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THE FEDERAL BUDGET PROCESS

A BRIEF HISTORY OF BUDGETING IN THE NATION'S CAPITAL

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The U.S. Constitution vests the Congress with key fiscal powers. These powers, often referred to as ''the power of the purse,'' derive from Article I, Section 8 of the Constitution. The Constitution lists the power to lay and collect taxes and the power to borrow under the jurisdiction of Congress; further, it provides that funds may be drawn from the Treasury only pursuant to appropriations made by law.

The Constitution does not state how these legislative powers are to be exercised, nor does it expressly provide for the President a specific role in the management of the nation's finances. The Constitution thus ensures a role of pivotal importance for Congress in federal budgeting by requiring that funds can only be raised, borrowed, and spent through the enactment of legislation.

Legislative History

Prior to the enactment of the 1974 Congressional Budget Act (formally the Congressional Budget and Impoundment Control Act of 1974), congressional budgeting was mainly handled in a piecemeal fashion – in the House, mostly by the Appropriations and Ways and Means Committees – and generally in response to the President's proposals.

Today's budget process is the product of a continuing evolution that began at least three decades before the Budget Act. Early in the 20th century, the rise in federal spending and budget deficits led Congress to seek a more coherent means of making financial decisions. The Budget and Accounting Act of 1921 established the executive budget process and remains the statutory basis for the current presidential budget system today.

The 1921 Act required the President to submit to Congress annually a proposed budget for the federal government. It also created two new federal agencies: the Bureau of the Budget (later renamed the Office of Management and Budget, or OMB) to assist the President in carrying out his budgetary responsibilities; and the General Accounting Office, or GAO (later renamed the Government Accountability Office), to assist Congress as the principal auditing agency of the federal government.

Congress attempted to consolidate budgetary procedures in 1946 with the Legislative Reorganization Act. The act included a two-sentence budget reform section calling for the spending and tax committees of the House and Senate to report a budget resolution by February 15. The resolution was to establish a revenue total and a spending ceiling to govern taxing and spending for the coming fiscal year, which at that time started on July 1.

The first budget debate under the procedure triggered disputes between President Truman and congressional Republicans, who had won majorities in the House and Senate in the 1946 elections. When the House and Senate conferees met, they could not agree on a compromise budget resolution, and the government went through the year without a budget, relying instead on guidance from President Truman's requested spending levels. Some members of Congress feared that dependence on the executive budget had bolstered the President's fiscal powers at the expense of Congress.

The following year, Congress succeeded in writing a budget conference report – but without much effect. Essentially, this became the first congressional budget resolution – and the first to be ignored. Congress proceeded to enact individual spending and tax bills just as it always had, without regard for the constraints outlined in the budget resolution. Spending for FY1949 wound up being approximately $3 billion more than the budget resolution had allowed. Shortly thereafter, the budget process fell into disuse. The ineffective 1946 reforms were repealed in 1970.

The Congressional Budget and Impoundment Control Act of 1974

In the early 1970s, concerns with executive power, coupled with rising levels of government spending and borrowing, again fueled calls for a comprehensive approach to the congressional budget process. Legislative mistrust of the President emboldened Congress to challenge executive-branch recommendations. Widespread concern over national priorities inevitably led to conflicts over budget priorities. The central purpose of the budget process established in the 1974 Congressional Budget Act was to coordinate the various revenue and spending decisions, which are manifested in separate revenue, appropriations, and other budgetary measures.

In addition, President Nixon frequently "impounded" funds that Congress had appropriated. In other words, the Nixon administration often refused to spend money on programs as appropriated by Congress. Impoundment was a traditional power exercised by many Presidents from the beginning, but Congress was concerned about the unprecedented scale of the Nixon Administration's application of this power. This action also arguably circumvented the veto process to block acts of Congress. Hence a significant component of budget reform was its restriction on the President's impoundment authority.

The Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344, 88 Stat. 297) (Congressional Budget Act) established the statutory basis for a congressional budget process and provided for the annual adoption of a concurrent resolution on the budget as a mechanism for facilitating congressional budgetary decision-making. It also established the House and Senate Budget Committees and created the Congressional Budget Office (CBO) to provide budgetary information and analysis to Congress independently of the executive branch. The Congressional Budget Act coordinates legislative activities on the budget resolution, appropriations bills, revenue measures, reconciliation legislation, and other legislation with budgetary effects. In addition, Section 300 of this act provides a timetable intended to ensure that Congress completes its work on budgetary legislation by the start of the fiscal year on October 1.

Budget Process Reform Since 1974

Growing deficits in the 1980s led to the adoption of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) (Gramm-Rudman). Gramm-Rudman established the sequester as a tool to enforce statutory deficit limits. This act sought to restore a balanced budget by requiring the achievement of shrinking deficit levels each year until deficits were eliminated. The declining deficits were to be enforced by automatic across-the-board spending cuts – known as "sequesters" (further discussed under "Enforcing Spending Limits") – if Congress failed to hit its targets.

