

NATIONAL POST

Understanding U.S. budget chaos; President and Congress obfuscate, dissemble and hide what is really being done

By: William Poole – April 10, 2013

President Obama will release his overdue budget on Wednesday. It will doubtless project a reduction in the federal budget deficit -a projection that journalists, commentators and policy makers should ignore. To do otherwise is to be complicit in fraud. Strong statement? Not really.

For 50 years or so the federal government has deliberately and to an increasing extent misstated probable future budget deficits. democrats and republicans are guilty. The White House is guilty. And so is Congress. Private firms that deliberately misrepresent their financial statements in this fashion would be guilty of a crime.

The magnitude of the misrepresentation is breathtaking. For one example, the bitterly contested "fiscal cliff" legislation (the American Taxpayer relief Act of 2012) raised the top income tax rate to 39.6%. However, the Congressional Budget Office's latest (early February) deficit projection for 2013-22 is now \$4.6 trillion higher than the baseline deficit it projected in mid-2012. After the tax increase, how can that be?

easy. Congress requires the CBO to present its baseline budget projections on the basis of "current law." Congress then manipulates current law to understate probable future outlays beyond the present year, and to overstate probable future revenues. These manipulations change CBO baseline budget projections based on current law. Voila, actual deficits exceed projections, and the previous budget projections are rendered meaningless.

Congress can misrepresent the effects of any given piece of legislation in complex ways. It does not do so by entering, say, \$800 million when the correct number is \$900 million. Instead, Congress enacts certain tax and spending measures as "temporary" when it has no intention of allowing the provision to lapse; or it assumes legislative provisions in current law that would cut spending will be made, when Congress knows they never will.

Fortunately, some years ago the CBO began to present "alternative scenario" budget projections, in which differences from current-law projections are explained in detail. In its early February update, one example is that the 25% cut in physician Medicare reimbursements scheduled for next Jan. 1 will not occur. That adjustment increases the projected deficit in 2023 by \$16 billion, and cumulatively by \$138 billion from 2014-23. Congress has overridden the scheduled cut in physician reimbursements every year since 2003, in a legislative provision known as the "doc fix."

Another item in CBO 's February "alternative" budget projection notes the effect on the deficit of extending certain expiring tax provisions in current law; that adjustment raises the projected 2014-23 deficit by \$954 billion. In a footnote, the CBO says that "[t]hese estimates reflect the impact of extending about 75 provisions. Nearly all of those provisions have been extended previously; some, such as the research and experimentation tax credit, multiple times."

Keep in mind that these provisions may be extended piecemeal, and for differing periods, in various pieces of legislation over the course of the year. The American Taxpayer relief Act of 2012 had about 30 of these so-called extenders.

What are traders, portfolio managers, journalists and citizens to do in the face of such practices? My recommendation is to ignore the official current-law scoring estimates of the federal budget, unless you have sufficient analytical resources to sort through the legislative details, line by line, and figure out what is really going on.

Some republican commentators are too harsh on the CBO , saying or implying that it is complicit in the misleading projections. Federal law requires that CBO present current-law budget projections. To make that point clear, in its most recent budget update - a document 77 pages long - a search turns up 61 occurrences of "current law," "current laws," and "current-law."

The CBO goes out of its way to emphasize the problems with the budget projections it presents. Its "alternative scenario" projections are featured prominently. you may not like these alternative projections, because you would specify the alternative differently, but they are the only truly honest and useful effort in town.

The House and Senate budget committees could assist us by requesting that the CBO score all proposed legislation according to its alternative scenario as well as according to current law. If the committees won't do so, the ranking minority member of each committee could do so by sending a letter to the CBO .

U.S. fiscal policy is in a chaotic state. Policy decisions are wrapped around the convoluted budget accounting that Congress and the White House use to obfuscate, dissemble and hide what is really being done. That is a tragedy, and our democracy is worse for it.