

FIELD NOTES FOR THE CEO · DEPLOYMENT STRATEGY

Use It or Lose It

Why a budget that expires on a fixed date pays for a rush in its last week, who carries the bill, and the rule a CEO can change

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Cover: Paolo Uccello, Saint George and the Dragon, about 1470

The argument in one page

When a budget expires on a fixed date, the rule decides who pays for the rush.

In US federal procurement, from 2004 to 2009, 8.7% of the year's spending was committed in its last week, where an even spread would put 1.9%, and the IT projects started that week were rated worse. At the Department of Justice, which could carry part of its IT money into later years, the IT rush nearly disappeared. My reading: the person rushing is not necessarily the one who pays. The bill goes to whoever inherits what was bought.

1. **The quality drop is not explained by which offices buy badly.** It stayed about the same size within offices, in the 41% of projects whose office is known. The authors point to the rule: expiring money costs nothing to spend, so a careful manager holds a reserve all year and spends it at the close.
2. **One exception points at the rule.** The department's other spending peaked like everyone else's; only the money it could carry over did not.
3. **The step for a CEO is to change the rule, not to preach.** Find the rules that pay for a rush, such as a quarter-end target or a project budget that ends at go-live, and who carries what each causes. Then change what the date does to the money.

> "...the opportunity cost to organizations of spending about-to-expire funds is effectively zero."
> *Liebman and Mahoney, NBER Working Paper 19481, revised 2018*

The last week of September

The US federal fiscal year closes on September 30, and most discretionary money not committed by then can no longer fund new contracts. The economists Jeffrey Liebman and Neale Mahoney looked at the dates of 14.6 million federal purchases, from 2004 to 2009. Spread evenly, each week would carry 1.9% of the year's spending. The last week carried 8.7%, nearly five times the other weeks' average, and nearly every major agency spiked.

Then they asked whether the rush buys worse. For 686 major IT projects, the government keeps a rating that combines the agency CIO's assessment with data on cost and schedule. Projects started in the last week had 2.2 to 5.6 times the odds of a lower rating, depending on the controls. The obvious alibi, that the worst buyers leave their contracts for last, found no support: within the same contracting offices, the drop stayed about the same size. The check covers the 41% of projects with a known office, and its weighted version is imprecise.

As the authors recount, agency representatives at a 2006 congressional hearing admitted to a "use-it-or-lose-it" mentality. I read it as a rule with a date on it, not a mentality.

One department that could keep it

In 1992 the Department of Justice obtained a special authority: it could move unspent balances, up to 4% of annual revenue, into a fund for IT and related projects, usable for up to five years. From 1994 to 2006 it carried over $1.8 billion this way.

The rest of its spending kept the federal habit, with 9.3% in the last week. Its IT spending did not: 3.4%, against 1.9% for an even year and 12.1% for IT at the other agencies. Same department, same calendar, a different rule for one kind of money.

On quality the evidence is thin, and the authors say so. The volume result rests on thousands of contracts; the quality result rests on one project. Of the department's 15 IT projects in the rating data, only one started in the last week.

The fix has a weak point, and the authors name it. The department may still worry that the money will be taken back: in 2008, a senator's report criticized it for rolling unspent money over instead of returning it. In their model, if next year's budget is cut by every dollar carried over, nobody has a reason to carry one. And unless savings stay with the part of the organization that made them, every part still has reason to spend all it has.

Which rule pays for the rush?

For each rule that closes on a date, ask who carries what it causes.

THE RULE	WHO PAYS FOR WHAT IT CAUSES, AND WHAT TO ASK
A budget that expires at year-end	Whoever runs the last-week purchases. Compare your final week's share of spending with 1/52 (1.9%); federal agencies committed 8.7% in theirs
A volume target that closes at quarter-end	The warehouse, in overtime, and next quarter, in pulled-forward demand. Ask: what share of the quarter shipped in its last week, and what drops next quarter?
A project budget that closes at go-live	The operation, which pays for the fixes. Ask: whose budget pays for the first year after go-live?
A unit keeps only part of what it does not spend	Still some rush: in the authors' model, keeping less than all of it leaves a reason to buy what is worth less than it costs. Ask: what share does a unit keep?

Two changes a CEO can make.

1. **Let some money outlive the date.** A grace period, or a carry-over fund for one category. In the authors' model, four months of grace capture 90% of the gain from full carry-over.
2. **Do not take it back.** The unit keeps all it saved, up to a cap and for a fixed term, like the department's 4% and five years, and next year's budget is not cut for it.

Not a change: the year-end memo on thrift. It changes how the rush feels, not what the rule pays.

What this does not prove

- **It is one government, years ago.** US federal procurement from 2004 to 2009, about 15% of federal spending. None of it is a company. To the authors' knowledge, theirs was the first economic analysis of wasteful year-end spending, in government or in a private organization.
- **Quality was measured in one category.** The ratings cover 686 major IT projects that were still active, rated partly by the agencies' own CIOs.
- **The exception is one department and one kind of money.** Its quality result is a single project. The grace-period figures come from a model calibrated to federal data, not from a company that tried it.
- **The deadline has uses.** The authors note that it may give Congress more control and push out projects that would otherwise languish. As I read the picture, it shows both tools, but only the leash holds a dragon that is already wounded.
- **The company rows are mine.** Quarter-end targets and project budgets are my reading of the same rule. This applies only where your budgets truly close on a date and the unspent balance cannot be recovered.
- **This argument fails if** companies that let budgets carry over, without cutting the next one, show the same last-week spike and the same drop in quality.

One question for your next budget review. Ask what happened last year to the manager who came in under budget. If the answer is "the money went back, and so did part of next year's budget", you may be paying for a rush.

About the author

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I grew up on a sheep ranch in Patagonia, where my father's rule was simple: reading is worth nothing if you can't see it on a working day. I still work by it: I measure before I cut, and no tool or method beats what works on the floor.

Thirteen years in Chile, Argentina and Australia taught me that supply chain is not just logistics: it is the whole pipeline, which is why it ends up putting out fires that start elsewhere. A promotion planned in marketing becomes expedited orders in purchasing and a blocked aisle in the warehouse. I would rather find where the leak starts. On one gemba walk, mixed, short and damaged orders led back to a per-operator productivity KPI tied to a bonus; I retired the metric and measured customer satisfaction instead.

I have worked most of that pipeline: planning for more than 200 stores, a three-site logistics operation, a USD 30M cross-border e-commerce P&L and a 50,000-SKU warehouse-system cutover, where I stayed on the floor until the shortcuts died and order processing time fell 20%. Deployments live or die inside that pipeline, and that is where I work. I learned to code in C; today I build with AI coding agents, keeping the math and the rollback in my hands.

Available for pre-cutover forensic audits, deployment strategy, and Forward Deployed roles.

From my manuscript, *The Deployment Chasm*.

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Sources

- Liebman, J. B., and N. Mahoney. 2017. "Do Expiring Budgets Lead to Wasteful Year-End Spending? Evidence from Federal Procurement." *American Economic Review* 107(11): 3510–3549. doi.org/10.1257/aer.20131296. Author version: NBER Working Paper 19481, revised January 2018, nber.org/papers/w19481.

Image. Public domain: Paolo Uccello, *Saint George and the Dragon*, about 1470. National Gallery, London. George brings a lance and the princess a leash. Nobody in the picture lectures the dragon.