

Playing By the (Budget) Rules: Understanding and Preventing Budget Gimmicks

May 2018



**COMMITTEE FOR A
RESPONSIBLE FEDERAL BUDGET**

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Budget Gimmicks

The breakdown in the federal budget process and erosion of budget discipline have led to the reliance on budget gimmicks.

While a number of budget rules and norms exist to enforce fiscal discipline, budget gimmicks provide legal workarounds to these rules and norms.

Budget Gimmicks

For more information on the 20 budget gimmicks presented in this chartbook, read CRFB's in-depth paper:

Playing By the (Budget) Rules:
Understanding and Preventing Budget Gimmicks

<http://www.crfb.org/papers/playing-budget-rules-understanding-and-preventing-budget-gimmicks>

Playing By the (Budget) Rules: Understanding and Preventing Budget Gimmicks

1. Unrealistic Policy Assumptions
2. Rosy Economic Scenarios
3. Magic Asterisks and Unspecified Savings
4. Inflated Savings Estimates
5. Shopping for Estimates
6. Arbitrary Phase-Ins
7. Front-Loading Costs, Back-Loading Savings
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9. Using Temporary Savings to Offset Permanent Costs
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15. Counting Planned War Spending Reductions as Savings
16. Phantom Savings from Uncapped Discretionary Spending
17. Counting Savings from Extending Discretionary Spending Caps
18. Phony Changes in Mandatory Programs (CHIMPs)
19. Double Counting Trust Fund Improvements
20. Directing Scorekeeping to Favor Chosen Policies



Playing By the (Budget) Rules: Understanding and Preventing Budget Gimmicks

We break down the 20 gimmicks into 4 categories:

- Assumption Gimmicks
- Manipulating the Budget Window
- Discretionary Spending Gimmicks
- Other Gimmicks

Assumption Gimmicks

1. Unrealistic Policy Assumptions
2. Rosy Economic Scenarios
3. Magic Asterisks and Unspecified Savings
4. Inflated Savings Estimates
5. Shopping for Estimates

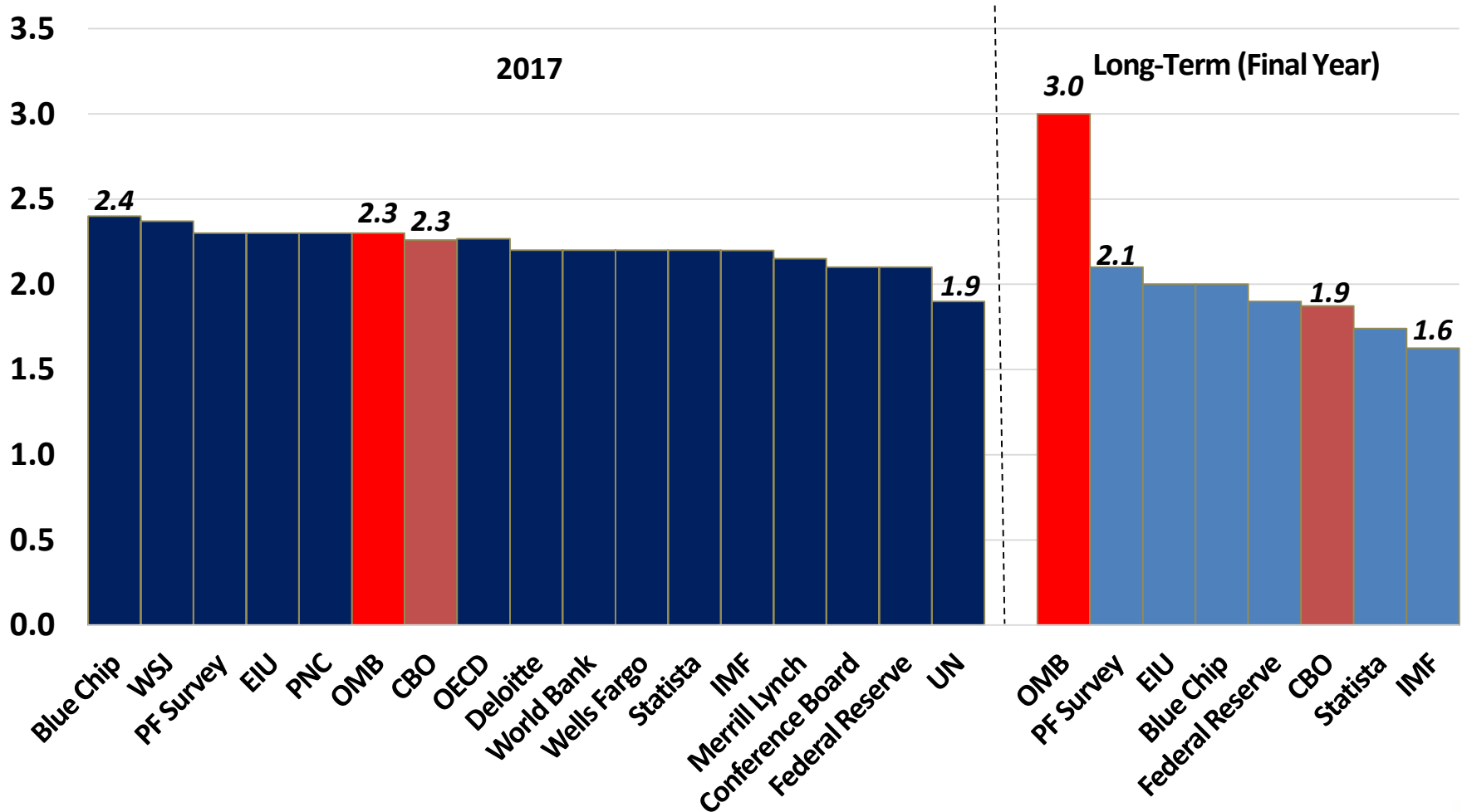
1. Unrealistic Policy Assumptions

- Budget authors will propose or assume policies they know can never actually be realized in order to make their budget appear more fiscally responsible.
- For example, the President's FY 2019 budget assumed \$1.5 trillion in cuts to non-defense discretionary (NDD) spending just after policymakers agreed to *increase* discretionary spending, including NDD spending, for 2018 and 2019.
- Every year they have been in place, the sequester-level caps on discretionary spending have been raised.

