reports may just become mere paperwork exercises.

To further curb waste, an agency would be allowed to carry over up to 5 percent into a rollover account, but agencies would be permitted to carry over only 50 percent of any remaining balance in those accounts into the subsequent fiscal year. To avoid lengthy delays in the spending of rollover fund savings and to discourage large accumulations of rollover funds, such funds should be spent within two years.

These reforms may create undesirable new administrative burdens and could disrupt existing budgeting practices. However, the short-term costs would be outweighed by long-term benefits. These benefits include relieving agencies of a perceived pressure to spend remaining resources at the end of the fiscal year to protect their budgets from cuts, along with the public benefit of reducing wasteful expenditures associated with that pressure to spend. Furthermore, even if year-end spending spikes were not inherently wasteful, enabling executive departments to manage their budgets without artificial deadlines would likely improve the efficiency of spending by the departments and their subcomponents.

A pilot program that gives limited rollover authority to several departments, combined with congressional and GAO oversight of rollover accounts, would be a useful experiment to see whether these changes to the federal budget process would reduce wasteful year-end spending.

Thank you again for your time and this opportunity to testify today. I look forward to your questions.