Budget Gimmicks

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I. Budgetary Challenges and Temptations

One pesky reality of budgeting is that it requires the use of numbers. Ideally, of course, federal budget information should offer an accurate picture of the nation’s fiscal health. On the other hand, we should not have unreasonable expectations. Precise budget projections often require us to know the unknowable. Despite increasingly sophisticated modeling techniques, economists have no crystal ball to reveal future demographic, economic, and policy changes. This lack of complete information creates exponentially greater challenges as the time-frame or “window” for budget projections extends into the future. Lest they succumb to complete legislative paralysis, policymakers inevitably must use some estimate of the economic consequences of their actions. Despite sincere attempts to be fiscally responsible and without any deliberate attempt to manipulate or deceive, budget forecasters may simply get the numbers wrong. Many may fool themselves into thinking that they know the short- or long-term economic effects of their policy choices, suffering from what Michael Graetz has called “illusions of precision.” Such illusion or imprecision is not the primary focus of this chapter. Instead, my focus is on deliberate manipulation of numbers or use of other budget tricks in pursuit of a particular political agenda.

Taxpayers and the politicians who represent them often suffer from the same budget pathology. We want to have it all -- increased spending for favored government programs, decreased tax burdens, and a budget surplus. Advocates for additional government spending or tax cuts have incentives to minimize apparent long-term costs, and advocates for spending cuts or tax increases have mirror incentives to maximize apparent long-term gains. This climate presents politicians with almost irresistible temptations to invent budget tricks designed to present legislative proposals in the best budgetary light.

My concern here is not just with the potential for irresponsible spending that may have a far greater impact on the deficit than the numbers would
otherwise suggest. The more pernicious effect of budget gimmicks is that they can skew important policy choices. As legislators increase their emphasis on how legislative proposals are scored for budget purposes, they become distracted from genuine social and financial policy objectives. The result may be programs that are not structured in the most equitable or efficient fashion and that may have unintended behavioral consequences. In addition, disproportionate focus on short-term budgetary impact may result in policy choices that impose lower costs now but significantly higher costs in the long run.

Although there is some overlap from one category to another, this chapter considers budget gimmicks as falling into three broad categories: 1) games with the numbers themselves, 2) timing games, and 3) procedural games. Many recent examples appear in the sections that follow. Since the Republicans have been in greater control of Congress over the last decade, the examples and criticisms may appear to be disproportionately biased against them. The Republican Party does not have a monopoly on budget games, however. Democrats have been guilty of similar tricks when they have held control.

II. The Number Game

A. Numbers Matter

In the game of budgetary politics, each side tries to portray its policies in the most favorable light. At the micro level, new spending program advocates seek projections that will portray them at the lowest possible cost. On the flip side, tax-cut proponents look for projections that minimize revenue loss. At the macro level, electoral campaigns often focus on the size of the deficit and the enormous debt we are passing on to future generations. Incumbents have an interest in keeping deficit concerns at bay; their opponents have an interest in painting a much darker picture. For one all too brief, luxurious moment in 2000, presidential candidates George W. Bush and Albert Gore actually had a rare opportunity to debate the size of a national surplus and how best to spend it. Sadly, we are confronted again today with deficits. The bottom line is that whether we find ourselves in periods of deficit or surplus, numbers are a very important part of political campaign rhetoric.

In addition to their rhetorical function, numbers have real consequences in the formal drafting of congressional budget resolutions and the enforcement of budget rules. Congressional budget resolutions establish specific allocations to spending committees, set overall caps on spending legislation, and direct revenue committees with regard to revenue to be raised. With varying degrees of success,
Congress has attempted to impose fiscal discipline through budget enforcement rules, many of which are triggered by legislative action that would result in noncompliance with numerical limitations set by the congressional budget resolution.

Assessing the financial impact of any proposed legislative change requires two important pieces of economic information. The first is a base for purposes of comparison, referred to under current budgetary procedures as the “baseline.” The baseline attempts to estimate future government revenues and expenses in the absence of any policy change. 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.”

Baselines and scores became particularly important under the 1990 Budget Enforcement Act, which imposed two sets of strict statutory fiscal constraints. First, Congress was not to adopt spending legislation that would cause annual appropriations on discretionary spending to exceed caps established by the congressional budget resolution. Second, any new tax legislation or changes to entitlement programs were required to be revenue neutral. In other words, decreases in revenue or increases in spending had to be “paid for” through increases in revenue or decreases in spending elsewhere in the budget. Violations of these caps and “pay-as-you-go” restrictions were met with harsh consequences. In such cases, the Office of Management and Budget (“OMB”) was statutorily required to enforce across-the-board spending cuts, referred to as “sequesters,” of all government programs or activities not explicitly exempted from the cuts. In this strict enforcement environment, numbers really mattered. If baselines could be made to appear higher, the costs of new programs would appear to be lower. A costly piece of proposed legislation might be saved if it received a low enough score.

Congress permitted its strict statutory spending caps and “pay-as-you-go” rules to expire at the end of 2002. Whether or not Congress re-enacts statutory caps and “pay-as-you-go” restrictions, numbers still matter in the formal budget process for at least three reasons. First, even when they are not statutorily required, most budget resolutions themselves continue to include “pay-as-you-go” constraints and other limitations. Second, the congressional budget resolution makes specific allocations to each appropriations committee, which, in turn, makes second-order allocations to its subcommittees. Legislation that would cause totals to exceed these allocations is subject to a point of order that can only be waived by a three-fifths vote in the Senate. Third, the Senate has increasingly opted to use its streamlined, limited debate, reconciliation procedures in lieu of...
regular Senate rules to pass tax and spending legislation. Under this reconciliation process, legislative proposals must stay within precise numerical limits set in reconciliation instructions. Failure to comply with reconciliation instructions is also subject to a point of order that can only be waived by supermajority vote. Although the “point of order” mechanisms used to enforce these budgetary constraints are weaker than the old sequester rules, budget games continue much as they did before. 3

B. Picking Economic Assumptions and Estimation Methodologies

In a Congress that purports to be playing by its own rules, the success or failure of a particular legislative proposal can turn upon the proposal’s score, which, in turn, depends upon a reasonably accurate baseline for purposes of comparison. In the imprecise world of budgetary mathematics, even seemingly small changes in estimation methodologies and economic or behavioral assumptions can lead to significantly different scores. Of course, legitimate differences of opinion over methodologies or assumptions are to be expected. The danger, however, is that policy advocates may be tempted to conveniently pick and choose those assumptions and methodologies that best suit a particular legislative agenda.