2. Rosy Economic Scenarios

2017 Survey of Projected Real GDP Growth Rates

Percent Real GDP Growth



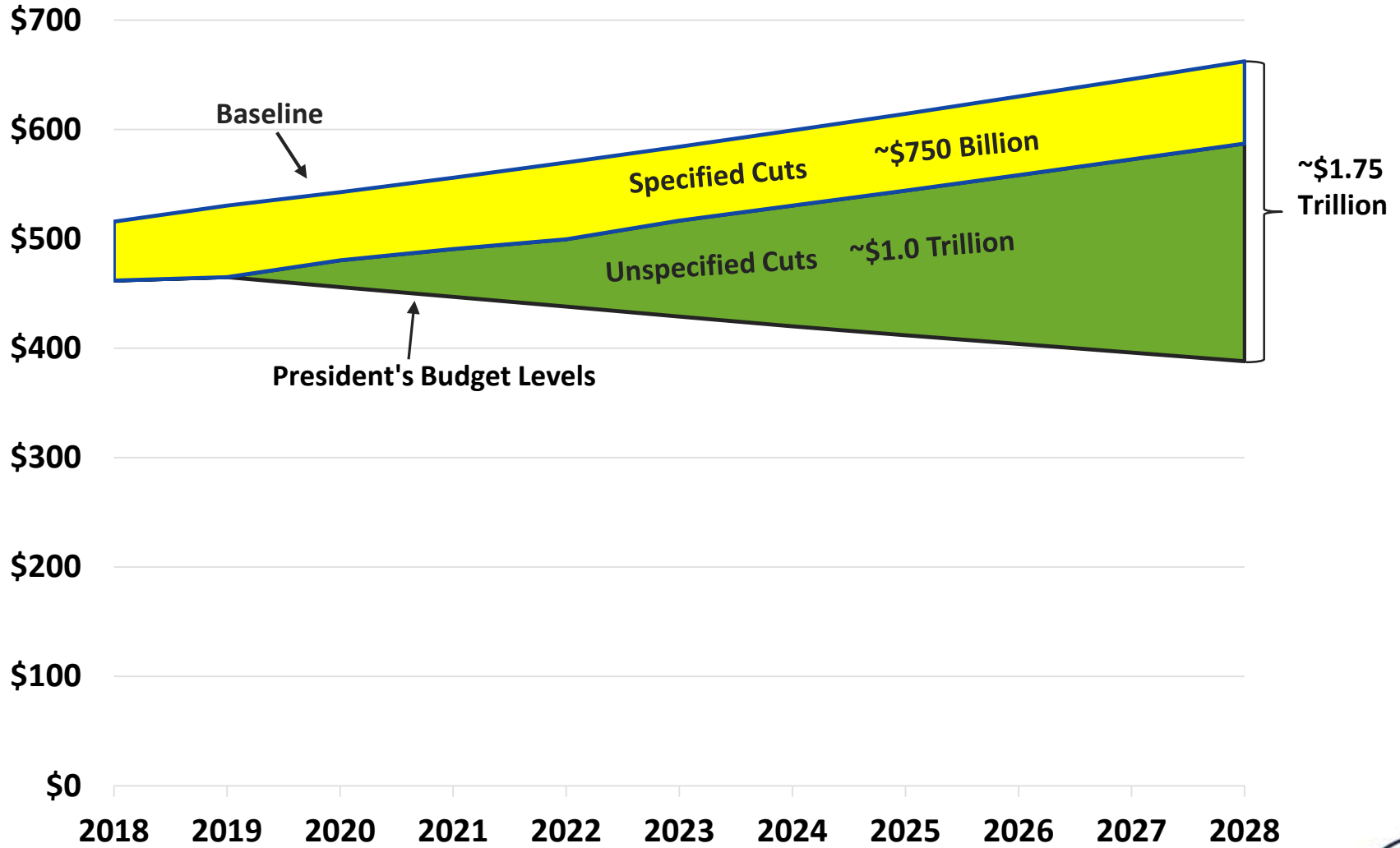
Source: WSJ = a survey compiled by the Wall Street Journal; Professional Forecasters Survey (PF Survey) = compiled by the Federal Reserve Bank of Philadelphia; EIU = The Economist Intelligence Unit; OMB = Office of Management and Budget (President's FY 2018 Budget); CBO = Congressional Budget Office (June 2017 Baseline); OECD = Organisation for Economic Co-operation and Development; IMF = International Monetary Fund; UN = United Nations.



3. Magic Asterisks and Unspecified Savings

Base NDD Budget Authority in the FY 2019 President's Budget

Billions of BA



Source: Office of Management and Budget and CRFB calculations.
Data excludes the effects of the Bipartisan Budget Act of 2018.

4. Inflated Savings Estimates

- Inflated savings occur when policymakers overstate potential deficit reduction from a given policy.
- For example, the President's FY 2019 budget claimed \$140 billion of savings from reducing improper payments when similar policies have saved less than \$10 billion.
- Savings in the FY 2019 budget assumed improper payments could be reduced by 1/3 by 2028 – far in excess of what experts and analysts believe is possible.

5. Shopping for Estimates

- The Chair of the Budget Committee technically has the right to select the official score and thus could shop around for a preferred score.
- To use a score that is not from CBO, however, would be extraordinarily unusual.
- For example, in July 2017, one Senator suggested having HHS score an amendment to the Better Care Reconciliation Act if CBO could not produce a score quickly enough.

Manipulating the Budget Window

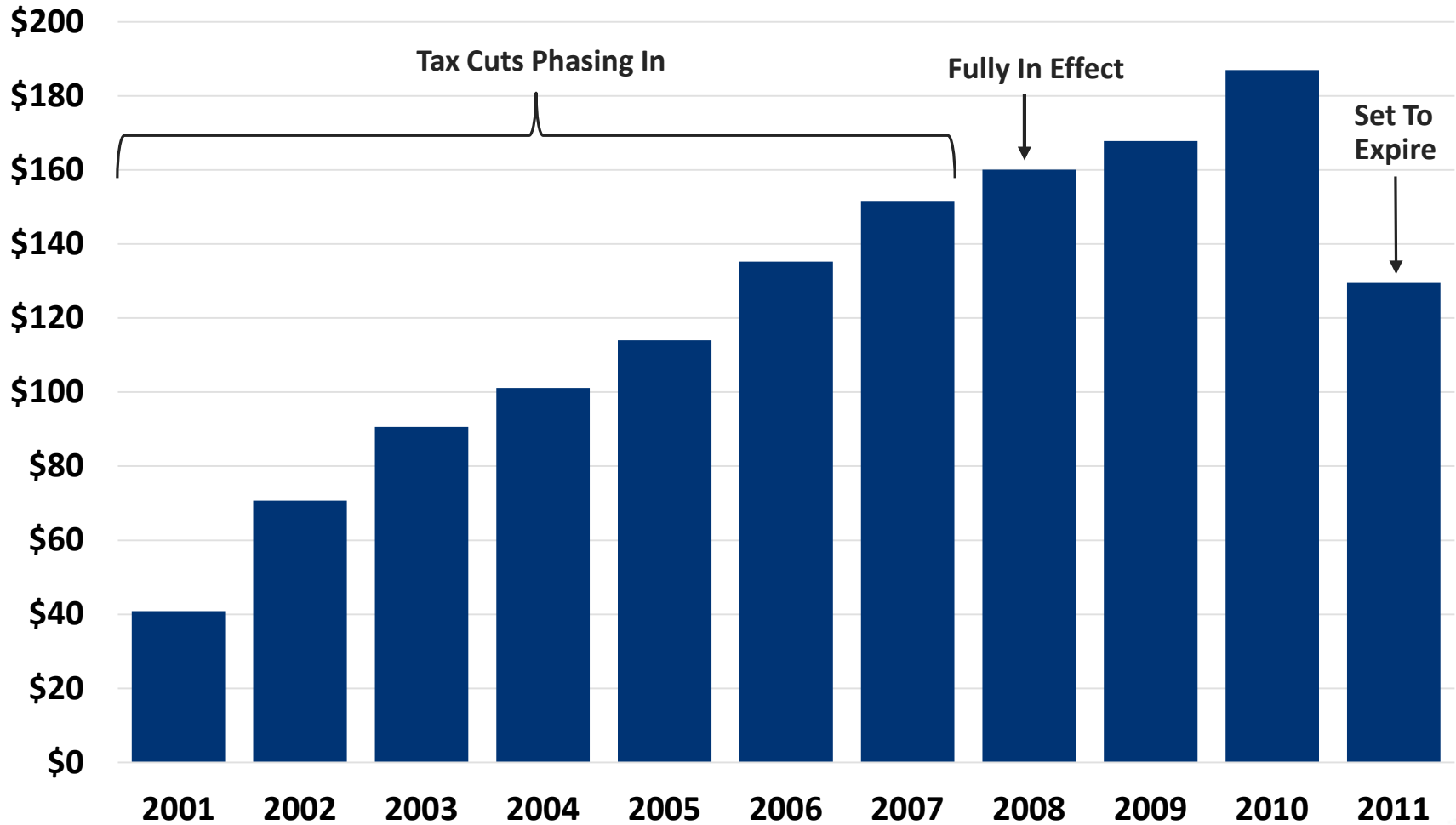
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6. Arbitrary Phase-Ins

Annual Cost of the 2001 Tax Cuts

Billions of Dollars



Source: JCT. Excludes timing shifts of corporate tax revenue from one year to another.