In 1987, Gramm-Rudman was revised to meet two major problems. First, in the original version, the measure gave authority over sequesters to the head of the GAO, the Comptroller General, a legislative branch official. The Supreme Court ruled this to be an unconstitutional vesting of executive authority in the legislative branch. Therefore, the 1987 Deficit Reduction Act assigned the sequester authority to the President. Second, the deficit targets were adjusted because Congress viewed the existing targets as unrealistic.

By 1990, the size of the sequesters needed to meet deficit targets again appeared too daunting. This led to a major budget compromise between President Bush and a Democratic Congress in the Omnibus Budget Reconciliation Act of 1990, which included the Budget Enforcement Act of 1990 (Title XIII of P.L. 101-508) (BEA).

The act effectively replaced fixed deficit limits for 1991-1995 with two new statutory enforcement mechanisms: pay-as-you-go (PAYGO) and caps on discretionary spending. These enforcement provisions were renewed several times but expired in 2002.

- *Pay-As-You-Go [PAYGO].* Essentially, this required (1) that any legislation increasing direct spending had to be offset by reductions in other direct spending, by increases in revenues, or through a combination of both; and (2) that any legislated reduction in revenues had to be offset by increases in other revenues, reductions in direct spending, or a combination of both. This requirement was enforced through sequestration.
- *Spending Caps.* The BEA replaced the deficit targets with five-year caps on discretionary spending. These caps set an overall limit on total discretionary spending, i.e., spending subject to annual appropriation.

Under these mechanisms, the budgetary impact of all legislation was scored by OMB and reported three times each year (a preview report with the President's budget submission in February, an update with the Mid-Session Review in August, and a final report 15 days after each session of Congress adjourns). If the final report indicated that statutory limitations had been violated, the President was required to issue an order making across-the-board cuts of nonexempt spending programs. These mechanisms expired at the end of FY2002. The first extension in 1993 revised the caps after three years. The Balanced Budget Act of 1997 (P.L. 105-33) (BBA) extended the existing BEA structure for several more years. The caps and PAYGO procedures extended by BBA expired at the end of FY2002. The second extension lasted longer, and the caps were largely adhered to from Fy1994 to FY1997 until the budget was balanced in FY1998.

In 2010, as part of a bill increasing the debt ceiling, Congress restored a modified version of the PAYGO requirement from the 1990 BEA. Statutory PAYGO (P.L. 111-139) attempts to require budget neutrality for new revenue and direct spending legislation. Statutory PAYGO uses the sequester process from the expired BEA. It expanded the list of direct spending programs exempted from sequestration or subject to special rules to limit the effect of a sequestration. (Over 90 percent of mandatory spending is either exempt from sequestration or operates under special rules that limit reductions to those programs.) Additionally, the law excluded any costs from any provision designated as an emergency (among other specified categories) from having to meet the budget-neutrality standard. It included a complicated mechanism to accommodate the extension of selected spending and tax policies. For a variety of reasons, Statutory PAYGO has been ineffective.

The Budget Control Act of 2011

On August 2, 2011, Congress passed and the President signed the Budget Control Act of 2011 (P.L. 112-25) (BCA), which authorized increases in the debt limit of at least $2.1 trillion dollars (and up to $2.4 trillion under certain conditions), subject to a disapproval process. The BCA reestablished discretionary spending caps to apply to FY2012-FY2021 and created a Joint Select Committee on Deficit Reduction instructed to develop a bill to reduce the federal deficit by $1.5 trillion over ten years.

The BCA includes two separate sequester enforcement mechanisms (amending the procedure set forth in the BEA). These sequesters would enforce (1) the discretionary spending limit and (2) any amount of additional deficit reduction required under the act not enacted by January 15, 2012 through a measure authored by the Joint Select Committee on Deficit Reduction. Because the Joint Committee did not produce a bill to reduce the deficit, additional deficit reduction of $1.2 trillion is scheduled to take place beginning in 2013 as a result of the second sequester enforcement mechanism.

How the Process Works Today

A comprehensive budget suggests a review of how spending is allocated among the various activities of the government and what trade-offs are involved. This requires Congress to take responsibility for setting priorities. An effective and comprehensive budget process would review the current allocation of spending, weigh priorities and trade-offs, and prioritize spending within available revenues. That is not how the budget process works today. Over 60 percent of spending is on automatic pilot; debates focus on changes to the "baseline" instead of asking agencies to live within budget limits; and the annual budget resolution, when adopted, does not have the force of law. Congress's accountability for fiscal issues usually resides in voting on an increase in the debt limit when the choices are stark: Either continue to fund an uncontrollable fiscal situation or default on the federal government's obligations. Most of the annual budget debates revolve around these issues. Without passing a concurrent budget each year, Congress does not make these hard decisions, and priorities are determined on an ad-hoc basis rather than after orderly consideration.

The annual budget Congress develops takes the form of a "concurrent" resolution. To take effect, it must pass both chambers of Congress in the same form, but it does not have the force of law. The budget resolution divides spending according to technical categories called "budget functions." These categories, for the most part, reflect major activities of the government, including national defense, Social Security, Medicare, veterans' benefits, etc. Within the budget framework, the categories are mainly conceptual, reflecting how Congress envisions an allocation of spending, as well as congressional priorities for the major programs in the government.

