Committee for a Responsible Federal Budget

Eight Gimmicks to Look Out For This Budget Season

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In the coming days and weeks, the Trump Administration is expected to release its full Fiscal Year (FY) 2018 budget proposal, and the House and Senate are expected to introduce their budget resolutions soon. These documents will detail both the President's and Congress's plans for federal spending and revenue over the next ten years. In theory, the budgets will help show how their policies fit in the context of overall taxes and spending. Unfortunately, policymakers often employ "budget gimmicks" to obscure the impact of their choices.

These gimmicks can make a budget look better and more responsible on paper while often opening the door to irresponsible policies that worsen the debt and sometimes even damage the economy.

We hope that the President's budget and Congressional budget resolutions avoid such gimmicks and instead provide a clear picture of how their promises fit into a broader fiscal and economic context.

The eight gimmicks we highlight to look out for include:

- **Rosy Growth Assumptions**
- **Arbitrary Policy Expiration Dates**
- **Timing Shifts**
- **Magic Asterisks and Unspecified Savings**
- **Baseline Games**
- **Arbitrary Budget Window Changes**
- **Unrealistic Policy Proposals and Assumptions**
- **Abuse of OCO**

Rosy Growth Assumptions

A key part of any budget is the economic assumptions underpinning the budget's numbers. Projections of economic growth in particular can have a significant impact on the projected fiscal outlook. Faster growth means more revenue collection as well as higher Gross Domestic Product (GDP) and thus less debt as a share of the economy.

Over the next decade, the Congressional Budget Office (CBO) – Congress's official scorekeeper – projects real (inflation-adjusted) GDP growth to average just above 1.8 percent per calendar year; most forecasters have put forward similar estimates.

To be credible, both the President's budget and Congressional budget resolutions should rely on reasonable growth assumptions that are similar, if not identical, to those of CBO. While the President's budget has traditionally included the economic impact of its policy proposals (and the Congressional budget has recently taken a similar approach to a limited extent), the effects of policy change are generally modest.

The budgets should avoid "rosy scenarios" for growth that make the budget look under control when in reality it is far from it. For example, 3 percent sustained real growth over a decade would be sufficient to stabilize the debt-to-GDP ratio and actually reduce it from 77 percent today to 69 percent by 2027. But with an aging population, achieving that level of growth would be quite unlikely and would require a heroic mix of smart policy and very good luck.

Arbitrary Policy Expiration Dates

Not all policy changes are designed to be permanent; one common gimmick is to take policies that are intended to be permanent and assume they are temporary.

For example, policymakers might support a new permanent tax cut or spending initiative, but assume that the policy only lasts for several years in their budget. By assuming a policy will expire, a budget can make the ten-year cost appear lower and prevent any cost from appearing in the final year of a budget.

There are a few ways to tell if a policy is actually intended to be permanent but is marked as temporary. One indication is if a proposal is an extension of a long-standing temporary policy. Another is if the policy is put in place for several years and suddenly ends without justification, creating a cliff that policymakers may be hesitant to allow.

Timing Shifts

Since the President's and Congressional budgets are generally evaluated using a ten-year budget window, the opportunity exists for the budgets to use policies that generate short-term gains but ultimately produce no savings or even long-term costs. While there are some legitimate policies that produce more savings in the short term than the long term – or cost less up front than over time – others are simply gimmicks that mask short-term deficit numbers by pushing costs off to the future.

One type of timing shift involves hiding most costs beyond the budget window or including most savings within the window. For example, gradually phasing in tax rate reductions, beginning to expand government programs late in the decade, or lengthening depreciation schedules would all make the ten-year deficit look lower than what the policies would ultimately mean for the structural deficit.

Another more egregious timing shift produces savings in the near term by deferring costs to the long term. For example, converting tax-deferred retirement accounts to Roth-style accounts would generate significant revenue for the government over the next decade but would, in reality, be a large tax cut and result in lower revenue levels over time.

Similarly, a provision known as "pension smoothing" can let businesses delay contributing to defined benefit pension plans and thus have higher taxable profits in the short term but lower profits in the long term, as they must eventually pay into the pensions. This results in additional short-term revenue, but medium- and long-term losses.

Timing shifts are not always gimmicks. However, if they have no policy justification or their temporary savings are used to offset permanent costs, they likely are. In evaluating timing shifts, it is important to look at the net impact to the entire budget.

Magic Asterisks and Unspecified Savings

The President's budget generally puts forward specific tax and spending proposals to meet its proposed fiscal goal. Congressional budget resolutions instead propose spending levels for each budget function (and for revenue) while providing illustrative examples of how to achieve those options.

While the level of detail differs between these two budgets, neither should rely on so-called "magic asterisks," where a certain amount of savings or revenue is assumed with no path to actually achieve those savings.