7. Front-Loading Costs, Back-Loading Savings

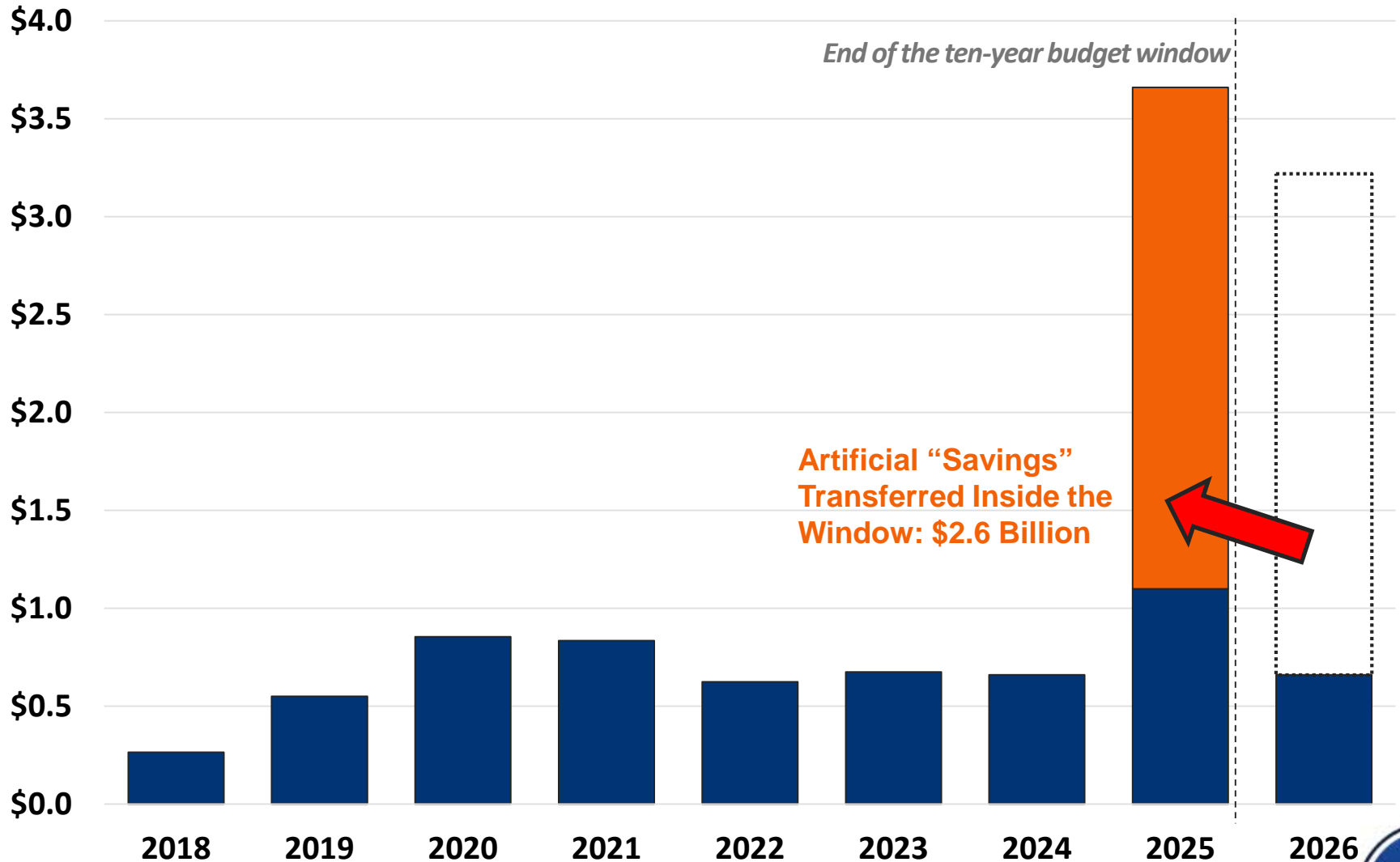
- Front-loading costs while back-loading savings reduces the likelihood that offsets will ultimately materialize while leading to additional borrowing costs even if they do.
- For example, the Bipartisan Budget Act of 2013 provided sequester relief in FY 2014 and 2015.
- \$47 billion of its \$85 billion in offsets occurred in the final two years of the budget window.
- One of these back-loaded offsets – an adjustment to military retirement benefits – was later repealed.



8. Pushing Costs Outside the Budget Window or Savings Inside the Window

Annual Savings of Pension Provisions of the Bipartisan Budget Act of 2015

Billions of Dollars



Source: Congressional Budget Office and CRFB calculations.

