

Fantasy v. Reality in the Federal Budget

By Max Holland

In case you missed it—and the Bush administration was certainly hoping that you would—the federal government’s operating deficit for 2005 was \$760 billion, or a whopping 138 percent higher than the much more widely reported budget deficit of \$319 billion.

The Bush administration hailed the lesser amount when it was announced last October by the Office of Management and Budget (OMB), largely because at a projected \$319 billion, the budget deficit came in significantly lower than most estimates. But there was no fanfare when the Treasury Department reported the negative \$760 billion net operating cost to Congress in mid-December—not so much as a press release. The Treasury’s figure, contained in the annual *Financial Report of the United States Government*, gives the lie to Bush’s contention that his fiscal policies pose no threat to the nation’s economic well-being and security.

What is the difference between the budget deficit and the net operating figure? They describe virtually the same thing: the difference between what the government spends, and what it takes in, during a given fiscal year. But there is a world of difference in how they are calculated.

The OMB’s budget deficit is based on simple cash accounting, a method appropriate to a business, oh, say, the size of a corner newsstand. In cash-based accounting, an expense is logged only when it’s actually paid. Under the more accurate system, called accrual-based accounting, expenses are recorded when a business becomes obligated to pay them; that reveals the long-term implications of current spending decisions. The necessity of taking into account future obligations is a major reason why under U.S. law every enterprise with more than \$5 million in revenues is required to use accrual-based accounting, and also why David Walker, the U.S. comptroller general, notes that cash accounting paints a “potentially unrealistic and misleading picture of the federal government’s overall performance.”

The government only began releasing an accrual-based budget figure in 1997, after it was mandated by an act of Congress. Getting the vast federal apparatus to abide by the buzz phrase “generally accepted accounting principles” was an enormous undertaking. It wasn’t until 2000, for example, that reliable figures for Social Security and Medicare could be incorporated into the annual *Financial Report*.

When the Bush administration issued its first financial statement in early 2001, it reported a net operating surplus of \$46 billion. Since then, there has been a flood tide of

red ink. Every year the net operating cost has grown larger, exceeding the more widely known OMB figure by hundreds of billions of dollars. In 2005 alone, as noted, the difference was \$441 billion (\$319 billion versus \$760 billion). Looking at it another way, from 2001 to 2005 Bush's spending and tax policies resulted in budget deficits totaling \$1.1 trillion, according to OMB's calculations. The Treasury's accrual-based figure is \$2.9 trillion, or 164 percent larger.

The lion's share of this difference comes from a sober, accrual-based accounting of the long-term costs of the war in Iraq and the global war on terror. In the 2005 *Financial Report*, Treasury Secretary John Snow attributed the \$441 billion increase over the OMB's figure "principally to a \$198 billion increase in Veterans Affairs' actuarial costs," including higher interest rates that will have to be paid because of mounting public indebtedness (from \$5.7 trillion on the day Bush took office to more than \$8.4 trillion today).

Accrual accounting also paints a drastically different portrait of whether Bush's deficits are shrinking or growing ever larger. When the OMB deficit shrank from \$413 billion in 2004 to the lower-than-expected \$319 billion in 2005, the Bush administration touted the reduction as proof that it was reining in government spending, and that it had been justified in pushing for tax cuts. Slashing taxes reinvigorated the economy, the administration said, resulting in increased revenues. But the accrual-based numbers tell a different story. From 2004 to 2005, the net-operating-cost deficit increased from \$616 billion to the aforementioned \$760 billion.

The harsh truth of accrual-based accounting underscores just how reckless the administration is. Lyndon Johnson's guns-and-butter policy during the Vietnam war looks almost prudent juxtaposed against Bush's policy of fighting a major war while cutting taxes necessary to pay for it. Bush has deployed the fiscal equivalent of having an all-volunteer armed forces. Just as the absence of a draft diminishes widespread opposition to military adventures, sloughing off the cost of the Iraq war by citing unrealistic OMB budget numbers defers pressure on the administration. Americans aren't bearing anything close to the economic burden that corresponds to the true cost of the war. Add in budget-busting costs from demographic trends starting in the next decade, and an economic meltdown is on the horizon.

One of the members of Congress to take notice of this legerdemain has been Representative Allen Boyd, Jr. (D-Florida), a member of the Blue Dog Coalition, a group of 37 moderate-to-conservative Democrats. Boyd warns that "viewing the budget through rose-colored glasses" is "an unhealthy and damaging practice that will affect our economy, our standard of living, and ultimately, our national security."