ISSUE BRIEF

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Fiscal Cliff: Five Budget Tactics to Reject

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If plunging over the fiscal cliff[1] in January would threaten the nation's economy, Congress and the President could also do harm in another way: by dodging the cliff through gimmicks and bogus budget cuts that create only illusory savings in a "grand" budget bargain.

Both the White House and lawmakers have shown a propensity for claiming savings where none exist. Doing so as part of a grand deficit reduction plan would drain the credibility from any agreement they might reach. Such tactics would further diminish the confidence of financial markets and the American public—an outcome almost as bad as no agreement at all. Here are five such devices lawmakers should avoid.

1. Phantom War Savings. This is the largest and most egregious practice under consideration. It claims savings that result purely from artificial budget conventions.[2]

Budget estimators at the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) project future spending for overseas contingency operations (OCO) in Iraq and Afghanistan by taking today's amount ($99.9 billion for fiscal year 2013) and then increasing that figure for inflation in each of the subsequent years. This is called the "baseline."

The President's budget claims to "cap" OCO spending at $44.2 billion each year. Measured against the continually rising baseline, this gives the appearance of "saving" $834 billion over 10 years—even though no one ever intended to spend that money.[3] CBO director Douglas W. Elmendorf rejected this tactic as far back as February, saying that "the funding has not yet been provided, and there is no 'OCO fund' set aside in the Treasury from which resources can be drawn in future years."[4]

Yet the President assumes these phantom savings and then goes a step further. His budget diverts $210 billion of the $834 billion to new transportation funding, *thereby spending money that would not have been spent otherwise and still claiming savings.*

2. Spend Now, Save Later. This time-honored practice does just what the name implies: It spends money up front with the promise of cutting spending and reducing deficits later.

The President has employed the practice habitually—even in his recent fiscal cliff proposal. Along with his $1.6 trillion, 10-year tax hike, Obama hinted at up to $400 billion in mandatory savings over 10 years (about 1.4 percent of total mandatory spending), but he offered no specifics.

First, however, he wants to spend more—including an immediate $50 billion for more economic "stimulus" and an unidentified amount for a new mortgage refinancing proposal.[5] The spending increases are guaranteed, but the vague, promised savings might never materialize. Congress should reject such tactics in any budget agreement.

3. Other Bogus Baseline Savings. One way to hide increased spending is through a mechanism called "changes in mandatory programs" (CHiMPs).

The typical CHiMP is a one-time mandatory savings provision used to offset excess discretionary amounts in annual appropriations bills. The practice allows appropriators to give the appearance of

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complying with their discretionary spending limits when in fact they are exceeding them.

A prime example is the Crime Victims Trust Fund. The fund is authorized to spend all it collects from fines and penalties, but appropriators limit the spending to an amount below the authorized level. Then they claim the difference between the two amounts as "savings," creating phony offsets for higher discretionary spending. Because the common CHiMP applies for just one year at a time, the "savings" disappear in the next year while the higher spending remains. Moreover, the abuse can be repeated year after year.[6]

It would be fine if Congress and the President adopted genuine and permanent mandatory savings to replace sequestration. They should not, however, resort to CHiMPs to justify higher spending elsewhere in such a measure.

4. Rescissions That Do Not Save Money. In 2013, sequestration will be applied by cancelling existing budget authority, a practice called "rescission." Congress could legitimately substitute genuine, alternative rescissions—and the President should propose some. On the other hand, Congress could appear to achieve some of the needed savings by substituting rescissions whose savings exist on paper only and are solely the result of CBO scoring conventions.

Like the illusory war savings described above, this tactic claims to save money that was never going to be spent—such as uncommitted transportation funds. In this case, however, instead of capping the planned spending, Congress would instead cancel existing budget authority. Nevertheless, the savings are another mirage. Congress should discard this practice as well.

5. "Emergencies" and Other "Adjustments." Another way Congress can excuse higher spending is by designating certain funding as an "emergency" or providing "adjustments" to spending limits for disaster assistance. The designations relieve Congress of any need to offset the additional spending with reductions elsewhere. The President has already sought to exploit both loopholes, provided for in the Budget Control Act, by requesting $60.4 billion (without offsets) for Hurricane Sandy relief.[7]

If emergency spending is truly important, it is more important than something else. Especially in these times of chronic, trillion-dollar deficits, Congress should reduce the "something else" to compensate for the spending increases.

Credibility Counts. Lawmakers' budgetary mismanagement in the past several years has surely hastened the decline in their approval. Congress has not adopted a budget in more than three years (though the House did pass budget resolutions in 2011 and 2012). Spending and tax policies have been ad hoc, piecemeal, and temporary, fostering constant, nagging uncertainty in the economy.

Failure to address the onrushing fiscal cliff would further erode Congress's reputation. Pretending to resolve the problem through illusory savings or budget gimmicks would have sharply negative consequences as well.

Credibility counts. To earn the confidence of financial markets and the American public—as well as starting the government toward a sustainable fiscal course—any plan to replace the coming sequestration should be sound, free of gimmicks, and built with policies that achieve real savings.

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1. The fiscal cliff includes a $494 billion tax increase in 2013, a 10 percent across-the-board cut in national defense spending, a 27 percent reduction in payments to Medicare physicians, and the expiration of extended unemployment benefits. For more information, see Romina Boccia, James Sherk, and Katie Tubb, "What's in the Fiscal Cliff?," Heritage Foundation *Issue Brief* No. 3787, November 28, 2012, http://www.heritage.org/research/reports/2012/11/what-is-in-the-fiscal-cliff.
2. See Patrick Louis Knudsen, "Note to Congress: Swear Off Phony War Savings, Now and Forever," The Heritage Foundation, The Foundry, February 2, 2012, http://blog.heritage.org/2012/02/02/note-to-congress-swear-off-phony-war-savings-now-and-forever/.
3. Office of Management and Budget, *Fiscal Year 2013 Mid-Session Review*, Table S-3, July 2012, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/13msr.pdf (accessed December 11, 2012).
4. Douglas W. Elmendorf, "Can Proposed Reductions in Future War-Related Spending Be Used to Offset Proposed Deficit Increases in Other Areas?," Congressional Budget Office Director's Blog, February 1, 2012, http://www.cbo.gov/publication/42916 (accessed December 11, 2012).
5. See Patrick Louis Knudsen, "Chart of the Week: Obama's Fiscal Cliff Plan Has $4 of Tax Hikes to $1 of Cuts," The Heritage Foundation, The Foundry, November 30, 2012, http://blog.heritage.org/2012/11/30/chart-of-the-week-obamas-fiscal-cliff-plan-has-4-of-tax-hikes-to-1-of-cuts/.
6. See Patrick Louis Knudsen, "FY 2012 Spending Blows Through Cap, CBO Shows," Heritage Foundation *WebMemo* No. 3494, February 8, 2012, http://www.heritage.org/research/reports/2012/02/fy2012-government-spending-blows-through-cap-cbo-shows.
7. See Jeffrey D. Zients, Deputy Director for Management, Office of Management and Budget, letter to the Honorable John Boehner, Speaker, U.S. House of Representatives, December 7, 2012, http://www.whitehouse.gov/sites/default/files/supplemental__december_7_2012_hurricane_sandy_funding_needs.pdf.pdf (accessed December 11, 2012).