
How Transparent Is the U.S. Budget?

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JODY W. LIPFORD

In recent years, the federal government has experienced its first budget surpluses since 1969 and its first consecutive years of budget surplus since 1956–57. Further, the Congressional Budget Office (CBO) is forecasting budget surpluses of at least \$4.5 trillion over the coming decade.¹ After decades of deficits, the federal government seems to have put its “fiscal house in order.” Nevertheless, gross U.S. federal debt totals more than \$5.6 trillion, or approximately 60 percent of gross domestic product (GDP), a figure down from the 1996 peak of 67.3 percent of GDP, but significantly higher than the post–World War II low of 32.5 percent set in 1981 (see CEA 2000, tables B-76 and B-77).

This debt and the recurrent deficits that created it not only call into question the viability of estimated surpluses, but also underscore the need for explanations of the government’s proclivity for debt finance. Alesina and Roubini with Cohen (1997, 230–40) provide summaries of some explanations, including hypotheses of fiscal illusion, debt as a constraint on future administrations, intergenerational transfers, partisan conflicts, rent seeking, and inadequate institutional constraints.²

One institutional constraint that may be inadequate is budgetary transparency, which I define as the ease with which the public can interpret spending and budgetary fig-

Jody W. Lipford is an Associate Professor in the Department of Economics and Business Administration at Presbyterian College, Clinton, South Carolina.

1. Actual forecasted surpluses depend on assumptions made about the growth of discretionary spending. If discretionary spending grows at the rate of inflation, the forecasted surplus is \$4.561 trillion, but if discretionary spending is held to statutory caps through 2002 and grows at the rate of inflation thereafter, the forecasted surplus is \$5.774 trillion. See *The Economic and Budget Outlook: An Update*, July 2000, at <www.cbo.gov>.

2. For complete treatments of the hypotheses of fiscal illusion and of debt as a constraint on future administrations, see Buchanan and Wagner 1977 and Persson and Svensson 1989, respectively.

ures, measure current and future tax liabilities, and evaluate the benefits of government programs.³ If the government can combine understated figures for spending, taxes, and deficits with overstated benefits of government programs, then deficits and debt are the natural outcomes as citizens express their desire for additional government benefits through the electoral process without full knowledge of the costs of these benefits.

To the converse, budgetary transparency may serve as a constraint on government spending and debt (Alesina and Perotti 1996), either alone or in conjunction with other restraints, such as balanced-budget rules (Buchanan and Wagner 1977), supermajority voting rules for higher debt limits and tax increases (Niskanen 1992), or spending targets (Schultze 1992).

In this article, I evaluate the transparency of U.S. budgetary practices of the past twenty years, focusing on the first parts of the transparency definition. The insights gained from this analysis help not only to evaluate past budgetary practices, but also to determine whether common budgetary practices are likely to reduce projected surpluses.

First, I review the theoretical case for budgetary transparency, the rationale for political opposition to budgetary transparency, and evidence on the effectiveness of budgetary transparency as a means of fiscal discipline. Then, I analyze criteria that make a budget more or less transparent. Finally, I evaluate U.S. budget practices against the transparency criteria elaborated in the preceding section, an evaluation that yields a mixed review of U.S. budgetary practices. In the conclusion, I reconsider the question of budgetary transparency during an era of fiscal surpluses.

Budgetary Transparency: Effects, Political Opposition, and Evidence

To any U.S. taxpayer, the need for budgetary transparency may seem self-evident. Complex tax codes, continually manipulated by “omnibus budget reconciliation bills,” combine with multi-billion-dollar spending programs with immeasurable effects so that individual taxpayers find the budgetary process and its effects incomprehensible.

On a macroeconomic level, transparency should lead to smaller spending and deficits. Buchanan and Wagner argue forcefully that “complex and indirect payment structures create a fiscal illusion that will systematically produce higher levels of public outlay than those that would be observed under single-payment structures. Budgets will be related directly to the complexity and indirectness of the tax system”

3. The International Monetary Fund Code of Good Practices on Fiscal Transparency includes four principles: (1) clarity in government’s role in the economy and responsibilities; (2) readily available budgetary information for the public; (3) open budget preparations, execution, and reporting; and (4) independent assurances of integrity. Because U.S. budgetary practices arguably meet most of these standards, I concentrate on the definition of transparency given in the text. For the complete IMF Code of Good Practices on Fiscal Transparency, see <www.imf.org>.

(1977, 129). Simply put, budgetary complexities drive a wedge between the actual cost of government programs and the perceived cost of those programs. Voters suffering from “fiscal illusion” will support higher levels of spending and deficits than they would if budgetary transparency yielded full disclosure. Further, government debt offers opportunities for citizens to avoid future tax liabilities, perhaps through death, tax shelters, or other means, and thereby to transfer wealth from other citizens.

