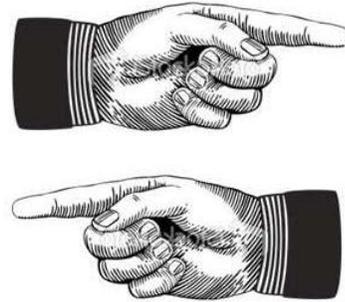


BASELINE BUDGETING


What's up is down!
What's down is up!


**What's so hard
to understand?**

Stephen L. Bakke  March 12, 2013



He went “that-a-way”?

With the sequestration deadline having passed, the White House is under siege by reality. – Wesley Pruden

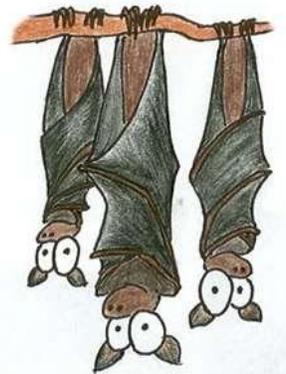
I've been picking apart the facts and issues involved with the “sequester” and related topics – and I keep getting sidetracked. A few days ago I ventured into the topic of minimum wage legislation, a very loosely related topic. Then, a little closer to the subject of sequestration, I found myself attracted to the topic of “baseline budgeting.” We hear the administration talking about cutting spending by almost 2.6 trillion over the next 10 years, and chipping away at the national debt. Yet even the government's own projections show increased national debt well into the future! What is the public to think? They listen to comments such as this, and get confused – for good reason:

Why do [Republicans] want to cut anything? ... The debt is actually starting to go down. We can't have a long run problem. – Democrat strategist James Carville on the national debt, which is over \$16 trillion and projected to have continued growth.

Sometimes when I get frustrated, like I am now on this topic, I look to my “go to” commentator in order to shed some light on the topic:

I must sympathize with and share your frustration SB – but not your confusion because I think I've figured it out. Look into the topic of “baseline budgeting” and you have a fighting chance of removing at least some of the confusion, but the frustration will linger. Anyway, we are now facing a bastardization of all traditional terminology used to explain the U.S. budget, deficit and debt. Reduced means increased;

balanced is bad; equal means higher; less means more; down means up; and draconian spending cuts still result in national debt increases. Everything seems inevitably to mean there will be increases! You might say everything is UPSIDE DOWN! – Stefano Bachovich, obscure but very wise political pundit, and an enthusiastic and prolific purveyor of opinions on just about everything.



How strangely will the Tools of a Tyrant pervert the plain Meaning of Words! – Samuel Adams, 1776

Once upon a time, long long ago permit me to really simplify this!

“Way back when,” President Nixon signed the Congressional Budget Act of 1974 shortly before he resigned the presidency. The law created the Congressional Budget Office which was **charged with determining levels of future spending (currently, the period is 10 years) assuming population growth, inflation, changed demand for programs, and other market tendencies.** The result of this calculation can be referred to as a “current services budget.” The process is known as “**baseline budgeting.**” Increases are automatic!

The intention was that Congress could then use this as one input into the process of creating a new budget. But just for use as a tool. **Yea, right!** As far as I can tell, a presumably well intended law has now morphed into a process, the result of which is a de facto budget – automatic increases if Congress doesn’t act to the contrary. **It biases the system toward perpetual spending increases devoid of the periodic scrutiny any budget process should possess.** The current composite annual increase for the BLB is running about 7%!

Baseline budgeting – is that something like “zero-based budgeting”?

Baseline budgeting (BLB) is “current services budgeting” – **NOT** “zero-based budgeting” (ZBB)! BLB assumes automatic approval of the baseline amount, which is a continuation of the current level of services, without analysis or scrutiny – simplifying the process immensely! Increases (almost always) and decreases (rare) are then measured against the baseline. **ZBB requires that each element of spending be analyzed and justified.** ZBB is hard work, but gives a more objective result!

Given the way BLB is referred to by Obama’s administration, Americans have been lulled into thinking it’s something akin to ZBB. In fact it’s the opposite. ZBB has a bias for generating budget savings and redirecting spending priorities. BLB, on the other hand, is biased in the direction of perpetually increasing spending levels, and keeping wasteful programs and policies in place. **Liberals can increase spending while claiming cuts!**

Here’s an example of the process.

Assume there is a federal agency for furnishing government cafeterias with equipment and furniture. Let’s call it FURGOCEF – pronounce it just like it sounds. Let’s assume the budget in 2013 was a mere \$100 million. Assuming the current average “almost automatic” increase of 7% applies to FURGOCEF, this agency’s budget would be approximately \$107 million in 2014 and approximately \$197 million in 2013. (Remember the BLB now goes out 10 years.) And this can realistically occur almost automatically. That’s what’s been going on in recent years, but in those years the spending has been “enhanced” by those pesky stimulus programs.