A case in point may be the ongoing debate over dynamic v. static scoring, described by some as the “Civil War of revenue estimating reform.” A truly static approach would project a proposal’s revenue gain or loss without taking into account any “feedback effects” in the form of behavioral or macroeconomic response to the proposal’s change in policy itself. In actual practice, official estimators already do consider some feedback effects including, for example, the extent to which taxpayers would save more in response to reduced tax rates. Advocates for so-called dynamic analysis argue for broadening the range of macroeconomic effects taken into account in the scoring process. In other words, the scoring battle today is really over the degree of dynamism rather than the choice of one method over another. The real problem is that there is a wide variety of plausible dynamic scoring models. This range of available models creates an environment ripe for maneuvering.

Perhaps the greatest danger is inconsistent use of methodologies and assumptions in pursuit of a political agenda. As one witness at recent dynamic scoring hearings observed, the focus should not be entirely on the dynamic v. static question, but on consistent and transparent approaches that permit useful comparisons of one set of numbers to another. One example of just such a problem is a recent suggestion that dynamic scoring be used for estimating tax but
not spending estimates. The strategy here is used by tax-cut proponents who hope to use dynamic analysis to bolster the somewhat counterintuitive argument that cuts will actually stimulate the economy, thus leading to long-term federal revenue increases rather than decreases. This same political group often lobbies for a substantially downsized federal government. Their reluctance to adopt similar dynamic scoring approaches to government spending may be a fear that such analysis could be used to make a similarly counterintuitive argument that increased government spending might actually result in increased federal revenue.

Another possible scoring game takes advantage of fuzzy budget classification boundaries that distinguish tax from spending measures. In fact, the very classification of a budget item as a tax or expenditure is more manipulable than might first appear. A slick maneuver is to convert what appears to be a tax increase into a spending cut. For example, both the Clinton and Reagan administrations at various points argued that increases in Social Security-benefit taxes should be scored as spending cuts rather than tax increases since the tax increases effectively reduced the total benefit received by individual taxpayers.

C. Shopping Revenue and Expenditure Estimates

1. Places to Shop

The availability of numbers from different official staffs -- OMB within the executive branch, and the Congressional Budget Office ("CBO") and the Joint Committee on Taxation ("JCT") within the legislative branch -- offers ample opportunity for number shopping. Because of the potential for significant disagreement, these official budget scorekeeping staffs have established an informal "scorekeepers group," which meets annually to agree on common scorekeeping guidelines. Many of these are then published by OMB. Nevertheless, recent signs suggest that there may be some breakdown of this informal agreement. For example, OMB recently made a unilateral decision to switch from a ten-year budget window back to five. In addition, disagreements have arisen over how to score expiring tax cuts that are likely to become permanent. The bottom line is that staffs of the different scoring entities will inevitably disagree. Thus, similar legislative proposals may be given different scores or start from different baselines.

Members on both sides of the aisle may take advantage of differing available cost estimates in the politically charged atmosphere of debate, particularly as the economic and political stakes of legislation increase. One recent case in point is President Bush’s proposed prescription drug benefit plan,
enacted in 2003. Members of Congress negotiated a deal in advance to limit costs for a prescription drug benefit plan to no more than $400 billion over ten years. As it turns out, CBO scored the proposed legislation’s costs at $395 billion, an estimate that was critical to the legislation’s passage. Through the course of the debate, however, some reports indicated that, using different assumptions, executive branch actuaries within the Center for Medicare and Medicaid, which reports to OMB, had estimated the costs at more than $500 billion. The administration allegedly refused congressional requests to officially release these numbers. Nevertheless, allegations were that some of the numbers were selectively released to opponents, who used them in the course of debate.

2. Directed Scoring and Scorekeeping

One of the more dramatic budget games is simple use of a magic budget eraser. Although CBO is designated the official congressional scorekeeper, the budget committee ultimately is the final arbiter of the score for any piece of proposed legislation under the Congressional Budget Act.7 As a practical matter, this generally means the budget committee chair. In a sense, the budget committee can be seen as “outsourcing” its scorekeeping authority to CBO.

When the stakes are sufficiently high, however, the budget committee may use a practice known as “directed scoring” to direct CBO not to use its own numbers, but to adopt OMB figures instead. Thus, careful examination of the fine print behind various CBO estimation tables may uncover an entry somewhat euphemistically labeled “scoring adjustment.”8 In explaining one CBO estimate, Director Dan Crippen routinely answered: “We include the effects of various scorekeeping directives and adjustments made by the budget committees, which would have the effect of reducing outlays attributed to appropriations bills . . . In total, these adjustments come to about $17 billion for the House and $16 billion for the Senate.”9

When it occurs, such “directed scoring” may be driven by majority party efforts to manipulate numbers for political purposes or by Congress more generally to bypass budget enforcement rules that would otherwise be triggered. For fiscal year 2000, for example, CBO reports that it was directed by Congress to use OMB’s estimates on defense spending.10 House Armed Services Committee Chairman Floyd Spence was unapologetic. Forced to choose between directed scoring and spending reductions, he made it clear that he would continue to choose the former. As he noted, “[i]f it becomes necessary, I recommend a similar solution this year, and could not support any solution to an outlay-scoring problem that requires a reduction to the president’s defense budget request.”11
This type of directed scoring might not be so troubling if it involved simply choosing between equally plausible sets of revenue projections. Given partisan disagreements over the appropriate size of the defense budget, however, it seems more likely that the majority party, which controlled both the legislative and executive branches, chose estimates from the executive branch OMB to satisfy the president’s defense budget request.

Another controversial illustration of directed scoring involved the Railroad Retirement and Survivor’s Improvement Act of 2001.12 This act created a new National Railroad Retirement Investment Trust (“RRIT”) with rather broad investment authority. In a subtle form of directed scoring, the act explicitly provided that, for purposes of budget computations, transfers of specified assets to the trust were to be treated as a means of financing. Treating the transfers as “means of financing” rather than budget outlays meant scoring the legislation at a substantially lower cost. Although there was some dispute regarding the proper scoring approach, this directive was contrary to CBO estimates and the practice of the General Accountability Office (“GAO”), leading some to complain that the move was simply a “hocus pocus” ploy to avoid treating transfers of federal funds to the RRIT as a budget outlay.13

Perhaps surprisingly, the budget committees do not frequently turn overtly to the directed scoring game. An optimistic explanation is that the budget committees and their chairs take their fiscal responsibilities seriously and genuinely want to play by the rule book. Stated more broadly, legislators may have institutionalized social norms against the majority party’s excess use of its procedural control.14 To the extent that voters pay attention to such budget gimmicks, those in a position of directed scoring power may also fear negative publicity regarding its overt partisan use. Also, principles of reciprocity suggest that the majority party may be concerned that persistent partisan use of its scoring authority would be met with similar use by the current minority if it should regain control.15 Whatever the explanation, the good news is that there seem to be at least some effective checks on excessive over-use of directed scoring.