Nevertheless, an assumption of “fooled” or “irrational” voters is unnecessary in concluding that budgets lacking transparency lessen fiscal discipline. Because information is a scarce resource, some degree of voter ignorance is quite rational.⁴ It is certainly plausible that politicians have an informational advantage with regard to the benefits and costs of their proposals, regardless of how “rational” voters might be. In discussing rational opportunistic models of the business cycle, Alesina and Roubini with Cohen offer an example that elucidates this possibility: “in an election year the incumbent government [may raise] certain transfers, claiming that no new taxes will be needed because a high expected growth rate will automatically increase revenues. Such a claim is quite hard for the average voter to check” (1997, 31). Similarly, Miller argues that the American people are ignorant of the budget in part because of the “propensity of politicians to mislead and obfuscate the budget for their own purposes” (1994, 124). Whatever assumption one makes about rational expectations, the link between complex and obfuscated budgets and fiscal excesses is apparent.

Facing voters subject to fiscal illusion or simply confronted with incomplete information, politicians may have strong incentives to distort the perceived costs and benefits of government expansion. These incentives are consistent with Leviathan and rent-seeking theories of government. If the government is a revenue-maximizing Leviathan, as Brennan and Buchanan (1980) suggest, politicians will want to overestimate the benefits of government programs and underestimate the current and future taxes required to pay for those programs. Similarly, special-interest groups and the politicians who do their bidding benefit from complex budgets that hide the costs of and expand the size of government programs that serve parochial interests. Findings by Mixon and Wilkinson (1999) that campaign contributions to members of Congress rise with the value of government spending and with reductions in the deficit that may threaten interest-group benefits are consistent with the hypothesis that interest groups favor large budgets. Simply put, if larger government outlays yield politicians greater power or prestige, greater gains from rent-seeking interest groups, or more opportunities to invoke their concept of the “public good,” nontransparent budgeting will be politically appealing.

Although quantification of budgetary institutions and their effects is problematic, the nascent empirical work indicates that budgetary institutions, including trans-

4. For detailed arguments about why voters are unlikely to be highly informed on political issues, see Boudreaux 1996, 121–24.

parency, are important determinants of fiscal discipline. Analyzing a sample of twenty Latin American countries, Alesina, Hausmann, Hommes, and Stein find that “on average, a country with budgetary institutions which contain constraints on the deficit, are more hierarchical and more transparent can be expected to have primary deficits 2.9 percentage points lower than a country with fewer constraints, and more collegial and less transparent budget procedures” (1996, 20–21). Additional empirical work shows that a separate “transparency index” is not a statistically significant determinant of a country’s primary deficit, but its sign is negative and its index value suffers from measurement problems.⁵

The Means of Nontransparent Budgeting

Politicians possess many means of distorting perceptions of the actual cost of government. Charlotte Twight (1988, 1994) argues that politicians intentionally manipulate the transactions costs of voter monitoring and political action to increase the scope and size of government. Augmenting transactions costs to further political ends is especially attractive and easy when complex issues, such as public budgets, are under consideration. Obfuscating language that cloaks “tax increases as ‘deficit reduction’ measures,” “complex and indirect forms of taxation,” misrepresented estimates of budget deficits, overstated baselines, misleading claims of statutory effects on deficits, and strategic use of off-budget revenues and expenditures provide politicians with ample means of lowering the perceived cost of government (Twight 1994, 208–11). In a similar vein, Alesina and Cukierman (1990) model how politicians utilize ambiguity to take positions that diverge from those of their constituencies and to avoid accountability.

Like Twight, Alesina and Perotti (1996) outline several means by which politicians may make public budgets less transparent, thereby raising the transaction costs of monitoring fiscal conditions for a public subject to fiscal illusion or incomplete information:⁶ (1) biased macroeconomic forecasts, (2) biased estimates of the effects of policy changes on budgetary outcomes, (3) strategic use of on- and off-budget expenditures and receipts, (4) manipulation of budgetary baselines, and (5) multiyear budgeting.

Because budget forecasts are predicated on assumptions of economic performance, overly optimistic assumptions about the economic conditions that generate tax revenues or dictate spending requirements can yield deficit and debt forecasts that are, in turn, overly optimistic. Similarly, overestimating the revenues generated by changes in fiscal policies or underestimating the expenditures required from changes in fiscal policies yields forecasts of deficits and debt with a downward bias.

5. For a summary of other empirical work on budgetary transparency, see Alesina and Roubini, with Cohen 1997, 240.

6. Light 1999 provides a similar analysis of the lack of transparency in counting the federal workforce.

The use of off-budget expenditures and receipts to expand the size of government has long been recognized. By shifting expenditures to off-budget categories and agencies, the size of on-budget spending shrinks. Similarly, using off-budget revenues to fund on-budget expenditures masks the true fiscal condition of general budgets. Bennett and DiLorenzo (1982) show how local governments responded to the “tax revolt” of the 1970s by establishing and expanding off-budget enterprises that financed additional spending with the issuance of revenue bonds, thereby offsetting reductions in on-budget expenditures but creating a “hidden tax liability.”⁷

Manipulating budgetary baselines is another gimmick that makes budgets less transparent. When expenditures are calculated relative to a baseline, an artificial inflation of that baseline makes spending increases appear as spending cuts.