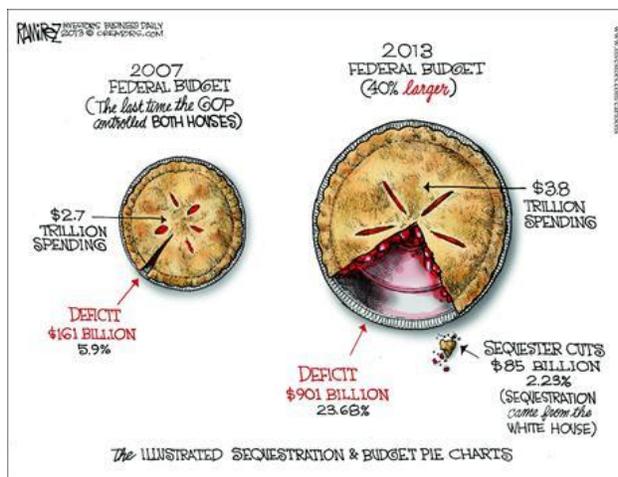
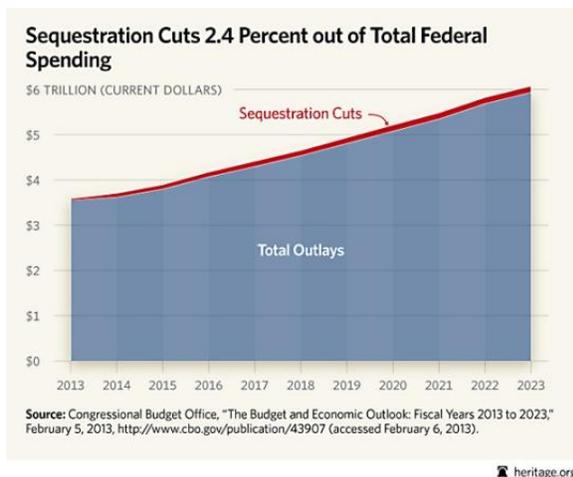
Now, assume it’s March 2013 and the “sequestration” kicks in. It’s reasonable to assume that FURGOCEF will be burdened with approximately a 1% (or less! 2014 will be a bit larger) reduction just for 2013. That means that the government cafeteria program will suffer a reduction to approximately \$106 million in 2013 and perhaps will have to get by with only \$111 million in 2014.

The point here is the Administration's self described "draconian" cuts don't seem so severe when you understand the process and mindset they are working under. **There are no cuts!** There are only reductions below the irresponsible increases that would be in play given the full benefit of the BLB process. **Misleading rhetoric – misrepresentations and lies perhaps – are being thrown at "We the People"! Ridiculous, I say!**

In the significant reading I have done on this topic, I found an example in which the above FURGOCEF budget numbers would be described as being cut by about 10%. How does 1% turn into 10% for some government spin-doctors? They are describing the approximate **percentage reduction in the automatic BLB increase. Ridiculous, I say!**

Show me the draconian cuts!

Here is a chart and an illustration that I found at the Heritage and Townhall websites. Official statistics are used to generate these representations:



Show me the draconian cuts! You can't! **Ridiculous, I say!**

So why is President Obama leading a scare campaign filled with untruths about how sequestration will necessitate firing firefighters, cops, and teachers? I'll tell you why. Because liberals know the Obama tax hikes forced through in January will really hurt the economy. It's preemptive damage control. The President is trying to blame the sequester for the economic problems his tax hikes will spawn. – Jim DeMint, President Select, The Heritage Foundation.

This just in!

Many more confusing signals, terminology, analyses, representations and assurances are popping up all over the place – but you have to pay attention to see many of them. Just as I was getting ready to wrap up this report I came across comments in a newspaper that called for the republicans to stand down - quit this false teaching about excess spending by



the federal government. Too much spending? Nay! Saith he – spending is way too low by what he considered to be a conventional measurement. I thought he was referring to GDP, but then I reread the “letter to the editor” and here is what he wrote:

*We must stop buying Republican propoganda about out-of-control spending and insensitivity toward people losing their jobs. During the Obama administration total government spending has declined as a share of **potential GDP** and lack of spending is a major cause of our less than satisfactory economic recovery.* (Letter to the editor, Ft. Myers News-Press, 3/12/13) ... **Ridiculous, I say!**

Where did this term “potential GDP” come from? Here is what it is to mean, based on a little research on the internet:

[Paraphrased] *Potential GDP is the full value of the country’s capacity – a measure of the real value of the services and goods that can be produced when the factors of production are fully employed. These factors include capital equipment, natural resources, technology, and management – and the most important factor is the supply of labor and workers’ time.*

Think about that a minute. This definition cobbles together a whole bunch of “what ifs” and “might have beens.” It’s a self defining and perpetuating spending increase. This comment **assumes the only way to increase production is by increasing government spending.** “Potential” GDP is a **philosophical concept and one which one can self define**, almost, to make sure more automatic government spending is justified. **It’s circular logic – i.e. failed government spending reduces actual GDP below “potential” GDP, thereby telling us to “throw good money after bad”!**

“Our Nan” speaks out!

Here is another example of recently adopted “govspeak.” Think about where this could lead! Its inherent assumption is that reducing taxes is spending money, thereby implying that it’s the government’s money in the first place. **Ridiculous, I say!**

Tax cuts are spending. Tax expenditures, they are called. Subsidies for big oil, subsidies to send jobs overseas, breaks to send jobs overseas, breaks for corporate jets. They are called tax expenditures. Spending money on tax breaks.
– House Minority Leader Nancy Pelosi (D-CA)

Ridiculous, I say! I must repeat once again this wise and prescient comment:

How strangely will the Tools of a Tyrant pervert the plain Meaning of Words! – Samuel Adams, 1776

Sequester is a large topic which I will continue to review and comment on.