One situation in which the majority party may make more frequent use of its role as final scorer involves last-minute floor amendments or changes to legislation by the conference committee appointed to resolve differences between House and Senate bills. In such cases, the press of time makes it difficult or impossible to get a complete analysis from CBO. This press of time along with any uncertainties in underlying assumptions or methodologies provides more latitude and perhaps a screen behind which party leaders can surreptitiously make the numbers come out right.
Although difficult to prove, a more subtle and hidden variation of directed scoring may be occurring with greater regularity. Budget observers on Capitol Hill report that the staffs of committees or members with an interest in particular legislation will scrutinize and question CBO’s estimates and sometimes apply pressure to revise the numbers. On the one hand, even the most rigorous analytic models cannot take all things fully into account, and some relevant data might be unavailable or unreliable. As a result, those participating in scoring meetings may be asking legitimate questions regarding underlying assumptions. In the prescription drug plan debate, for example, questions apparently were raised about the number of people who could be expected to take advantage of the new plans and the rate at which future health care costs could be expected to rise. On the other hand, there have been reports that the outcome of scoring meetings among CBO staff, congressional staff, and party leaders can sometimes be to simply change a 5 to a 4. Again, the climate of uncertainty offers opportunities for members, staffs, and lobbyists to pressure estimators to choose methods or assumptions that lead to the numbers they want.

D. Keeping it Off the Record

1. Off-Budget Trust Funds and Other Earmarked Accounts

One major and longstanding budget trick is simply to keep numbers off the official budget entirely. Technically speaking, the term “off-budget” refers only to entities explicitly excluded from the budget by statute. These “off-budget” entities include only the Postal Service, and Social Security- and Medicare-related trust funds. In addition, significant government or government-related revenue and expenditure is kept informally off-budget through the use of trust funds or other specially earmarked accounts and government-sponsored enterprises (GSEs). Federal employee retirement funds are among the largest of these informally off-budget accounts. Opportunities to pick and choose deficit or surplus numbers for political advantage arise then not only as a result of the different available baseline and scoring computations discussed earlier, but also from different ways of recording financial information relating to these special trust funds, and earmarked and other off-budget accounts. Thus, conversations about a federal deficit or surplus might alternatively be a reference to: 1) “on-budget,” meaning all financial information excluding the officially off-budget entities; 2) “off-budget,” referring to budget totals from the officially off-budget entities only; 3) “unified,” meaning all financial information including these entities; or 4) “federal funds,” which excludes all trust funds from budget totals.
The number games to be played here often take advantage of the fact that most trust and other earmarked accounts bring in more than they currently spend on a cash-flow basis, even if they have substantial liabilities over the long term. In other words, they operate on an annual surplus. With this in mind, one can understand the forces driving multiple bookkeeping for budget totals. On the one hand, Congress wants to appear to protect surpluses in accounts nominally earmarked to fund important Social Security and retirement programs by setting them aside. At the same time, the temptation to use surpluses from these accounts to “pay” for other programs and reduce the apparent size of the deficit can be almost irresistible, particularly in difficult economic times. Although formal budget rules now explicitly exclude Social Security outlays and revenues from budget totals, Congress and the president routinely ignore the restriction by reflecting off-budget surpluses from Social Security as an offset to on-budget deficits in many budget documents. Even though on-budget information is often also included in the same documents, the use of multiple budget totals can be confusing and misleading.

Another magic trick made possible through the use of various trust funds and earmarked account surpluses exacerbates the problem. The play here is analogous to simply transferring money from one pocket to another, using smoke and mirrors to make it appear that the overall amount in the combined pockets has grown. This device involves investing trust account surpluses in U.S. Treasury securities. The practical effect is a loan from the particular trust fund to the general federal fund. The slight of hand here results from crediting the trust with interest income but not counting “interest” accrued on the intragovernmental debt as an expense.

2. Emergency Supplemental Appropriations

One of the oldest and most basic gimmicks in the playbook is to fund government activities through emergency supplemental appropriations. Spending authorized through this process is effectively off-budget because budget rules do not count it as spending for purposes of allocation limits set in the budget resolution or as spending for purposes of restrictions in reconciliation instructions. The result is to free up funds that can be used for other spending programs.

A large part of the problem is the absence of an official definition. Despite OMB-proposed guidelines and numerous bills introduced in the House and Senate, Congress has yet to commit itself to an operational definition of the term “emergency.” Perhaps the most extreme example of declaring an emergency that wasn’t was the use of emergency supplemental appropriations in fiscal year 2000
to cover the cost of Census preparation -- a regular government function required by the Constitution and a cost that surely was anticipated. Temptations to use supplemental appropriations are so strong that the Clinton administration proposed them even during years of federal government surplus.

The most glaring abuses of emergency appropriations budget rules seem to have diminished. Perhaps because negative publicity has pushed some of these gimmicks underground, a more subtle variation of the emergency card continues to be played. These more adroit moves use genuine emergencies as a screen behind which to divert funds to cover non-emergency expenditures. Some say that evidence of this kind of “backfilling” is growing. For example, over the past several years, Congress has been very receptive to authorizing sizable emergency appropriations for the war in Iraq and the 2005 hurricane disasters in the Gulf Coast. At the same time, pressure has been mounting for belt-tightening in discretionary spending funded through general annual appropriations. Thus, Congress in 2005 approved substantial emergency appropriations for the Iraq war, but also voted for cuts in annual defense appropriations. One major concern with this is that military spending dollars can be difficult to trace. Agency officials may be able to find deft internal accounting procedures to use some portion of the generous emergency appropriation to make up for cuts in funding for regular operations. Although somewhat difficult to prove, many suspect that the Department of Defense has quietly agreed to tolerate cuts for the moment, assuming that they will be made up through subsequent emergency supplemental appropriations.

3. Tax Expenditure Budget

It is now generally recognized that the federal government incurs some costs through direct tax-and-spend programs and others indirectly through “tax expenditures.” The term tax expenditure refers to revenue loss attributable to special tax breaks designed as taxpayer subsidies to advance particular government policy objectives. For example, much of our modern welfare system is now delivered through an Earned Income Tax Credit (EITC) to employed low-income taxpayers. The EITC functions largely as a substitute for what otherwise might be direct welfare payments. Although budget rules now require enumeration of indirect spending in the form of foregone revenue, this information is not included in most budget documents for purposes of computing the federal deficit. At least in this respect, tax expenditures are effectively off-budget.
Another concern is the common misperception that tax breaks for particular activities do not have the same budgetary impact as direct spending. As a matter of political rhetoric, tax expenditures are sometimes sold to voters as a way of reducing the size of the government -- taxpayers can keep more of their own money rather than have the government give direct spending handouts. Even though a direct spending program might be the better policy choice, a proposal packaged as a tax expenditure might be politically successful while the same idea pitched as direct spending would have been attacked as fiscally irresponsible.