Finally, the use of multiyear budgeting affords politicians opportunities to misrepresent future fiscal conditions by delaying politically unpopular policies—tax increases and spending cuts—while claiming politically popular deficit reduction over the life of the multiyear budget. The “backloaded” tax increases and spending cuts may never materialize, but even if they do, the current administration or majority party may be out of power at that time.

An Analysis of U.S. Budgetary Transparency

In an effort to evaluate U.S. budgetary transparency, I examine U.S. budget practices relative to the five criteria just discussed. To begin, I consider economic and deficit forecasts. I follow with analyses of off-budget expenditures and receipts, baseline budgeting, and multiyear budget deals. And I conclude this section by examining important budgetary legislation since the Budget and Impoundment Control Act of 1974.

Evidence from Macroeconomic and Budget Forecasts

The U.S. budget process begins with the president’s proposed budget, which is based on economic projections by the executive branch Office of Management and Budget (OMB). Congress, on the other hand, uses its own fiscal agency, the Congressional Budget Office (CBO), to forecast economic outcomes. To determine whether the economic forecasts on which budgets are proposed and evaluated are biased, I gathered data from presidential budgets and the CBO *Economic and Budget Outlooks* for each year since 1980. I then compared forecasts of real GDP growth, inflation, unemployment, and the interest rate on short-term Treasury bills with actual economic outcomes of these variables for five years into the future. If the administration or Congress biases its economic forecasts in favor of stronger economic growth, lower inflation, lower unemployment, and lower interest rates than actual economic conditions are likely to yield, budgets lack transparency.

7. In an interesting empirical analysis, Merrifield 1994 considers whether on- and off-budget expenditures are substitutes or complements. His findings are mixed, offering some support for each hypothesis.

Table 1. An Analysis of OMB and CBO Economic Forecasts, 1980–1999					
Variables under consideration: Real GDP Growth, Inflation Rate, Unemployment Rate, Three-Month Treasury Bill Rate					
Forecast Error = Forecasted Value – Actual Value. Positive values are overestimates. Negative values are underestimates.					
Null hypothesis: Mean Forecast Error = 0					
	Years Ahead				
Variable: Real GDP Growth	1	2	3	4	5
t-Statistic for OMB Forecast	-1.416	0.737	1.052	0.610	0.620
t-Statistic for CBO Forecast	-1.723	0.287	0.338	-0.358	-0.264
	Years Ahead				
Variable: Inflation Rate	1	2	3	4	5
t-Statistic for OMB Forecast	1.147	1.762	1.896	1.852	1.076
t-Statistic for CBO Forecast	1.291	2.803	3.769	3.187	3.160
	Years Ahead				
Variable: Unemployment Rate	1	2	3	4	5
t-Statistic for OMB Forecast	1.784	0.333	-0.235	-0.399	-0.773
t-Statistic for CBO Forecast	1.342	0.468	0.140	0.349	0.504
Variable: Three-Month Treasury Bill Rate	Years Ahead				
	1	2	3	4	5
t-Statistic for OMB Forecast	-0.873	-0.621	-0.468	-0.833	-1.382
t-Statistic for CBO Forecast	-0.214	0.601	1.299	1.371	1.456

Table 1 shows results of hypothesis tests that the mean forecast errors differ from zero. The evidence indicates that generally neither OMB nor CBO macroeconomic forecasts are biased in favor of overly optimistic forecasts. For real GDP growth, only forecast errors one year into the future approach significance at conventional levels, and these errors indicate underestimation of real GDP growth. For inflation forecasts, OMB mean forecast errors for two to four years into the future and CBO mean forecast errors for two to five years into the future are statistically significant; however, the t-statistics are all positive, indicating that forecasters repeatedly did not anticipate the significant drop in inflation rates over the past two decades. The OMB's one-year mean forecast error for the unemployment rate is weakly significant, but its positive value indicates forecasted unemployment rates were overestimated. Finally, forecast errors for short-term Treasury bill rates are never significant.

Turning to budget forecasts, which for the executive branch incorporate taxing and spending proposals, we find in table 2 that long-term forecasts (for four to five years in the future) significantly underestimated deficits. Although presidential budg-