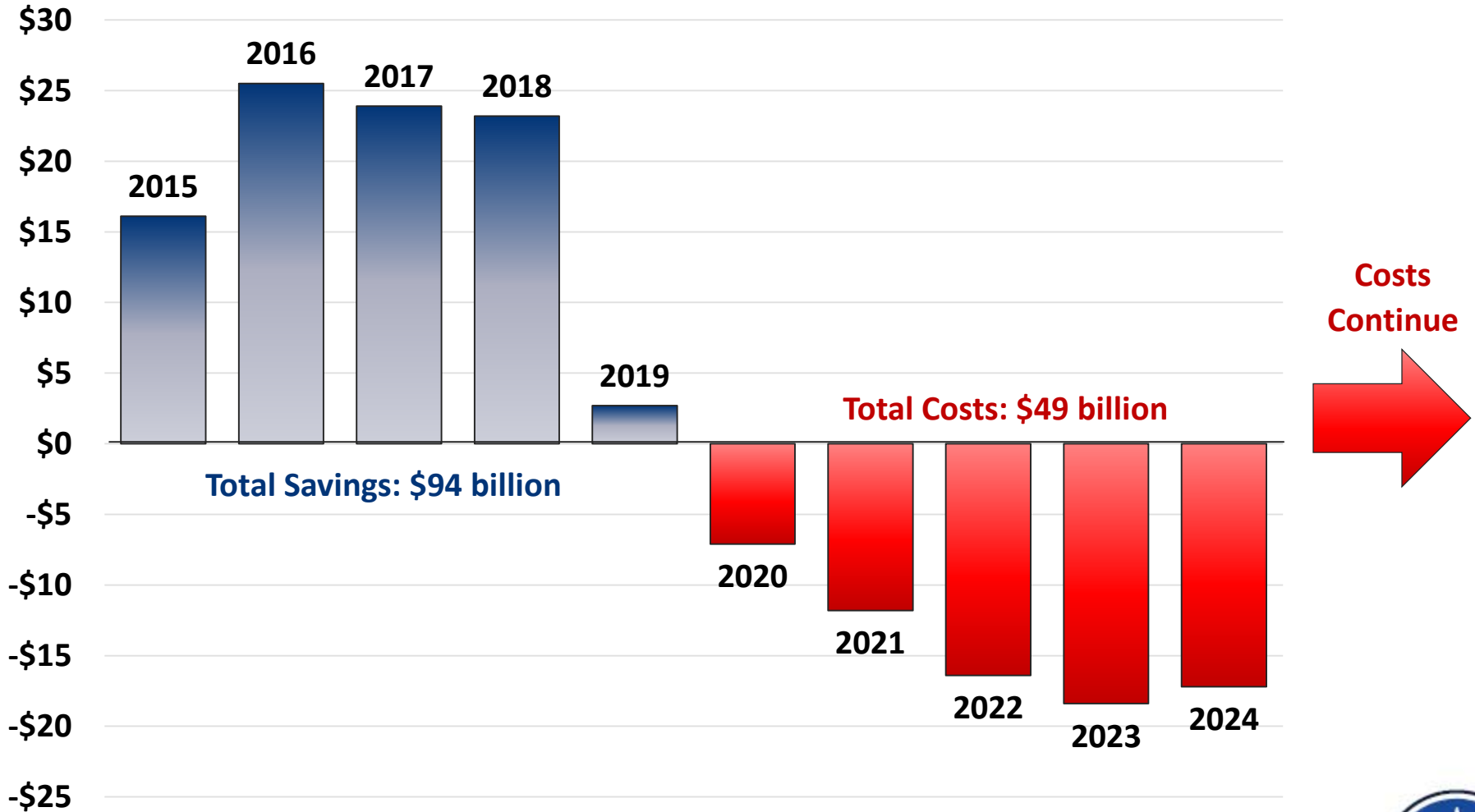
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9. Using Temporary Savings to Offset Permanent Costs

Savings/Costs (-) of the 2014 House Proposal to Replace the Sustainable Growth Rate

Billions of Dollars



Source: Congressional Budget Office.

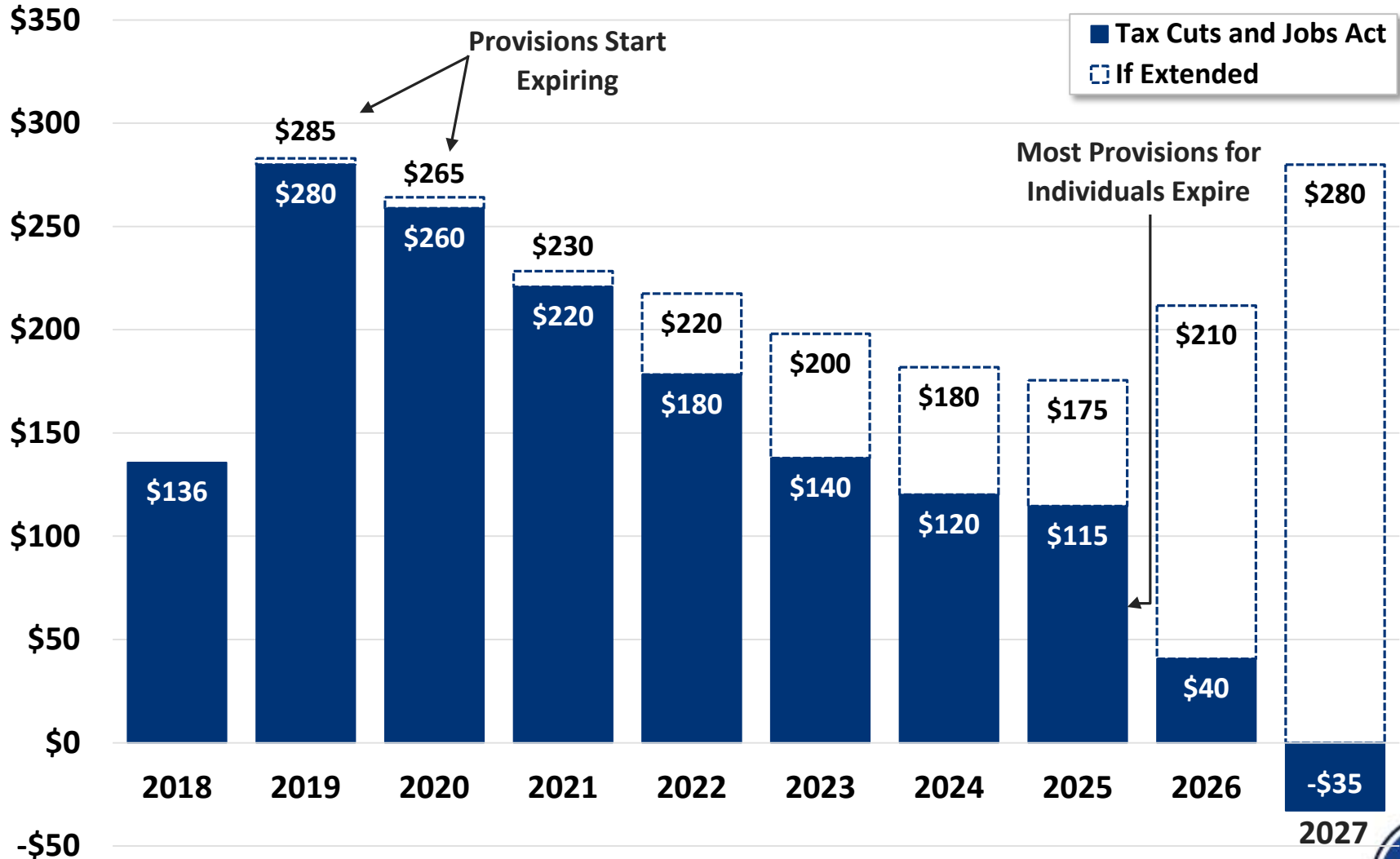
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10. Arbitrary Policy Sunsets

Annual Costs of the Tax Cuts & Jobs Act

Billions of Dollars



Source: Joint Committee on Taxation, CRFB calculations.

Numbers rounded to the nearest \$5 billion. Interest effects not shown.

