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## WHAAP'd Out

**When it comes to accountability and accounting, the White House is making Corporate America look good**

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**WEB EXCLUSIVE**

**By Allan Sloan**  
Newsweek  
Updated: 12:35 p.m. ET Feb. 15, 2005

Feb. 15 - We're in our fourth year of post-Enron corporate scandals, with no end in sight. Barely a month goes by without a new scandal, or a new trial from an old scandal. But there's good news to report for business—on the public relations front, that is. It's that Congress and the White House have managed the seemingly impossible: When it comes to accountability and accounting, they're making corporate America look good.

On the accountability front, Hewlett-Packard's board fired chief advertisement executive [Carly Fiorina](#) last week for constantly missing profit projections and for failing to get results from the \$24 billion purchase of Compaq Computer. On the accounting front, former WorldCom chief executive Bernie Ebbers and former HealthSouth chief executive Richard Scrushy spent last week on trial for their alleged roles in promoting phony numbers to the investing public, and face jail time if they lose.

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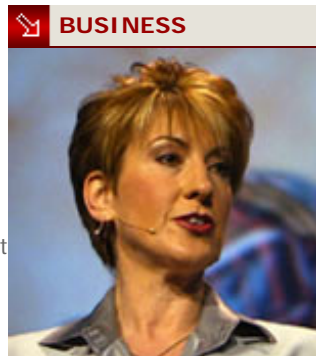
- [Sloan: It's Prime Time for Takeovers](#)  
A look at who wins--and who loses--in the latest round of corporate takeovers
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The Jobs Creation Act created an enormous loophole.

plan. And it looks like there will be no penalty at all assessed on the White House for last week's budget numbers, which seem to have been drawn up in fantasyland.

In fact, the White House crunches numbers in such a unique way that it takes a new accounting method to describe them. Corporations report numbers based on GAAP: generally accepted accounting principles. But the numbers crunchers at 1600 Pennsylvania Ave. use WHAAP: White House accepted accounting principles. Under these rules, numbers are presented

While Fiorina, Ebbers and Scrushy are being called to account, no one in Congress or the White House is being held responsible for the cost explosion in President Bush's Medicare prescription drug



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in the most favorable—or least unfavorable—way.

Some examples. In 2001, the Bushies used WHAAP to declare that their tax cuts would cost \$1.3 trillion over 10 years. That number, though, assumed that the cuts would expire in their 10th year. No one thought that would happen, but the stated cost stuck anyway. They played a similar game to low-ball the cost of the 2003 cuts, by assuming all sorts of tax cut phase-ins and phase-outs.

WHAAAP works on the spending side, too. In 2003, you may recall, Bush pitched his prescription drug plan as costing \$400 billion over 10 years. Last week, though, even the fuzzy-math crew at the White House showed a 10-year cost of \$720 billion. That's an 80 percent increase. Look a few years out, and \$1 trillion looms.

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To students of WHAAP, this isn't a surprise. One way Bush got to his 10-year cost of \$400 billion was by including two zero-cost years, because the plan doesn't start until 2006. When updated numbers came out last week, those two years had been replaced by two years in which the program will be in full effect. Same plan, different period, way different number.

One way that you can tell that nothing much has changed about the program's 10-year cost other than the period being measured comes from calculations produced by Jagadeesh Gokhale of the Cato Institute and Kent Smetters of the University of Pennsylvania's Wharton School.

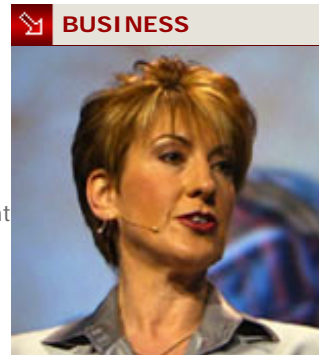
Last week, they said the drug program's shortfall over what numbers crunchers call an "infinite horizon" is \$17.6 trillion, up from the original \$17.2 trillion. Smetters told me that increase, less than 3 percent, stems from interest calculations rather than any change in the program.

(An aside: Yes, I've been wary of infinite-horizon numbers because nothing, especially a government program, is forever. I'm using them here just to underscore how there's been no fundamental change even though the 10-year number has risen by 80 percent.)

This Medicare fiasco is a cautionary tale about taking White House numbers at face value. Do that and you're likely to get WHAAPed, big-time, when real numbers finally emerge. Sooner or later, they always do.

The budget numbers the White House released last week are WHAAP at its worst. It's now widely recognized that those numbers assumed no expenses for Iraq and Afghanistan after next year, no cost for fixing the alternative minimum tax, no cost for privatizing Social Security. And they're using a five-year time horizon rather than the conventional 10-year horizon because the shorter-term numbers look better.

Now, let's flip back to corporate America, Washington's whipping boy. Do you think any corporate chief financial officer in her right mind would sign



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off on such numbers? No way. And any CEO who certified them would be well-advised to immediately hire a defense lawyer, because he'd be virtually certain to face charges under the Sarbanes-Oxley corporate reform act.

Congress passed Sarbanes-Oxley to make corporations produce honest numbers and assume responsibility for their actions. These requirements, however, don't apply to Congress or the White House. Too bad. If they did, we might get some honest debate and honest math in Washington. And, at the very least, we would no longer have to deal with numbers that are totally WHAAPed out.

Sloan is Newsweek's Wall Street editor. His e-mail address is [sloan@panix.com](mailto:sloan@panix.com).

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