For the President's budget, that means every dollar of new tax revenue or spending cuts should ideally be fully accounted for with specific policy proposals. In areas where a policy has not been fully fleshed out – as in tax reform, for example – the offsets should be at least as detailed (and preferably far more detailed) than the policies they are paying for.

For the Congressional budget, savings levels in each function should be reasonable and backed up with specific examples that could legitimately cover the costs. Cuts appearing in function 920, "allowances," should be used only sparingly to reflect policies that may cut across multiple functions or real spending rescissions, not as a place for unspecified spending cuts or a mechanism to make the numbers fit.

Both budgets should resist artificially reducing discretionary spending caps without a plan to appropriate beneath those new caps.

Baseline Games

Under official scoring rules, tax and spending changes are measured relative to CBO's "current law" baseline. Though this baseline is not perfect, it serves as a reasonable benchmark.

Neither the Congressional nor President's budget should adjust their baseline in an effort to make policies look cheaper or paid for. For example, policymakers could assume the extension of various tax breaks in order to make tax reform look cheaper or the cancellation of "sequester cuts" in order to make discretionary spending hikes look less costly. If these are changes in policies policy makers want to make then they should propose it as a policy and not bury it inside a baseline.

Not all baseline adjustments are meant to deceive and mislead, but those that are should not be a part of any responsible budget.

Arbitrary Budget Window Changes

In recent years, both the President's and Congressional budgets have relied on ten-year budget windows to measure the impact of their policy proposals. In many cases, they have also presented supplemental long-term estimates to show how their budgets would affect deficits and debt in future decades.

Long-term estimates are incredibly valuable, particularly since the country's greatest fiscal challenges lie ahead. We've written on the importance of long-term budgeting a number of times.

However, policymakers should avoid extending (or shrinking) the traditional budget window simply to evade current budget rules or norms. As one example, the Byrd Rule in the Senate prevents reconciliation legislation from adding to deficits in the years beyond the budget window. Lengthening the budget window simply to allow for more years of deficit-financed spending increases or tax cuts would be an unfortunate gimmick that would undermine many of the important benefits of long-term scoring.

Unrealistic Policy Proposals and Assumptions

While budgets are intended to be an expression of goals and values, they sometimes contain proposals that are wholly unrealistic and unachievable. Any policies or assumptions put forward in a budget should reflect legislative changes that the budget's authors are truly willing to make.

For example, past budgets have assumed a dramatic tapering off of war spending despite ongoing conflicts in the Middle East. They have also proposed aggressive and arbitrary caps on the growth rate of certain program, resulting in massive cuts by the end of the decade that are much deeper than what any policymaker supports. In addition, recent Congressional budget resolutions have assumed repeal of the Affordable Care Act (ACA or "Obamacare") spending with no replacement and no changes to the revenue levels resulting from repeal of the ACA's taxes and mandates.

In addition to assuming the enactment of certain unrealistically policies, some past budgets have assumed other policies would *not* be enacted despite universal support. For example, many budgets in the past have pretended future policymakers would not adhere to the annual ritual of "Doc Fixes" or "AMT patches." Going forward, budgets may assume the full return of "sequester" levels for discretionary spending despite lack of support for this change.

Budgets need not restrict themselves to only policies that are likely to pass into law – both the President and Congress have the right to an ambitious agenda. Nevertheless, what they propose must reflect a certain degree of realism and must at least reflect their actual priorities.

Abuse of OCO

Overseas Contingency Operations (OCO) is a type of uncapped spending not subject the budgetary restraints put in place by the Budget Control Act (BCA) of 2011. It is intended to apply to "war spending" as result of the wars in Iraq and Afghanistan.

There are no criteria for or limits on what can be designated as OCO funding, nor is this process subject to the budget caps both parties agreed to under the BCA. As a result, it may be tempting for Congress or the President to include activities not related to war operations under this banner in order to circumvent the spending limits. But using a war spending account as a slush fund, policymakers could circumvent the discretionary budget caps.

The defense- and non-defense discretionary caps are set purposely in order to keep discretionary spending under control. To the extent policymakers view either as too low, they should adjust the caps explicitly and then offset the costs on the mandatory and/or revenue side of the budget. The OCO designation should be used to fund actual war spending, not to evade fiscal responsibility.

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The United States faces serious fiscal and economic challenges, and it is the responsibility of the President and Congress to put forward budgets that address these challenges. However, reducing deficits and debt on paper means very little if done so through gimmicks and games that do not allow deficit reduction to materialize in reality. Policymakers are far better off putting forward an achievable fiscal goal and a realistic plan to meet it than putting forward an overly-ambitious fiscal goal that can only be met with budgetary sleights of hand.

In the coming days and weeks, we hope the President and Congress will put forward responsible budgets that truly begin to fix the debt.