Perhaps even more important, unless they are scheduled to expire or are subsequently repealed, tax expenditures become a permanent fixture of the U.S. Tax Code. There is no-built-in mechanism for regular assessment of their effectiveness and cost. Ongoing costs from such tax expenditures are built into the baseline and not scored as new spending in future budget years. All of this is not to suggest that tax expenditures are free from budget enforcement controls. For purposes of budget enforcement, tax expenditures are classified as mandatory spending as opposed to general appropriations. As such, they remain subject to such “pay-as-you-go” requirements as Congress may choose to include in the budget resolution or to similar limits included in Senate reconciliation instructions. Such budget restrictions generally apply only to new tax expenditures, however. Existing tax expenditures are thus advantaged in the annual competition for scarce budget resources. In the end, the concern is that budget rules may contribute to temptations for proponents to structure their proposals as tax expenditures in order to hide some of their true budgetary impact.

III. Timing Games

A. Basic Number and Timing Tricks Compared

Generally speaking, the budget gimmicks considered in the previous section involve manipulation of budget classifications and of the numbers themselves. Although they also involve manipulation of numbers, timing gimmicks use different strategies to work their magic. These approaches emphasize manipulation of the budget year in which particular items of revenue or expenditure are reported. Some of them involve simply accelerating receipts or delaying payments into alternate budget years or taking advantage of the fact that the federal budget operates under a fiscal year, which begins on October 1, while many government activities are based on a calendar year or some other time period. More sophisticated timing gimmicks manipulate numbers by using different or inconsistent methods of accounting.
B. Looking Through the Budget Window

To be of any value, budget information must be presented using a defined timeframe. In past budgets, presentation of information on a short, one-year basis provided an opportunity to engage in “myopic budgeting,” a term sometimes used by budget observers to describe saving actual or apparent government spending in one budget year even though the overall costs over time are likely to be higher. In choosing the appropriate time period or “budget window,” budget makers must resolve at least one difficult tension. On the one hand, short-term budgets, deliberately or inadvertently, may provide information that inaccurately reflects or distorts the long-term perspective so important to informed policy decisions. On the other hand, the necessarily more speculative nature of long-term projections can result in budget numbers that turn out to have been inaccurate with the benefit of hindsight. The 1990 Budget Enforcement Act attempted to resolve this tension by moving to a statutory five-year minimum budget window for purposes of the congressional budget resolution. Responding later to concerns that the five-year window was not sufficient to present accurate and useful longer-term budget information, Congress in 1997 began requesting ten-year budget information from CBO. Consistent with the general informal agreement among legislative and executive branch scorekeepers to use similar scorekeeping methods, the executive branch simultaneously moved to ten-year budgeting.

Beginning with the president’s proposed budget for fiscal year 2004, however, OMB shortened its forecasting window from ten years back to five.\(^1\) Also included in the president’s 2004 budget was a major proposal to make permanent a number of tax cuts passed by Congress in 2001 and 2003. Use of a five- rather than ten-year budget window enabled the administration to present the tax proposal at a smaller projected revenue loss. Although the president’s 2004 budget summary was based upon five-year projections, some budget information, most notably the costs of the president’s proposed Medicare plan, was projected over ten years. These modifications subjected the administration to charges that it was using selective changes in budget windows solely to promote the president’s legislative agenda.

Whatever the political merits of the charge, several things are clear. First, changing the budget window from one year to the next or using budget windows inconsistently within the same budget year can be used as a device to manipulate budget numbers. Second, if CBO uses one budget window and OMB another, useful comparisons between the president’s annual budget proposal and the congressional budget resolution will be far more difficult. As it turns out, after a short period of using different windows, Congress subsequently followed the
administration’s lead back to a five-year budgeting. The congressional move to follow the administration should not be too surprising given that the same party controlled both the legislative and executive branches and presumably had a shared political agenda.

C. Accounting Gimmicks

1. Inconsistent Use of Cash and Accrual Accounting

Any accountant or economist preparing tax or budgetary data must use one of two major accounting alternatives -- the cash-flow or the accrual method. Their key distinguishing feature is the accounting period or fiscal year used for reporting receipts and disbursements. To better understand many of the timing-related budget gimmicks discussed in the following sections, one must first appreciate the fundamental differences between cash-flow and accrual budget accounting.20

Cash-flow accounting simply records revenues in the fiscal year that they are received and expenses in the fiscal year that they are paid. In contrast, the accrual method records items of income and expense when the rights to receive and obligations to pay arise, even if no funds were received or paid at that time. In other words, accrual accounting is forward looking. It takes into account today the present value of future receipts and subtracts today the present value of future liabilities. Accrual accounting is viewed in the accounting community as so far superior to cash-flow accounting as an accurate measure of financial health that public and private companies are required to use it under generally accepted accounting principles (GAAP) established by the Financial Accounting Standards Board (FASB). In fact, federal government departments and agencies also are required to use accrual accounting through a set of parallel rules that were established for government entities by the Financial Accounting Standards Advisory Board (FASAB). Congress, on the other hand, does not hold itself to any formal, defined set of accounting standards and does not require accrual accounting for budget purposes.

Although Congress uses accrual accounting with respect to some items in the budget, cash-flow is the general default rule used for recording most government revenues and expenditures on the budget. Perhaps more important, both OMB and CBO’s bottom-line assessments of the federal deficit are computed using cash-flow methodology. In addition to these two sets of budget books kept by CBO and OMB, the executive branch keeps separate financial books with yet another measure of federal receipts and expenditures and the
During these is the annual *Financial Report of the United States Government*, prepared by the Treasury Department, which uses the accrual method. Differences between the cash-based federal budget and accrual-based financial accounts can be significant. The 2005 *Financial Report*’s executive summary even includes an entire section entitled, “Why the Accrual-Based Net Operating Cost Worsened While the Budget Deficit Improved.” The same report includes another section intended to “reconcile” its accrual-based information with “the more widely known budget deficit.”

Yet another report is prepared by the GAO to help readers understand the Treasury Department’s *Financial Report*. The GAO report begins by pointing out that the federal government generally uses the accrual method and acknowledges that this method is the basis for generally accepted accounting principles used by private business enterprises. Federal government accrual accounting, it says, is “intended to provide a complete picture of the federal government’s financial operations and financial position.” Yet, the report continues, cash method accounting is used for the federal budget, “which is the federal government’s primary fiscal planning and control tool. The budget helps establish national spending priorities and helps ensure that the federal government spends taxpayers’ money in accordance with applicable appropriations laws.” Little more is offered to justify the difference. The Treasury Department’s accrual-based *Financial Report* explains that the report is meant to “complement” the president’s cash-based budget and should be “used with the budget as a planning and control tool not only for the current fiscal year but with a longer term focus as well.” Here too, not much more is offered by way of advice or explanation on how the two sets of books might be best used to complement one another.