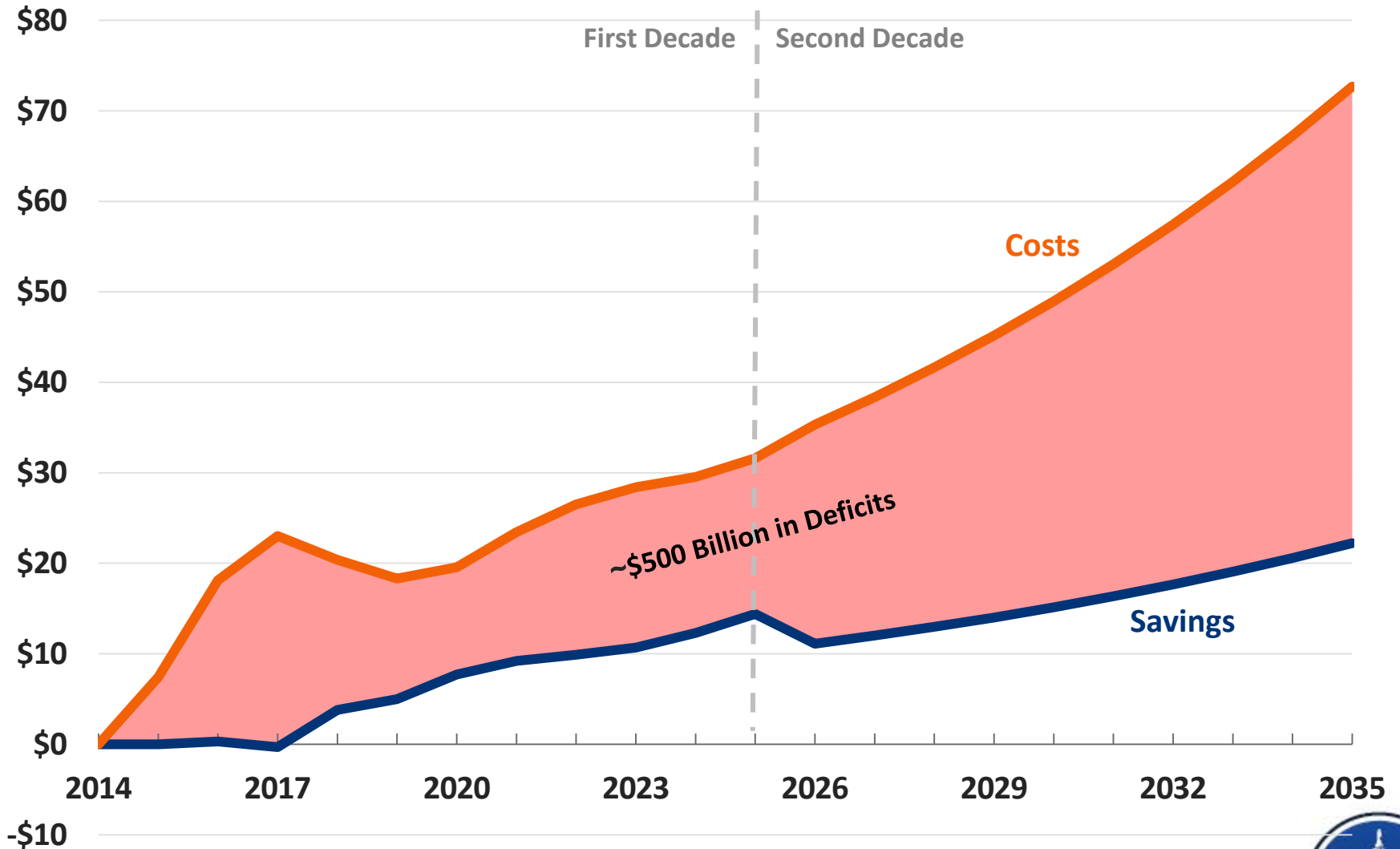
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11. Back-Loading Costs Beyond the Ten-Year Window

2015 Permanent Doc Fix Illustrative Costs and Savings Path

Billions of Dollars



Source: Congressional Budget Office Score of H.R. 2 and CRFB calculations.
Costs include associated debt service.

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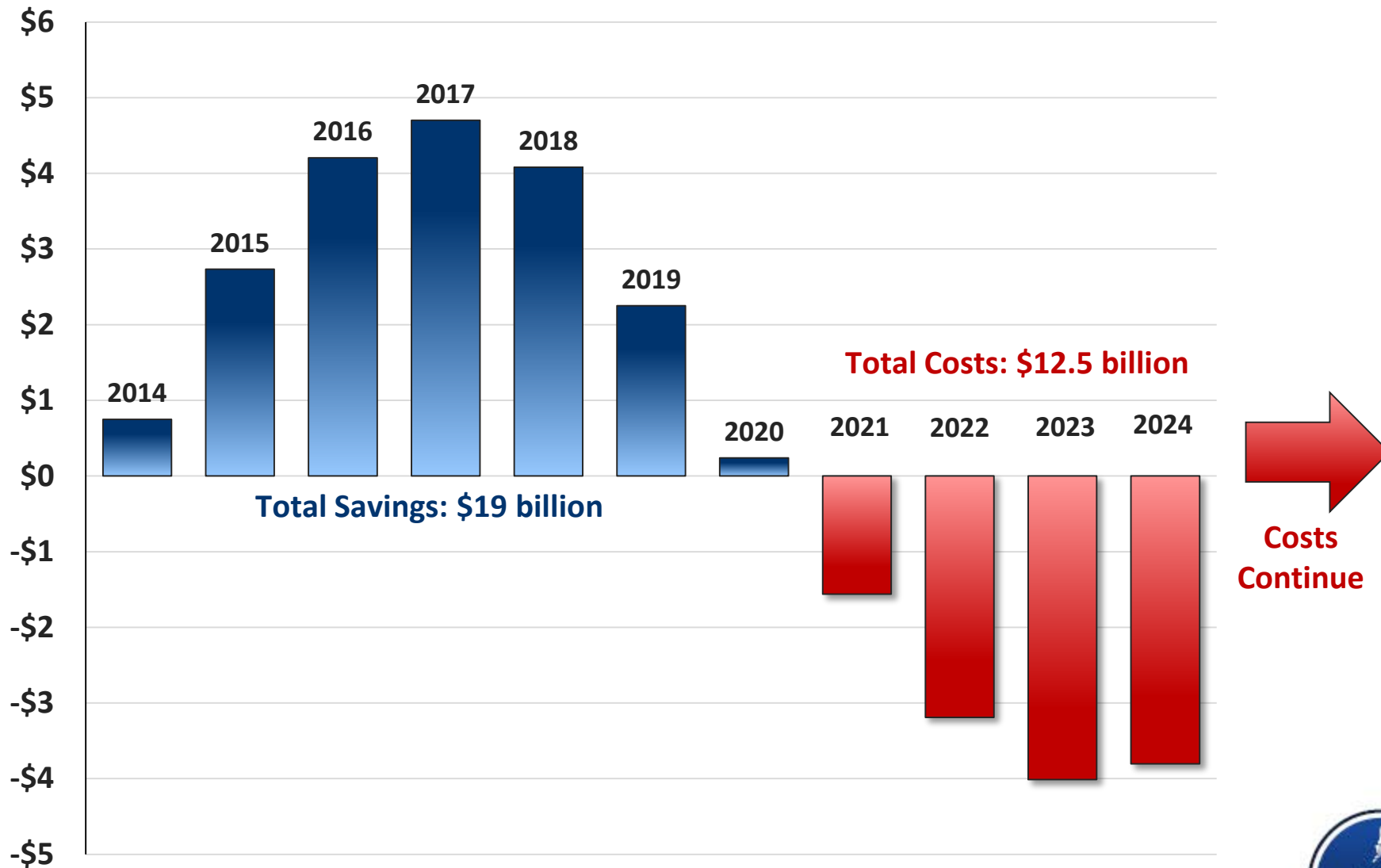
12. Changing the Ten-Year Window to Evade Fiscal Responsibility

- Policymakers could extend (or shrink) the budget window simply to evade current budget rules or norms.
- For example, during consideration of the Tax Cuts and Jobs Act, some advocated for extending the budget resolution from 10 years to 20 or 30 years to circumvent the Byrd rule.
- This would have helped make the tax cuts more permanent rather than expire after 8 years.