Table 2. An Analysis of OMB and CBO Budget Forecasts, 1980–1999					
Variable under consideration: budget balance as a percentage of GDP					
Forecast Error = Forecasted Value – Actual Value. Positive values underestimate deficits or overestimate surpluses. Negative values overestimate deficits or underestimate surpluses.					
Null hypothesis: Mean Forecast Error = 0					
Years Ahead					
	1	2	3	4	5
t-Statistic for OMB Forecast	-1.007	1.138	1.637	2.155	2.249
t-Statistic for CBO Forecast	-0.763	-0.193	0.095	0.292	0.293
<p><i>Note:</i> Calculations assume negative values for deficits and positive values for surpluses.</p> <p>For example, ignoring division by GDP, a forecasted deficit of \$100 and an actual deficit of \$150 gives a positive forecast error of \$50. Likewise, a forecasted surplus of \$100 and an actual surplus of \$50 gives a positive forecast error of \$50. So positive forecast errors indicate overly optimistic forecasts, either from underestimated deficits or from overestimated surpluses.</p> <p>Similarly, a forecasted deficit of \$100 and an actual deficit of \$50 gives a negative forecast error of \$50. Likewise, a forecasted surplus of \$100 and an actual surplus of \$150 gives a negative forecast error of \$50. So negative forecast errors indicate overly pessimistic forecasts, either from overestimated deficits or from underestimated surpluses.</p>					

ets (and CBO analyses) consider projections of greater than two years as extrapolations of trends rather than true forecasts, the bias toward smaller deficits indicates failure by the executive to acknowledge the country’s long-term budget problems. On the other hand, the CBO forecasts have been highly accurate.⁸

Figure 1 shows OMB budget-forecast errors over the period of analysis. The evidence confirms that short-term forecasts are more accurate than long-term forecasts and that the largest forecast errors, when deficits were underestimated, occurred early in Reagan’s first term, throughout Reagan’s second term,⁹ and into Bush’s term. Estimates during Clinton’s terms have been generally accurate or, if anything, unduly pessimistic about the budget’s balance. Figure 2 shows CBO budget forecast errors and reveals a similar pattern, though the errors are generally smaller throughout.

8. To test the possibility that macroeconomic forecasts may be influenced by electoral or partisan pressures, I regressed all forecast errors against dummy variables for election years, presidential election years, years with a Republican president, and years in which Republicans controlled both houses of Congress. These results, which may be obtained from me on request, reveal conflicting signs, few significant variables, poor fit, and virtually no explanatory power, suggesting that electoral and partisan pressures do not systematically bias macroeconomic forecasts.

9. Muris 2000 shows that although macroeconomic and budget forecasts early in Reagan’s first term were inaccurate, so too were private-sector forecasts. Neither set of forecasters anticipated the incipient recession.

Figure 1. OMB Forecast Errors for the Budget

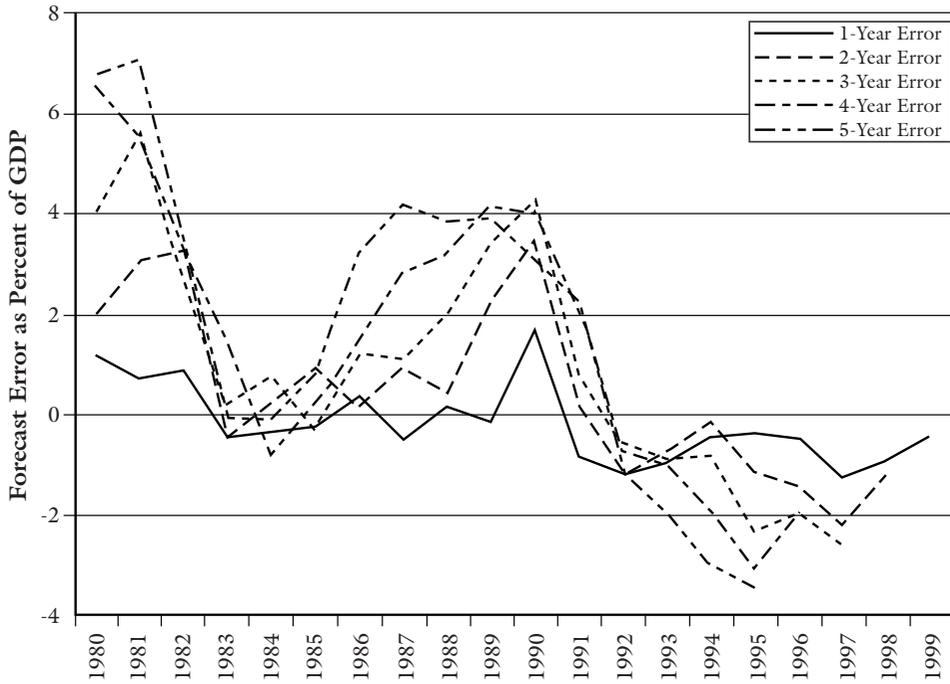
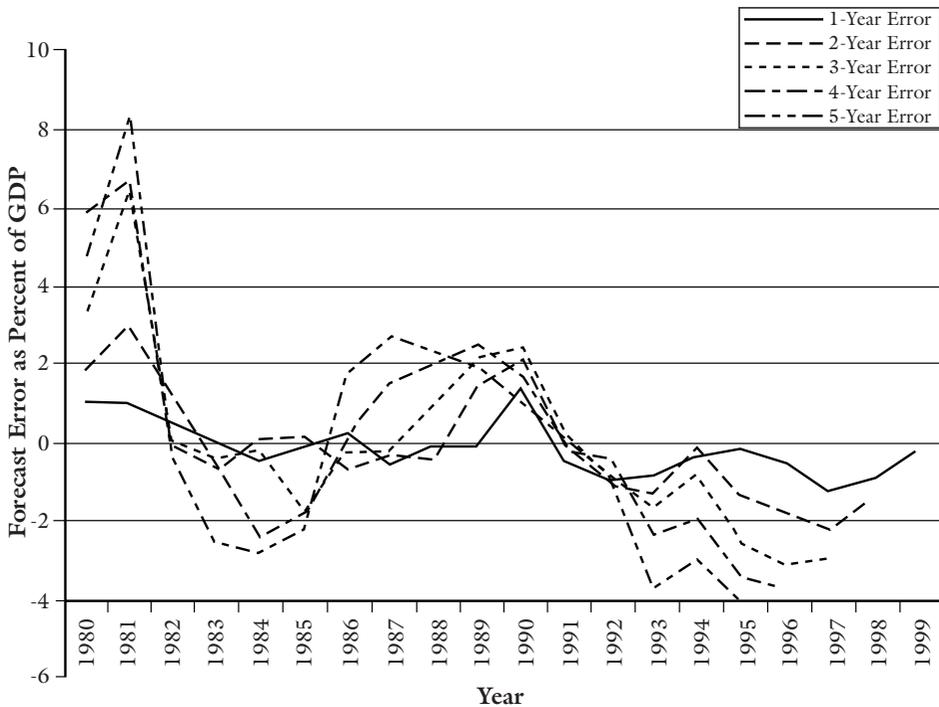