One primary and explicit goal of the various financial and budget reports is “to make available to every American a comprehensive overview of the federal government’s finances.” In the best of worlds, the multiplicity of federal government accounts of revenues and expenditures, several of which use different reporting methods, makes meeting that objective a major challenge. Even the most well-intentioned lawmakers may have trouble knowing how to respond to all of this information or use it constructively as a planning and control tool. Others less well-intentioned may be tempted to use information or accounting methods selectively to advantage particular legislative proposals.

More alarming, however, is the potential collective misuse of the less economically accurate cash-flow approach to make what is, in fact, a zero-sum game appear to be more of a non-zero-sum game. Legislators interested in re-election want to provide constituents with everything -- reductions in tax rates and
increased spending on favored programs. In other words, legislators and constituents may share the same budget pathology. Using cash-flow budgetary accounting, Congress can authorize new or expanded government programs that will impose substantial long-term costs without reflecting those costs in the budget until the invoice arrives years into the future. Opportunities to minimize apparent costs through cash-method accounting and other timing gimmicks can free up funds for additional spending. In the meantime, pressures for tax cuts and increased spending for military and other government activities continue. How tempting it is to use budget tricks to play Scarlett O’Hara. After all, tomorrow is another day.

The failure to take the net present value of long-term government liabilities into account is especially acute with regard to large-scale social programs such as Social Security and Medicare. As a practical matter, these programs present the most challenging problems for estimators. The problems here are well-known and many lawmakers and their constituents do seem to appreciate the magnitude of long-term liabilities and the extent to which budget figures may not accurately reflect government costs. Unfortunately, however, agreements on what to do about the problem are difficult to come by.

Albeit on a somewhat smaller scale, many other government programs raise similar concerns about proper budget accounting for long-term liabilities. These include retirement plans for government employees, programs to protect private pensions, financial institutions and their customers, loan and loan-guarantee programs, federal flood insurance, and the like. Howell Jackson’s earlier chapter in this book on the structure of federal spending considers in depth the budget accounting issues raised by these programs. Consequently, my observations here will be brief.

It would be overstating the case to suggest that policy makers often use cash rather than accrual budgeting for major government retirement, social, and insurance programs as a budget gimmick. Not all budget observers even agree that moving to accrual budgeting for many of these programs would be a good idea. The problem with the current approach is inconsistent budget treatment of programs that appear to raise similar budget issues and to warrant similar budget treatment. For example, Congress has mandated accrual-based accounting for federal credit programs since 1990, but has not done so for federal insurance and government employee retirement plans. Inconsistent treatments of such programs may open possibilities for selective use of accrual budget accounting practices to prefer one program over another. In such a climate, it is most important that
legislators and budget observers carefully scrutinize budget numbers in full awareness of the discrepancies.

2. Simple Delayed Payments or Accelerated Receipts

One extremely popular and basic budget gimmick uses cash-flow accounting to delay outflows until later years. One well-known example involved simply shifting defense expenditures into the subsequent year’s budget through delaying military paychecks by one day. Employees may not have noticed much difference, but the maneuver moved billions of dollars from one budget year to another. Recent revenue and spending bills also provide flagrant examples. The 2005 revenue bill included a statutory provision requiring corporations to pay 105 percent of their estimated tax payment for the three-month period ending in September 2006. The bill further instructs these taxpayers to reduce the next required installment by 5 percent to compensate for previous overpayment. Since the federal government’s fiscal year begins on October 1, the provision was scored by CBO as increasing revenue by $2.2 billion for fiscal year 2006 and decreasing revenue by the same $2.2 billion for fiscal year 2007. Equally glaring was a provision shifting $5.2 billion in outlays from 2006 to 2007 by temporarily halting payments to Medicare providers for the last six business days of the 2006 fiscal year. Both the estimated tax and the Medicare payment provisions adopted by Congress in 2005 had no real substance. They were enacted for no reason other than to satisfy numerical budget reconciliation limitations on spending for each of the individual fiscal years and the aggregate budget window covered by the reconciliation instructions.

Another more systematic illustration of the same type of strategy is the advance appropriation. This move takes advantage of scoring rules that count appropriations as new budget authority for the fiscal year in which the funds become newly available and not when the appropriations are enacted -- a basic cash-accounting-type technique. Congress can in effect accrue the obligation now without paying for it in the budget until later. This maneuver frees up funds that might otherwise be subject to current-year spending limitations. One problem here is that these strategies can become addictive. When you put off today’s budget spending through advance appropriations, the “budget invoice” arrives tomorrow. To make good on the promise to score the budget expenditure against tomorrow’s budget means to even further restrict tomorrow’s spending.

The good news here is that Congress shows signs of breaking the habit. For the past several years, congressional budget resolutions have included a section entitled “Restrictions on Advance Appropriations” to place a cap on
advance expenditures, which are to be identified in specific accounts by the joint statement of managers accompanying the budget resolution. Congress now seems to have settled into a reasonably steady annual diet of approximately $23 billion in advance appropriations. Assuming that Congress maintains this pattern, the budget numbers effectively even out from year to year. As a result, the advance appropriations game appears to be less problematic than it once was.

3. Long-Term Timing Shifts
   a) Variation on a Theme

Simple delayed payment dates or advance appropriations function generally as a device to shift short-run budget impact, most frequently moving a budget item forward from one budget year to the next. More complex variations on the theme are used to shift budget items over a longer period of time. These longer-run strategies focus more on budget windows rather than individual fiscal years. As budget expert Allen Schick notes, “the easiest way to remove a spending increase from the score is to schedule it to take effect beyond the period covered by the baseline.” Similarly, the easiest way to hide a revenue decrease is to schedule it to take effect outside of the budget window. To work their magic, these gimmicks also take advantage of cash-method budget accounting.

b) Phase-Ins

One way to reduce apparent revenue losses from tax cuts or increased expenditures is simply to phase them in over time, thus pushing costs into later budget years without need for any further legislative action that might otherwise be subject to later budget resolution restrictions. This strategy works because the cash accounting perspective does not account for the net present value of liabilities accrued at the time of the legislation’s passage but not actually “paid” until later. This phase-in device is especially useful as applied to costly increases in Medicare or similar types of entitlement spending.