13. Counting Timing Shifts as Budgetary Savings

Annual Deficit Impact of Pension Provisions in 2014 Transportation Bill

Billions of Dollars



Source: Joint Committee on Taxation, July 2014.



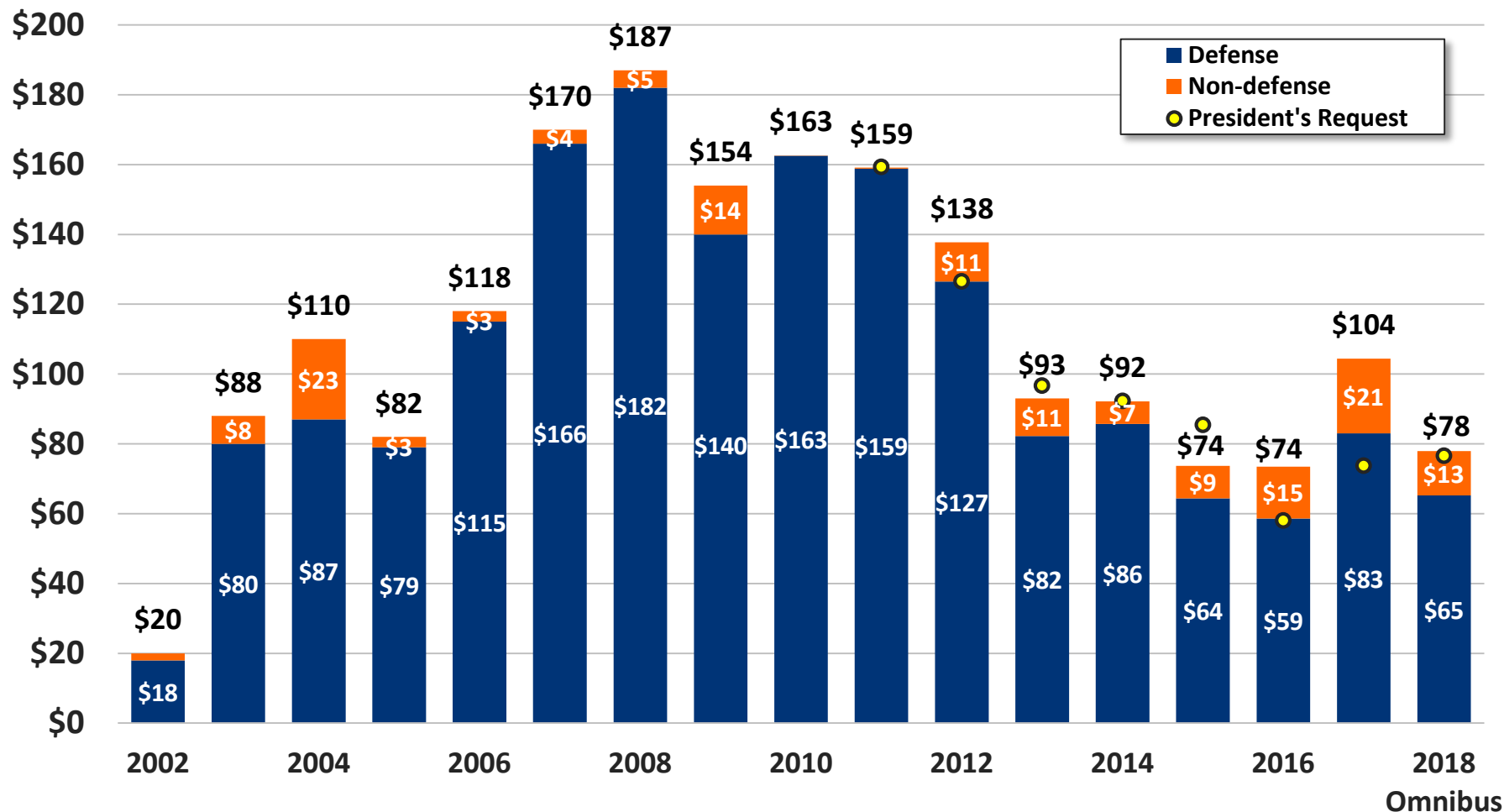
Discretionary Spending Gimmicks

14. Using OCO to Circumvent Discretionary Spending Caps
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14. Using OCO to Circumvent Discretionary Spending Caps

Omnibus Reduces OCO Spending, But Still Spends Above Caps

Billions of Dollars



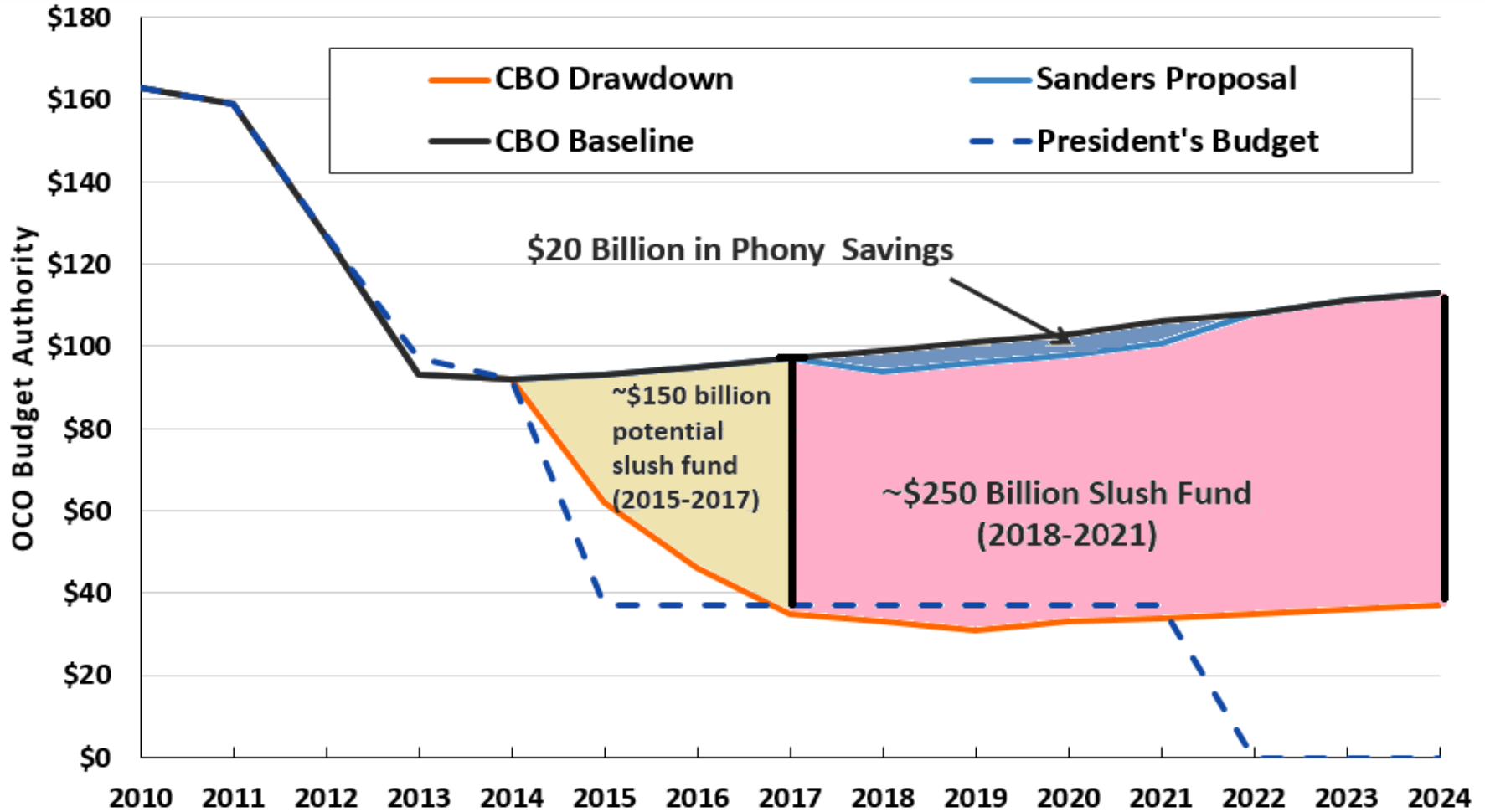
Source: Office of Management and Budget, Congressional Research Service, Republican Study Committee documents for 2018 Omnibus.