Figure 2. CBO Forecast Errors for the Budget

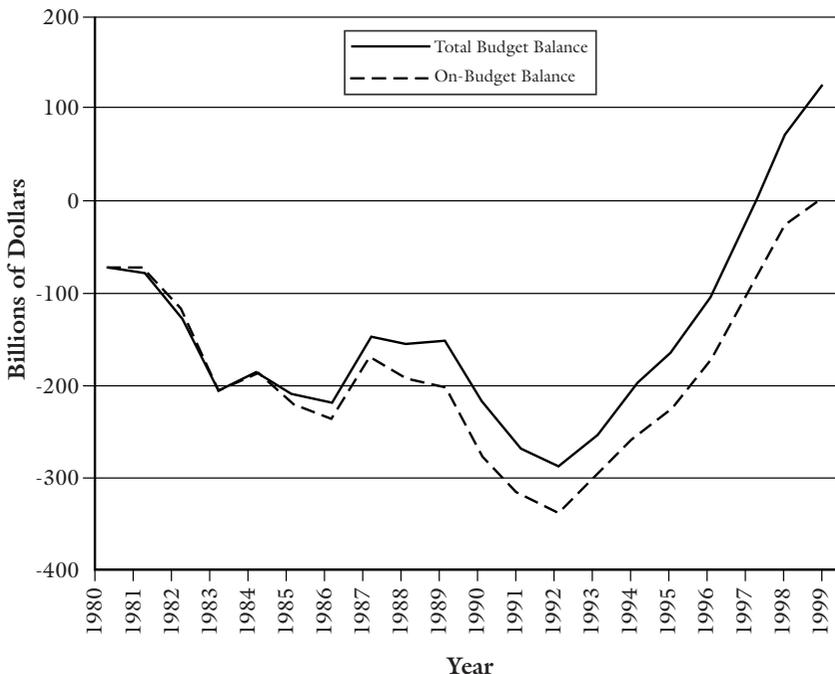


In sum, the evidence provided by macroeconomic and budgetary forecasts indicates that U.S. politicians do not generally diminish budgetary transparency by means of biased forecasts. Focusing on the budget balance, one sees that only long-term executive branch forecasts have had a statistically significant bias.

Evidence from Off-Budget Receipts

Since 1983, the off-budget balance of the U.S. budget has been positive. These off-budget surpluses, largely financed by Social Security receipts, have masked the size of on-budget deficits. As figure 3 shows, since the mid-1980s the on-budget balance has been consistently less than the total budget balance. Even in 1998, the year in which politicians rejoiced in the country’s first fiscal surplus since 1969, the on-budget balance was in deficit by \$30 billion. The total budget balance is projected to yield large surpluses in future years, but to the extent that those surpluses continue to result from off-budget Social Security surpluses that represent future expenditure obligations, the claim that the federal government has put its “fiscal house in order” must be called into question. The current use of funds meant to satisfy future obligations distorts the true fiscal condition of the government, making the budget less transparent than if on-budget receipts and expenditures were considered in isolation.

Figure 3. A Comparison of U.S. Total and On-Budget Balances



Evidence from Baseline Budgeting

The practice of baseline budgeting egregiously violates principles of budgetary transparency. The objective of baseline budgeting is ostensibly to provide estimates of how much it will cost the government to fund programs in the future, assuming no changes in policy. Yet, baseline budgeting serves political ends by obfuscating the budgetary process so that cuts in spending and deficits are claimed even though spending and deficits are rising.