The phase-in technique also is quite effective as applied to revenue decreases, particularly in the tax area. Congress has recently moved on a massive scale to phased-in tax cuts rather than cuts with a one-time effective date. The Economic Growth and Tax Relief Act of 2001 (EGTRA), for example, phased in major reductions in individual income tax rates through 2006. The 2001 act also achieved a gradual repeal of the estate tax through a combination of phased-in estate-tax rate reductions and a simultaneous phase-in of increases in generous estate-tax exemptions. Although there is substantial skepticism over the claims, tax-cut proponents vigorously argue that such cuts will stimulate the economy,
thus raising revenue and perhaps even paying for themselves. Whether the claim is ultimately vindicated or not, those who propose phased-in tax cuts as a stimulus can be accused of applying inconsistent logic. If the cuts really stimulate the economy, they arguably should be made effective immediately.

c) Sunsets

A reverse application of the same type of gimmick is to pass legislation with a fixed expiration date or “sunset.” Two variations are possible here. First, during the era of tax increases in the 1990s, Congress took advantage of sunsets to enact a temporary new tax or tax increase despite expectations that the “temporary” provision would be extended beyond its nominal expiration date. The second variation is to enact tax cuts with set expiration dates despite intentions that the cut be made permanent.

Both variations of the “sunset” device take advantage of one important feature of CBO baseline projection methodology. That is, CBO is instructed to prepare its baselines using current law, without taking future statutory changes into account. Despite even a high probability that an expiring provision will be extended, budget rules direct CBO to make its projections as if the provision died on its scheduled expiration date. Thus, a provision that increases revenue is viewed as eliminated on its stated expiration date. Revenues generated by its subsequent re-enactment are not counted as part of the baseline. Instead, extension of the tax is scored from the baseline as generating new revenue, magically creating new resources that can be used to “pay for” additional spending. On the flip side, a provision that decreases federal receipts is also viewed as eliminated on its scheduled expiration date. Budget scores for the proposed decrease cannot take its likely extension into account, thus creating an artificially rosier projection of the revenue reduction’s long-term economic impact.

Historically, Congress limited itself to using sunsets for specific, narrowly defined tax deductions, credits, and rate cuts. For example, Congress enacted temporary deductions and credits for discrete types of activity, including the research and development (R&D) credit, the Work Opportunity Tax Credit (WOTC), and special bonus depreciation rules designed to encourage rebuilding in the aftermath of the 9/11 terrorist attacks and the devastating 2005 hurricane season in the Gulf Coast. Some of these deductions and credits, which came to be known as “extenders,” were intended to provide only short-term economic stimulus for a new industry or short-term incentives to encourage particular investments. Other temporary provisions were genuinely intended as experimental
pilot projects. The fixed expiration date was effectively a pre-commitment device forcing Congress to reassess the efficiency and effectiveness of the experiment.

Despite what may have been the best of intentions, temptations to turn some of these expiring tax provisions into “permanent extenders” have proven too great for many politicians to resist. As of 2003, for example, Congressional Quarterly Weekly reported that only one of more than 25 had been allowed to expire.\textsuperscript{31} In some cases, special tax provisions have even been extended retroactively after the scheduled expiration date has passed. One cynical explanation for the “permanent extender” phenomenon is that politicians hope to keep campaign dollars flowing from special interest groups who must continually lobby to retain beneficial tax breaks. In fact, the “extender” game has become a regular feature of annual budget negotiations, spawning a veritable cottage industry of specialized lobbyists. The other explanation is budget-related. Unlike some of the more subtle tricks, this particular budget game is played quite openly. The Congressional Research Service explains that Congress turns to recurring extensions of technically “temporary” tax provisions because such extensions “have lower short run revenue costs than permanent law, although the ostensible lack of permanence often masks the long-term costs associated with the provisions.”\textsuperscript{32}

The so-called temporary R&D credit is among the most notorious examples of the extender game. First enacted in 1981 as a temporary credit scheduled to expire in 1985, the R&D credit has since been routinely extended, sometimes in five-year increments, but often for just one year at a time. This pattern continues despite overwhelming bipartisan support for the credit and numerous proposals that it be made permanent. Continued extension of the R&D credit is virtually a political given. The only question is the length of the extension. Whether the expiration date is set one year, 18 months, or five years out will depend almost entirely on budget numbers and the extent to which Congress is either required by budget rules or otherwise commits itself to find revenue raising “offsets” to pay for the costly extension.

The recent twist on sunsets has been to expand them beyond specially targeted tax deductions or credits, using them more broadly for general tax-rate cuts. The two most notable instances were EGTRA in 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). The 2001 act, for example, phased tax cuts in through 2006 only to have them expire after December 31, 2010. The Tax Code was to apply thereafter as if the statute had “never been enacted.” Such maneuvers are worthy of the Mad Hatter in Alice in Wonderland. That the tax cuts were set to expire after ten, rather than some other
number of years, was not arbitrary. Rather, it was purely an effort to bypass budget enforcement rules. The dilemma for Republicans was that a permanent tax cut would be scored as a substantial long-term revenue loss. Democratic opponents threatened to use a Byrd Rule point-of-order challenge, arguing that the proposal was “extraneous” because it decreased revenues beyond the ten-year budget window. The ten-year sunset clause was a rather slick end-run. With rates technically set to revert to the higher pre-2001 rates at the end of 2010, the bill had to be scored as raising revenue beyond the ten-year window. Legislators at the time fully expected in subsequent legislation to make the tax cuts permanent, but revenue estimators’ hands were tied by the rule requiring them to assume that current law did not change.

A subsequent scoring convention change proposed in the president’s 2006 and 2007 budgets looks suspiciously like into a “bait and switch” move now to use the ten-year sunset provision as an opportunity to advance the permanent tax-cut agenda. The president proposed that the official baseline for scoring tax bills be computed under the assumption that the 2001 and 2003 tax cuts are permanent. This would mark a distinct change from current practice, which computes the baseline under the assumption that current law remains unchanged. In other words, after enactment of the temporary tax provision, CBO baseline projections assumed that tax cuts expire as provided in the 2001 and 2003 statutory provisions. Thus, revenues are projected to increase in 2011 when tax rates revert to their higher pre-2001 levels. Under traditional baseline projection methods, proposed legislation to make the tax cuts permanent would eliminate this revenue increase and be scored as generating substantial revenue loss. The president’s proposed scoring convention change, however, would score the cost of a bill to make tax cuts permanent against a baseline that has already assumed that they were permanent. In other words, the bill would be scored at zero. Such a mid-stream change in scoring methodology is yet another example of cherry-picking or inconsistent use of estimation assumptions and methodologies in pursuit of a political agenda.

d) Back-Loading Program Costs

A more subtle budget maneuver is to tinker with a proposal’s programmatic details so that its revenue impact is “back-loaded.” Perhaps the best example involves special tax-preferred accounts designed as taxpayer incentives to save for retirement or to cover future medical, educational, or other expenses. The earliest version of such accounts, now referred to as “traditional” individual savings accounts (IRAs), was created in 1974. Taxpayer contributions to traditional IRA accounts are initially deductible and growth in earnings in the
accounts is tax free. Taxpayers are required, however, to report amounts actually distributed upon retirement as taxable income. For budget purposes, this type of account is referred to as “front-loaded” because the taxpayer has an immediate tax benefit from the up-front deduction, which results in a parallel up-front cost to the government in foregone revenue.