Before 2013, the defense and non-defense categories were not as clearly defined, so the allocations between the categories are not comparable across years. Totals for each year are in black.

15. Counting Planned War Spending Reductions as Savings

2014 Example of War Drawdown "Slush Fund"

Billions of Dollars



Sources: Congressional Budget Office, Office of Management and Budget, U.S. Senate Committee on Veterans Affairs, and CRFB calculations.

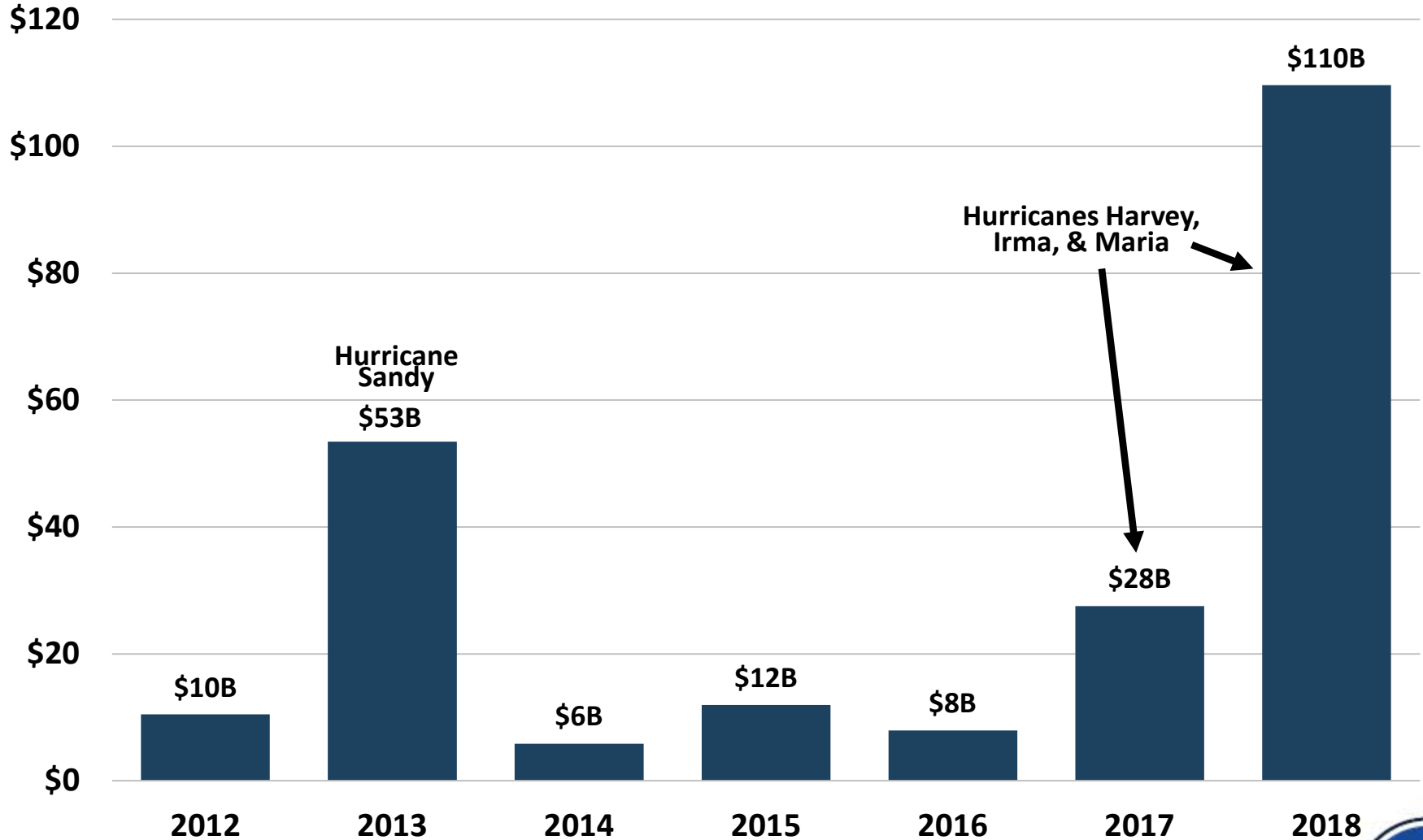
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16. Phantom Savings from Reducing Uncapped Discretionary Spending