Timothy Muris (1994, 57–67) provides detailed explanations of how baseline budgeting is used so that increases in spending and deficits can appear as cuts. The simplest method is to reduce spending below an inflated baseline projection so that a spending cut can be claimed while actual spending rises. But more subtle means abound. One is to count future tax and spending increases in the baselines so they do not appear as actual tax and spending hikes. Another is to extend taxes set to expire and then count those funds as “new” revenues to fund additional programs so that spending rises while tax collections are unchanged.

Because comparisons of actual spending with baselines in a given year are more difficult to understand and interpret than comparisons of actual spending in one year with actual spending in a prior year, baseline budgeting raises the costs of monitoring budgetary practices and holding politicians accountable for budgetary outcomes. As Muris concludes in his analysis of baseline budgeting, by “raising the cost of understanding the budget, the current policy baseline reduces the capacity of voters to make informed electoral choices” (1994, 77). And that reduction in voter capacity always leads to higher spending and deficits.

Evidence from Multiyear Budget Deals

Although multiyear budgets have been common since the budget reconciliation process began in 1980, efforts to deal with soaring deficits brought about the government’s most significant multiyear budget deals in the 1990s. Table 3 shows the CBO estimates of the impact on the federal budget of the 1990 Omnibus Budget Reconciliation Act, the 1993 Omnibus Budget Reconciliation Act, and the 1997 Balanced Budget and Taxpayer Relief Acts. Clearly, the estimated effects of those bills were significant. Nevertheless, the bills demonstrate a lack of transparency by promising large five-year deficit reductions in which most of the “fiscal pain” occurs near the end of the deal. Indeed, the 1997 budget acts actually raised the deficit by \$21 billion in 1998, deferring all budget cuts to the last four years of the agreement.

Multiyear budget deals may lessen transparency in several ways. To begin, the forecasted effects of tax and spending policies become less certain as their time period extends into the future so that actual deficit reduction may never occur. Further, Congress and the president may ultimately yield to political pressures to renege on (future) legislated spending cuts and tax increases. In addition, delayed fiscal policies allow

Table 3. An Analysis of Multiyear Deficit-Reduction Bills

CBO Estimates of Total Deficit Reduction (billions of dollars)		Percent of Total Deficit Reduction in Following Years				
		1	2	3	4	5
1990 Omnibus Budget Reconciliation Act	482	6.8	14.3	18.5	27.2	33.2
1993 Omnibus Budget Reconciliation Act	432.9	7.5	12.8	19.2	27.3	33.1
1997 Balanced Budget Act and Taxpayer Relief Act	137.9	n.a.	2.1	14.6	14.9	68.3
1990 OBRA <i>Source:</i> Congressional Budget Office, <i>The Economic and Budget Outlook: Fiscal Years 1992–1996</i> (Washington, D.C.: CBO, January 1991).						
1993 OBRA <i>Source:</i> Congressional Budget Office, <i>The Economic and Budget Outlook: An Update</i> (Washington, D.C.: CBO, September 1993).						
1997 BBA and TRA <i>Source:</i> Congressional Budget Office, <i>The Economic and Budget Outlook: An Update</i> (Washington, D.C.: CBO, September 1997).						

politicians, at times, to escape accountability to voters. Noting the backloaded deficit-reduction provisions in the 1997 budget acts, former CBO director Robert D. Reischauer commented that “President Clinton and the 105th Congress agreed that President Gore and the 107th Congress should sacrifice” (see “Five-Year” 1997, 2–18).

Evidence from Budget Legislation

To further assess U.S. budgetary transparency, I examine the budgetary provisions of key fiscal legislation passed since the institution of modern budget practices by the Budget and Impoundment Control Act of 1974.¹⁰ Specifically, I explore the Balanced Budget and Emergency Deficit Control Act of 1985, the Omnibus Budget Reconciliation Act of 1990, and the Balanced Budget Act and Taxpayer Relief Act of 1997, to determine whether budgetary practices and legislated provisions were consistent with budgetary transparency.

Balanced Budget and Emergency Deficit Control Act of 1985

Facing \$200 billion deficits in the early to mid-1980s, Congress passed the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as the Gramm-Rudman-Hollings Act (GRH), in an effort to rein in deficits. The act had the appearance of serious deficit-reduction legislation, in part because it specified outcomes (deficit

10. The Budget and Impoundment Control Act significantly changed the budgeting process by shifting dates of the fiscal year, establishing the CBO, establishing the House and Senate budget committees, establishing overall targets for spending, establishing the budget reconciliation process, and forcing the president to spend impounded funds.

targets) rather than procedural reforms. Specifically, it set a deficit target of \$172 billion in 1986, to decline by \$36 billion per year until the budget was balanced in 1991. If deficits were not within \$10 billion of targets, automatic spending cuts of an identical percentage would apply to all nonexempt programs to enforce compliance.¹¹