Since its inception in 1974, the IRA-type account has been an attractive tax vehicle, spawning a number of similar tax-prepaid savings or investment accounts. These recent iterations include the general Roth IRA in addition to other specifically focused accounts designed to encourage saving for medical and educational expenses. As with traditional IRAs, these newer tax-preferred accounts accrue income tax-free over time. Although other details vary, the primary distinguishing feature of the more recent tax-preferred savings vehicles is that initial contributions are not deductible. Instead, later withdrawals of accumulated account balances are tax-free. Roth IRAs and other similar accounts are referred to as “back-loaded.” Since initial taxpayer contributions to back-loaded accounts are not deductible, there is no immediate foregone revenue to the government. Instead, the revenue impact occurs many years later as retirees make tax-free withdrawals. This program design is very attractive to high-bracket investors and also plays out rather nicely from the budget perspective. As with so many other budget gimmicks, the major culprit again is a cash-based budget perspective, which does not take into account the net present value of future lost revenue. Much of the long-term budget costs from these back-loaded accounts results from tax-free withdrawals so far into the future that the foregone revenue cost is not reflected within a ten-year, much less a five-year, budget window.

The tax-preferred account story also offers a classic illustration of ways in which short-term perspectives encouraged by the budget process can skew policy choices. Even though back-loaded accounts impose far greater long-term budget costs than traditional IRAs, Congress may be unable to resist temptations to choose them over traditional ones or to prefer such accounts over other programs that might make more policy sense. The budget gimmick here is even slicker than might first appear, though. The trick here is that legislation creating or expanding tax-favored back-loaded investment accounts may actually be scored as raising revenues in the short run despite the substantial overall long-term cost. These apparent revenue increases occur because long-term tax-deferral advantages from back-loaded accounts are sufficiently attractive, particularly to high-income investors, that many of them will prefer the newer back-loaded accounts to traditional IRAs. The projected increased volume in nondeductible contributions to back-loaded accounts causes no immediate revenue loss to the budget. At the same time, starting from a baseline that assumes substantial budget costs from
contributions to traditional accounts under current law, the expected reduced volume in deductible contributions to front-loaded accounts can be scored as a revenue increase. An even more significant revenue-increase mirage results from anticipated conversions of existing traditional accounts into back-loaded ones. This is because the long-term savings from the back-loaded accounts are so appealing that many high-income investors will elect to withdraw taxable income from traditional accounts for transfer into new accounts. Such conversions are even more likely if taxpayers are permitted to make rollover withdrawals from traditional IRAs without early-withdrawal penalties. The phantom revenue increase resulting from taxable withdrawals for conversion into the new accounts is transitional and short-lived. Once the conversions have occurred, the revenue increases disappear.

e) Long-Term Leasing

Another popular gimmick that takes advantage of cash accounting is the long-term lease. Under cash-flow budgeting, outright government expenses for purchase or construction of necessary buildings or equipment are recorded immediately as such expenses are incurred. One way to shift costs to later budget years is to contract out capital-intensive tasks. So, for example, a government agency can enter into an agreement calling for a private contractor to construct and hold title to a building. Upon completion, the agency will occupy the space and pay rent for its long-term use. Even though the overall costs of such arrangements may be substantially higher in the long run, cash-method budget accounting creates incentives for federal managers to make economically inefficient choices. One CBO report noted that such ventures “are being structured to avoid the requirement for recognizing the costs of government investments up front” and that such treatment “could reduce the budget’s ability to encourage cost-effective investment decisions.”

Despite new OMB scoring guidelines requiring that such federal government capital lease or lease-purchase costs be scored at their net present value over the life of the contract, government misuse of the long-term lease maneuver to artificially improve the bottom line apparently continues. A recent example was a controversial Air Force leasing deal with the Boeing Corporation for aerial-refueling aircraft. The new scoring guidelines permit cash-type accounting only for leases classified as “operating leases.” Although CBO disagreed, the Air Force classified this as an “operating lease” for which it was not required to report the full up-front costs. CBO estimated the long-run leasing costs as $1.3 billion to $2 billion more than an outright purchase.
IV. Procedural Games

The third major category of budget gimmicks involves games with rules. Many budget observers report that the most significant of these procedural games is manipulation of the Senate reconciliation process. Although the reconciliation process is optional, reconciliation bills have now become the procedure of choice for most spending, revenue, and debt limit legislation. William Dauster’s chapter on the budget process offers an excellent account of the history and operation of the optional budget reconciliation process. Given the useful illustrations of procedural budget games considered there, my observations here will be brief.

At least for now, the controversial procedural disputes over use of the reconciliation process have been resolved in favor of those advocating its legitimate use for tax-cut legislation even though the focus of the rules when they were originally enacted was deficit control. This resolution of the debate suggests that, whatever the original concerns that led to their creation, the statutory rules for reconciliation legislation offer a greater degree of latitude than one might have thought. As reconciliation increasingly becomes the procedure of choice, legislators have become more attuned to its potential as a political tool. The danger here is that reconciliation will become the breeding ground for a new generation of creative budget gimmicks.

One such recent development is the increasing use of multiple reconciliation bills, rather than the more traditional single bill. With this move, spending cuts and tax cuts are considered in separate spending and revenue bills. It is often politically expedient to take up the spending-cut bill first in order to appear fiscally responsible and only later to consider tax-cut legislation. Another way to make advantageous use of multiple bills is to split a proposed tax bill into two, putting more popular and uncontroversial items in regular bills. This move removes the costs of popular provisions from the straitjacket of reconciliation limitations, leaving room for deeper tax cuts in the reconciliation bill. This device has even been used to place one part of the cut in a regular bill and the other in a reconciliation bill. The technique is especially useful when the minority and majority agree in principle about a tax cut, but disagree on how large it should be. The uncontroversial portion of the cut is included in regular legislation and the excess controversial cut desired by the majority included in a reconciliation bill.

