

# Researchers suggest ways to reduce wasteful government spending

Hemali Chhappia, TNN | Jan 21, 2014, 04:29 PM IST



MUMBAI: Researchers from The University of Chicago Booth School of Business and Harvard University recently conducted a research that can help governments of developing and developed nations avoid wasteful spending. Professors at the universities have suggested a simple change that could lead to more responsible [fiscal decisions](#).

As in public-sector spending cycles around the world, most US federal agencies must use all of their discretionary budgets before the end of the fiscal year or return the unused portion back to the Treasury. If the US Congress interprets the return of funds as a sign that the established budget is too large, lawmakers could cut the federal agency's budget in the following fiscal year. Consequently, agencies today have an incentive to spend any money left in their budgets, regardless of whether or not such spending is justified.

Neale Mahoney, Assistant Professor of Economics at The University of Chicago Booth School of Business and Jeffrey Liebman, Malcolm Wiener Professor of Public Policy at the John F. Kennedy School of Government, Harvard University, have noted that many organizations have budgets that expire at the end of the fiscal year. Faced with uncertainty over future spending demands, these organizations have an incentive to build up a rainy day fund over the first part of the year. If demand does not materialize, they must rush to spend these resources on low quality projects at the end of the year.

Their research points to a positive example of the rollover effect at the US Department of Justice (DOJ), which in 1992 obtained special authority to roll over unused funds from its IT budget, up to 4 per cent of annual revenue, into the following year. The research discovered that the year-end spending on IT projects at the DOJ is now considerably lower than non-IT spending at the department as well as the year-end IT spending at other agencies. Additionally, they have found that that DOJ's year-end IT spending did not drop in quality.

The authors observe, "To reduce [wasteful government spending](#), we suggest agencies be allowed to roll over unused funds into the next fiscal year and Congress not use these funds as a gauge by which to reduce future budgets. Congress also should commit to preserving in future budgets the amount of money rolled over. Without these commitments, agencies are likely to reject the rollover option."

The researchers tested these predictions using data on procurement spending by the US federal government. Using contract-level data on a near-universe of federal contracts, they documented that spending in the last week of the year is 4.9 times higher than the rest-of-the-year weekly average. Using a newly available dataset that tracks the quality of \$130 billion in information technology (IT) projects, they showed that quality scores for year-end projects are 2.2 to 5.6 times more likely to be below the central value. Allowing agencies to roll over unused funding into the subsequent year can improve efficiency.

The researchers calibrated a dynamic model of spending and showed that allowing rollover leads to welfare gains of up to 13 per cent, and that intermediate policies can achieve a large portion of these gains. They documented that the one federal agency that has the ability to roll over unused funding for IT projects does not exhibit a year-end spike in spending or drop-off in quality in this category of spending.

[Post a comment](#)

## More from The Times of India

- [Rs 1.8cr gold seized from 9 flyers in a night](#) 20 Jan 2014
- [Woman, schoolgirl raped, killed](#) 17 Jan 2014
- [Dubai rape: Fashion designer shamed into silence for 6 months](#) 14 Jan 2014
- [Toll effect: BOT plan for pipeline project scrapped](#) 15 Jan 2014
- [Social groups oppose privatization in PMC](#) 27 Dec 2013

## From Around the Web

- [The 10 Worst Hotels and Motels in America](#) The Fiscal Times
- [Man's crazy Indiana driver's license pic goes viral](#) USA TODAY
- [HIV Positive: The Toughest Countries in the World to Live in](#) TheBody.com
- [A Republican Who Could Actually Win The Presidency](#) The Fiscal Times
- [Experts: Brain-Dead Teen's Body Is Deteriorating](#) V103

Recommended by

**Other Times Group news sites**

[Times Crest](#) | [The Economic Times](#)  
[इकनॉमिक्स टाइम्स](#) | [उद्योगोभिः टाइम्स](#)  
[Pune Mirror](#) | [Bangalore Mirror](#)  
[Ahmedabad Mirror](#) | [ItsMyAscent](#)  
[Education Times](#) | [Brand Capital](#)  
[Mumbai Mirror](#) | [Times Now](#)  
[Indiatimes](#) | [नवभारत टाइम्स](#)  
[महाराष्ट्र टाइम्स](#) | [മിടിയം](#) [മലയാളം](#)  
[Go Green](#)

**Living and entertainment**

[Timescity](#) | [iDiva](#) | [Entertainment](#) | [Zoom](#)  
[Healthmeup](#) | [Luxpresso](#) | [Gadget Reviews](#)  
[Guylife](#) | [Online Songs](#)

**Interest Network**

[itimes](#) | [Email](#)

**Hot on the Web**

[World](#) | [Politics](#)  
[Business](#) | [Sports](#)  
[Entertainment](#)  
[Science & Tech](#)  
[New Cars](#)

**Services**

[Book print ads](#) | [Online shopping](#) | [Free SMS](#) | [Website design](#) | [CRM](#) | [Tenders](#)  
[Matrimonial](#) | [Ringtones](#) | [Astrology](#) | [Jobs](#) | [Tech Community](#) | [Property](#) | [Buy car](#)  
[Bikes in India](#) | [Deals](#) | [Free Classifieds](#) | [Send money to India](#) | [Used Cars](#)  
[Restaurants in Delhi](#) | [Movie Show Timings in Mumbai](#) | [Remit to India](#) | [Buy](#)  
[Mobiles](#)  
[Listen Songs](#) | [News](#) | [Real Estate Developers](#)

**Trending Topics**

[Yahoo](#) | [Photogallery](#) | [You Tube](#) | [Gold Price](#) | [Twitter](#) | [Irctc](#) | [Renault Duster](#) |  
[Yoga](#) | [Aadhar Card](#) | [Facebook](#) | [Poonam Pandey Photos](#)