Nevertheless, the act failed to achieve its deficit-reduction goals. Deficits were consistently above targets, reaching an unprecedented \$269 billion in 1991, the year in which the budget was supposed to be balanced. These figures alone suggest the act was not a serious deficit-reduction effort, and examination of the legislated policies and budgetary practices carried out under it corroborate that conclusion. First, the act exempted from automatic cuts such mandatory spending as Social Security, the Earned Income Tax Credit, federal retirement programs, veterans benefits, Medicaid, Aid to Families with Dependent Children, and food stamps, along with other programs and interest on the national debt.¹² According to Davis, “about two-thirds of all spending was exempt from automatic reductions,” so that “the category of spending most responsible for spending growth was unaffected by the procedural device intended to bring total spending under control” (1997, 18–19). By limiting the expenditures subject to sequestration, pressure mounted on the nonexempt expenditures and the required cuts became politically untenable. In the end, only two partial sequestrations were implemented, totaling \$11.7 billion in 1986 and \$4.6 billion in 1989 (Doyle and McCaffery 1991), and in 1987 the act was revised by raising deficit targets and extending the time required to meet them (see Thelwell 1990 for details). When the deficit was cut, budgetary gimmicks such as asset sales and intertemporal cost shifting were favored over long-term, substantive spending cuts or tax increases (Thelwell 1990, 192–94).¹³

The failure of GRH is not surprising. Any long-term deficit-reduction plan allows members of Congress who have left office to escape accountability. And as electoral pressures to sustain spending mount, rules fail. As William Keech concludes in his analysis of fiscal constraints, “it appears that the formal institutions and the informal norms of fiscal policy have not provided adequate restraints against the temptation to let expenditures outpace revenues” (1995, 182–83).

In sum, GRH, in origination and implementation, arguably reduced budgetary transparency by proposing unrealistic deficit targets, exempting the majority of the budget from the sequestration process, employing accounting gimmickry, and permitting some members of Congress to escape accountability. Thelwell argues that the

11. For a detailed account of negotiations leading to Gramm-Rudman-Hollings, see Miller 1994.

12. For additional details, see “Congress Enacts” 1985, 464.

13. Sperry 1999 lists a number of accounting gimmicks, including changed pay days, underfunded accounts, deferred obligations, leveraged spending, mandatory spending, off-budget programs, and—the most popular—emergency spending.

act's "inflexibility of mandatory deficit reductions, no tax increases, and equal cuts between defense and domestic programs invites cheating in a form that misleads the public" (1990, 197).

Omnibus Budget Reconciliation Act of 1990

With the failure of GRH to reduce the deficit, Congress took up the budget deficit again in the 1990 Omnibus Budget Reconciliation Act (OBRA). The act was estimated to reduce the deficit by approximately \$500 billion over five years through a combination of tax increases and spending cuts. To ensure significant and lasting deficit reduction, the act set five-year caps for discretionary spending and required new entitlement programs to be funded by tax increases or cuts in existing programs, a procedure known as *pay-as-you-go* (PAYGO). The act also introduced a host of budgetary complexities, contingencies, and uncertainties, along with providing ample cover to politicians. Transparency was not well served.

Like Gramm-Rudman-Hollings, the OBRA set unrealistic deficit targets that were not met. However, unlike for GRH, attaining deficit targets was never of primary importance for this act. From the beginning, it permitted revisions of deficit targets if "tax revenues are overestimated, or program costs are underestimated due to inflation or clientele growth, or the economic assumptions turn out to be incorrect" (Doyle and McCaffery 1991, 33), rendering deficit targets meaningless and thwarting citizens' attempts to monitor compliance.

The primary focus of the OBRA was spending control rather than deficit control. Yet, its caps on discretionary spending were hardly a serious deficit-reduction provision. Schick's (1992) analysis shows that although discretionary defense spending was cut compared to baseline figures, the baseline was inflated and allowed president Bush to circumvent still deeper cuts desired by congressional Democrats. But congressional Democrats also had their interests served: over 1991–93, discretionary domestic spending was capped at \$41.7 billion over the baseline. In the end, the "president got more for defense, the Democrats got more for domestic programs, and both sides celebrated their gutsy decision to curtail the deficit" (Schick 1992, 27).

Further, the caps were, from the beginning, subject to revision for "emergencies." In nominal dollars, budgetary authority for emergency spending from 1991–2000 equals \$146.6 billion.¹⁴ Qualified emergencies include refugee aid, relief for natural disasters, and defense operations in the Persian Gulf and Kosovo. Although the act implemented some cuts in entitlement spending, including a \$44.2 billion reduction in Medicare spending, its PAYGO procedure permitted the cost of

14. See "Emergency Spending Under the Budget Enforcement Act: An Update," published by the CBO, at <www.cbo.gov>.

existing programs to continue their upward spiral, yielding further evidence that the OBRA was never a sincere deficit-reduction effort.

Through revised deficit targets, caps for discretionary spending, inflated baselines, and provisions for emergency spending, the OBRA of 1990 lessened budgetary transparency. It complicated not only the budget process, but also any attempt to evaluate budgetary outcomes.