Emergency Designation Spending over Time

Billions of Dollars

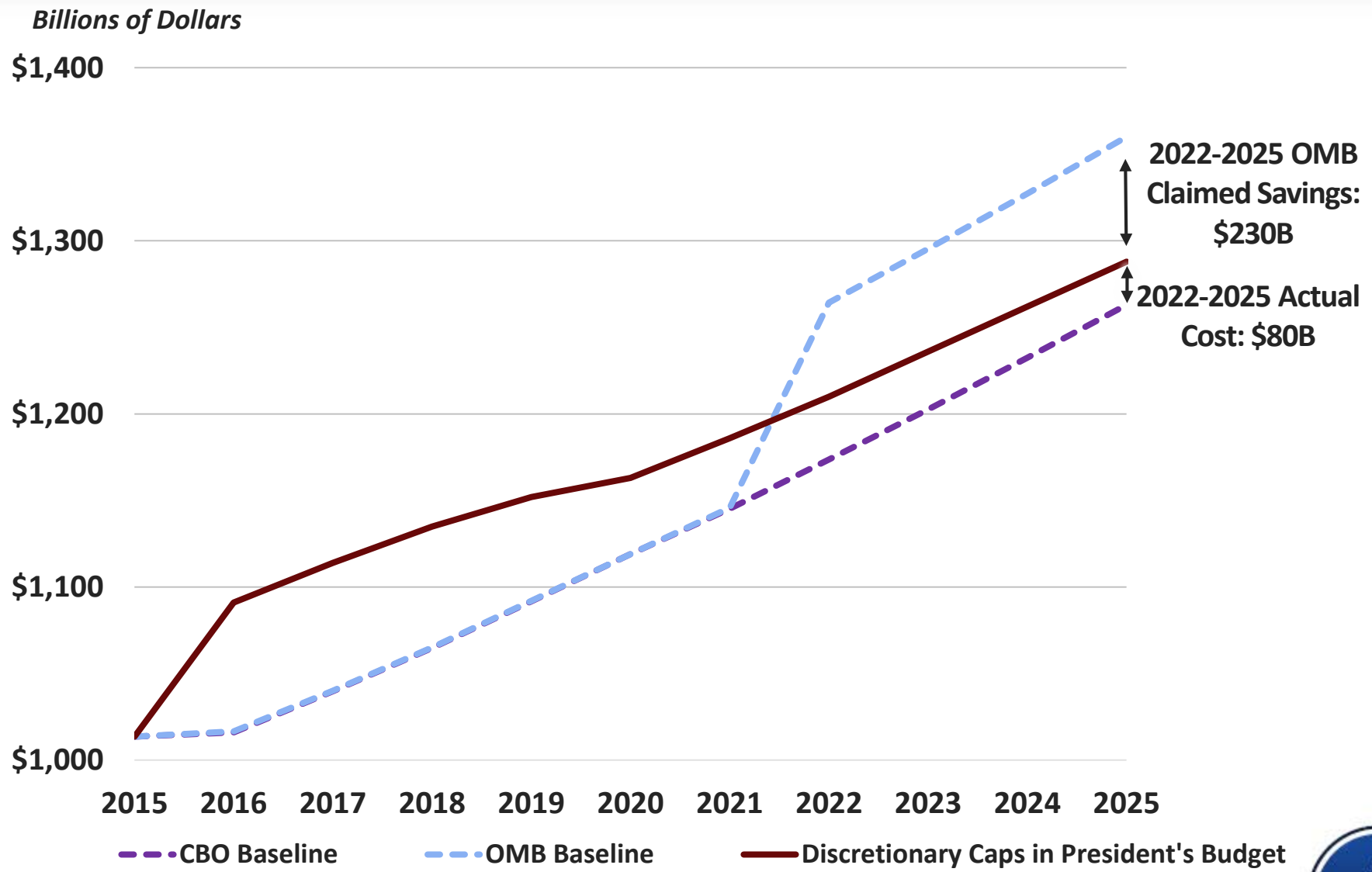


Source: Congressional Budget Office.



17. Counting Savings from Extending Discretionary Spending Caps

Budgetary Effect of the President's FY 2016 Proposed Discretionary Caps



2022-2025 OMB Claimed Savings: \$230B

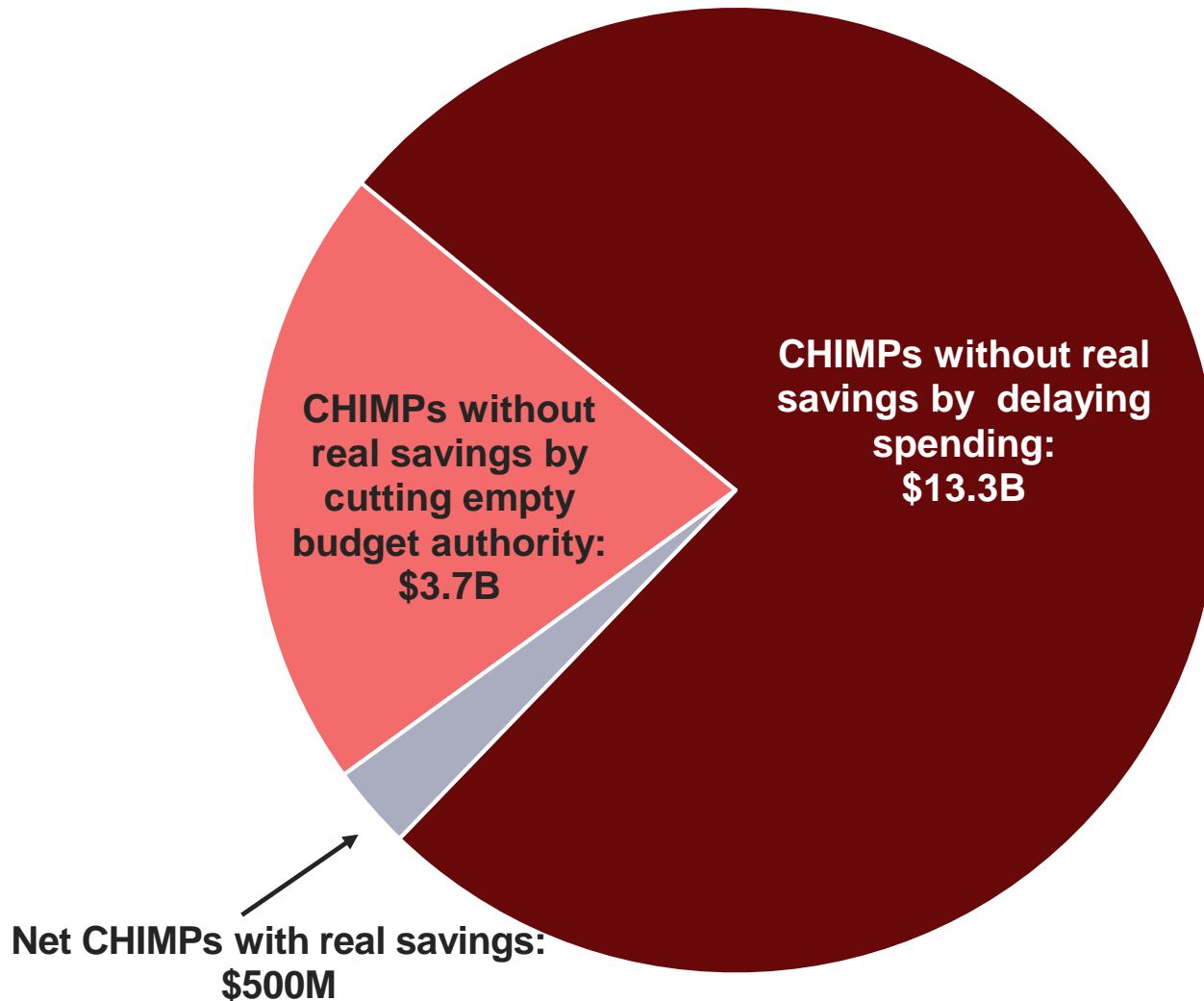
2022-2025 Actual Cost: \$80B

Sources: Congressional Budget Office, FY 2016 President's budget, and CRFB calculations.

18. Phony Changes in Mandatory Programs

Nearly All the CHIMPs Produce No Savings

Total net CHIMPs: \$17.5 billion



Sources: Congressional Budget Office and CRFB calculations.

Other Gimmicks

19. Double Counting Trust Fund Improvements

20. Directing Scorekeeping to Favor Chosen Policies

19. Double Counting Trust Fund Improvements

- Lawmakers often use trust fund savings or revenue to finance non-trust-fund spending or tax cuts; if this money improves solvency, it is counting the same money twice.
- For example, among the pay-fors included in the Affordable Care Act was a new Medicare surtax on wages over \$200,000 as well as a number of spending reductions within the Medicare HI program.
- These changes improved the solvency of the HI trust fund; at the same time, they were counted as offsets to new spending.

20. Directing Scorekeeping to Favor Chosen Policies

- The Budget Committees have the power to direct CBO to change the way they score certain legislation.
- For example, in 2000, the Budget Committees directed CBO to approximate OMB's methods for estimates of a variety of programs but most notably for defense.
- The directed scorekeeping lowered the score of appropriations by \$3 billion in budget authority and about \$19 billion in outlays.

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