In the end, the reconciliation process is where the number game is now really played. Reconciliation instructions require appropriations and tax committees to stay within stated aggregate limits on spending and revenue, but do not direct how to achieve that level of spending or revenue. Tremendous
wrangling over details and creative moves to make the numbers come out right are inevitable. This reconciliation context also is the most likely place to uncover attempts to manipulate baseline estimates and proposed legislation scores. The manipulation of due dates for corporate estimated payments and the six-day delay in government payments to Medicare providers described earlier in this chapter are among the most flagrant examples. Members or their staffs often frantically tinker with statutory details to make the numbers work even in the final moments before the bill comes to a vote on the House or Senate floor.

IV. Conclusion

The term “budget gimmicks” has a pejorative ring. Some understandably may take issue with characterizing several of the circumstances described in this chapter so negatively. There can be honest and reasonable differences of opinion, for example, on the best way to estimate baselines and score proposed legislation. In addition, not everyone agrees that a large-scale conversion from cash to accrual-based budget accounting would improve the process or lessen opportunities to manipulate numbers. Whatever label one uses, the stories recounted in this chapter should move readers to think seriously about what might be done to minimize the deliberate manipulation of the budget process. To my mind, one of the most significant problems that cries out for reform is the reconciliation process. The continued expansive use of streamlined, limited-debate reconciliation procedures is a dangerous development. The need to comply with reconciliation instructions has inspired number games that appear every bit as substantial or even worse than those played in earlier efforts to bypass pre-2003 statutory discretionary spending caps and “pay-as-you-go” rules. In addition, the process has inspired a new packaging game in which particular tax and spending proposals are shifted from one bill to another largely to take advantage of the reconciliation process.

Some improvements also can be made with respect to budget baselines and scoring. For one thing, budget makers need to give up the illusion of precision. As suggested by some estimators, it might be more useful for Congress to work with “confidence ranges” rather than fixed estimates. Although scorekeepers have a reasonably good record of working together, recent developments suggest a slight movement away from the culture of coordinating scorekeeping guidelines. More formal efforts to coordinate and facilitate agreement on scorekeeping guidelines may be needed.

Differences among the several sets of federal budget and financial books also should be reduced. When some government books use cash and others
accrual-based accounting, or when different books use different scoring conventions, the result can be a comparison of apples to oranges. If, as the Treasury Department’s *Financial Report* suggests, legislators are truly to make use of accrual-based financial reports as a complement to cash-based budget information, there should be more systematic efforts and formal devices to assist legislators in the process. A related concern with the number of different available fiscal documents is the opportunity they present to manipulate. The greater the number of “official” places to look for financial and budgetary information, the greater the opportunity for politicians or program advocates to pick the numbers they like best.

Congress also should examine the way scores are prepared for last-minute changes from floor amendments or from conference committee negotiations. Perhaps authority as the final arbiter on such scores should not rest entirely with budget committee chairs. Although it is hard to know the extent to which lobbyists or congressional staff apply pressure on CBO staff to revise scores for proposed legislation, some formal rules might be useful to allow sufficient communication between staffs, yet insulate CBO staff from at least some of this pressure. At a minimum, these might include open-meeting rules to give public observers an opportunity to monitor scoring meetings.

Human nature is such that where there are rules, there will be attempts to find loopholes. Those who understand and can manipulate rules wield enormous power. As Representative John Dingell (D-Mich) is reputed to have said about the legislative process, “If you let me write the procedure, and I let you write the substance, I’ll [beat] you every time.” This observation is especially pertinent to budget accounting and procedural rules, which many say are so complex that they are truly understood only by a handful of budget insiders. Given the high stakes involved, it is unrealistic to imagine that temptation and opportunity to use budget gimmicks can be entirely eliminated. In the long run, Congress needs to consider a substantial overhaul of the budget process as it did in the Tax Reform Act of 1986 with respect to the Tax Code. In the meantime, modest improvements and clarifications with regard to bookkeeping, scoring, and the reconciliation process would go a long way toward limiting or eliminating some of the most deliberately manipulative budget gimmicks.
End Notes

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1 A recent CBO report discusses the increasing uncertainty of budget projections and its efforts to establish a “confidence range” for such projections by studying how accurate their projections have been in the past. Congressional Budget Office, U.S. Cong., THE UNCERTAINTY OF BUDGET PROJECTIONS: A DISCUSSION OF DATA AND METHODS (Feb. 2003). See also Congressional Budget Office, U.S. Cong., HOW CBO FORECASTS INCOME (Aug. 2006).


3 See William Dauster’s preceding chapter on the congressional budget process.


8 Congressional Budget Office, U.S. Cong., COMPUTATION OF ON-BUDGET SURPLUS FOR FISCAL YEAR 2000. CBO Senior Analyst Susan Tanaka reported that by definition, if CBO labels something as a “scoring adjustment,” it means that CBO does not agree.


Although there is substantial support in the political science literature for this reciprocity theory, some studies have questioned its explanatory power. See, e.g., Douglas Dion, *Turning the Legislative ThumbscREW: Minority Rights and Procedural Change in Legislative Politics* 248 (1997).

Howell Jackson’s earlier chapter, “Counting the Ways: The Structure of Federal Spending” discusses concerns with the federal budget’s presentation of these retirement funds and similar programs that result in long-term government liabilities.

Yet another measure is the net operating-cost deficit. This calculation, which uses different accounting methods entirely, comes from the Treasury Department’s annual *Financial Report of the United States Government*. See discussion infra pp. ?.

Admittedly, existing tax expenditures remain potential victims of new tax-expenditure proponents who would like to “pay for” their favored programs through repeal or scale-back of existing ones. See Elizabeth Garrett, *Harnessing Politics: The Dynamics of Offset Requirements in the Tax Legislative Process*, 65 U. Chi. L. Rev. 501 (1998). At least according to some positive political theory models, however, interest groups are more likely to be successful in blocking new legislation than in upsetting the status quo. If so, those seeking to attack existing tax expenditures in order to pay for new ones face an uphill battle.

For a more complete account of distortions and misleading budgetary information made possible by cash-flow budgetary accounting, see Cheryl D. Block, *Congress and Accounting Scandals: Is the Pot Calling the Kettle Black?* 82 NEB. L. REV. 365, 393-421 (2003).


Ibid. at 10. The report also includes an extremely complicated flow chart illustrating the relationship between its numbers and those in the unified budget. Ibid. at 5 (Chart A).


Ibid.


For an in-depth consideration of these sunsets and their implications, see William G. Gale and Peter R. Orszag, *Sunsets in the Tax Code*, 99 TAX NOTES 1553 (2003); Rebecca M. Kysar, *The Sun Also Rises: The Political Economy of*
Sunset Provisions in the Tax Code, 40 GA. L. REV. 335 (2006). This maneuver around the Byrd Rule is also discussed in Chapter ___ of this volume.

34 William Dauster’s chapter on the Congressional Budget Process explains these procedural rules in section [ ].


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