Balanced Budget Act and Taxpayer Relief Act of 1997

The 1997 budget deal consisted of two reconciliation bills, the Balanced Budget Act (BBA) and the Taxpayer Relief Act (TRA), designed to cut the deficit by a CBO-estimated \$116 billion (net) over five years and to achieve a balanced budget by 2002. The path to budget balance was eased by a rapidly growing economy that poured so much revenue into government coffers that the CBO, between January and March of 1997, “revised their deficit forecasts, ‘finding’ \$225 billion over five years” (LeLoup, Long, and Giordano 1998, 5). Yet even those revisions underestimated deficit reduction, and in 1998 the federal government ran a fiscal surplus. Although the BBA, like its predecessors in 1990 and 1993, extended caps on discretionary spending and the PAYGO provision for entitlement spending, economic growth more so than legislative provision was responsible for achieving budget balance four years prior to the target of these acts.

The BBA and the TRA arguably are not serious deficit-reduction measures, nor do they enhance budgetary transparency and accountability. Although the BBA did cut Medicare spending by \$100 billion over five years, these acts do little else to curb entitlement spending, which will escalate as baby boomers place greater demands on Social Security and Medicare (see the “Five-Year” 1997, 2–19). As noted before, politically unpopular spending cuts are back loaded, with the greater part scheduled for 2002, allowing the president and members of Congress out of office to escape blame.

Yet, even before 2002, it proved too great a temptation to spend more than these acts appropriated. Politicians spent “more than \$30 billion more than allocated for Fiscal Year 2000,” largely by categorizing funding for the 2000 census and the Head Start program as emergency spending (Graham 1999), as well as by extending “the current fiscal year three days to capture \$2 billion from next fiscal year’s revenues for this year” (see “Budget Caps” 1999, 14A). Further, Congress has already voted to rescind \$16 billion in Medicare cuts, and calls to restore tens of billions more of Medicare funding came forth from the health-care sector to the halls of Congress.¹⁵ Eviscerating fiscal discipline for fiscal years 2000 and 2001 greatly diminished the likelihood of maintaining it in future years.

15. See Janelle Carter, “Health Care Issues Plague Congress,” September 25, 2000, at <infobeat.com>, and Janelle Carter, “Lawmakers Near Medicare Restoration,” October 3, 2000, at <infobeat.com>.

Conclusions

Analysis of U.S. budgetary policies and practices is complex. This investigation of past policies and practices yields a mixed view of budgetary transparency. OMB and CBO macroeconomic and deficit forecasts have been generally unbiased, with the exception of OMB long-term deficit projections. On the other hand, many budgetary processes and practices lack transparency and accountability: the use of off-budget Social Security surpluses to reduce total-budget deficit figures; baseline budgeting; the backloading of politically unpopular spending cuts and tax increases in multiyear budget deals; specification of unrealistic and unattained deficit targets in GRH and the 1990 OBRA; an inflated defense baseline in the 1990 OBRA; violated spending caps in the 1997 BBA; and avoidance of significant entitlement-program reform in all budgetary legislation. Whether suffering from fiscal illusion or information asymmetry, citizen-voters can hardly be expected to understand the effects or to decipher the details of U.S. public budgets.

Although a lack of transparency and accountability might be expected in an era of fiscal deficits, current fiscal surpluses yield no evidence of increased transparency or accountability. The lack of transparency evident in past budgets, combined with current proposals to spend more for prescription drugs under Medicare and simultaneously cut taxes, casts doubt on the viability of the estimated budget surpluses. Indeed, even if the current proposals are not adopted, so that all of the projected surpluses are saved, a recent CBO report projects that without reform of Medicaid, Medicare, and Social Security, deficits will recur by 2040 and debt levels will eventually become “unsustainable.”¹⁶ In addition, forecasted economic conditions and surpluses, although statistically unbiased, may err, causing a return to deficits.¹⁷

The salient conclusion is that the political incentives that lead to obfuscated budgetary practices and greater spending in an era of deficits also apply in an era of surpluses. Regardless of the budget’s balance, politicians will continue to use budget legislation and practices that obfuscate citizens’ ability to understand budgetary provisions, monitor compliance, or hold politicians accountable.

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16. If only off-budget surpluses are saved, deficits will recur in 2030. If none of the budget surplus is saved, deficits will recur in 2020. See “The Long-Term Budget Outlook,” at <www.cbo.gov>.

17. See “Counting Their Chickens” 1999, 27–28.

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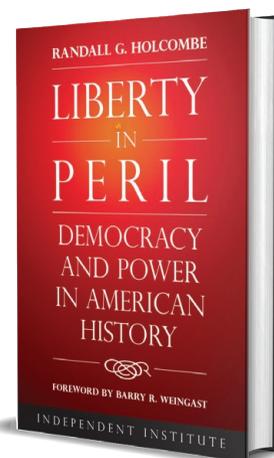
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