The "budget function" distribution works in two ways. First it shows where the major spending demands lie. Second, it provides a framework in which Congress can propose altering the trajectory of spending in various programs, according to congressional priorities. The functional categories in a budget resolution are non-binding. They are not enforced and are not directly linked to the allocations of budget authority provided to committees. The functions are a guide for evaluating subsequent specific decisions within the context of the overall budget.

The current budget-function arrangement has often been criticized for its apparent complexity and for generating controversy over levels that are not binding. From the early days of the Budget Act, the budget functions drew criticism because they were not directly related to the amounts committees could actually spend. This led to confusion, which led to the creation of committee allocations.

But the functions do provide a guide for how the resolution envisions the distribution of federal spending, reflecting a comprehensive consideration of how overall funds ought to be allocated to address congressional priorities.

A Work Plan for Congress

Because the budget affects most of the legislative activity Congress undertakes, it serves two functions.

- First, the budget allows Congress to examine the macroeconomic impact of federal spending-related priorities for the year. These include fiscal, revenue, deficit, and debt levels, looking at the impact of federal spending, tax, and borrowing decisions in the aggregate.
- Second, the budget process provides a mechanism for establishing priorities and setting a work plan for Congress to achieve its fiscal goals. For example, the process includes a general schedule for the adoption of appropriations bills. When reconciliation is employed, the budget resolution includes a timetable under which authorizing committees are to act.

Although the budget and work plan are flexible, the budget is the only legislative vehicle that operates though an entire session of Congress. In this way, it can serve as a tool for the House and Senate leadership to reinforce their work plans for the session.

Setting Spending Limits

Budgeting is meaningless without an overall limit on spending. The budget process is not designed to determine, by itself, the appropriate level of total spending. Instead, it is designed to *apply* and *reinforce* the fiscal policy through its aggregate levels of spending, revenue, surpluses/deficits, and debt.

Implementing Spending Limits

The budget resolution represents an agreement between the House and Senate concerning A) the overall size of the federal budget, and B) the general composition of the budget in terms of functional categories. Because budget functions do not link directly to budget authority provided to committees, they are "crosswalked" into allocations to the authorizing and appropriations committees. The allocation procedure is spelled out in Section 302(a) of the Congressional Budget Act. Legislation considered by the House and Senate must be consistent with these allocations, as well as with the aggregate levels of spending and revenues. Both the allocations and aggregates are enforceable through points of order that may be made during House or Senate floor consideration of such legislation. These allocations are supplemented by nonbinding assumptions concerning the substance of possible budgetary legislation included in the reports from the Budget Committees that accompany the budget resolution in each house.

For an authorizing committee, an allocation is, by default, the expected amount assuming no changes in current law that will be spent by the federal government on mandatory programs in the committee's jurisdiction. The budget resolution passed by the House (H. Con. Res. 34) lowered the budget authority for most authorizing committees, requiring the committees to enact reductions in spending to be in compliance with their 302(a) allocations. However, under current budget rules, there is no requirement that committees come into compliance, only that they do not report legislation that would move the committee further from compliance.

For the Appropriations Committee, the budget resolution provides a single allocation of discretionary budget authority, which section 302(b) of the Budget Act requires the appropriators to subdivide among their subcommittees. These suballocations are to be made "as soon as practicable after a concurrent resolution on the budget is agreed to." Because each subcommittee is responsible for developing a single general appropriations bill, the process of making suballocations effectively determines the spending level for each of the regular annual appropriations bills. Legislation (or an amendment) that would cause the suballocations made under section 302(b) to be exceeded is subject to a point of order. The appropriations committees can (and do) issue revised subdivisions over the course of the appropriations process to reflect changes in spending priorities effected during floor consideration or in conference.

Enforcing Spending Limits

There is just one sufficient condition for enforcing budget limits: the will of Congress to live within the budget it has imposed on itself. If Congress wishes to abide by the limits, the budget process and its enforcement provisions can work. If Congress does not have the political will to abide by or pass a budget resolution, the process cannot force Congress to exercise self-discipline. Enforcement provisions in the budget process can make it more difficult to exceed spending limits, and they can provide incentives to maintain fiscal discipline. But the process alone is no substitute for political will.

Congressional Budget Limits: As noted, each committee in Congress is provided an amount of budget authority pursuant to the annual budget resolution. These levels are enforced through points of order set forth in the

Congressional Budget Act. Any reported bill that exceeds the levels provided for in the budget resolution is subject to a point of order and – if a single member raises the point of order and is sustained – may not be considered on the floor. (Points of order may, however, be waived by the Rules Committee.)

Statutory Spending Limits: From the mid-1980s through the end of the FY2002, the Congress and the President had budget controls written in law and enforced through automatic spending cuts. These budget controls, toward the end of their existence, were routinely circumvented (either turned off or adjusted upward) by both Congress and the administration, further demonstrating the importance of political willpower in making the process work. As discussed above, the recently enacted Budget Control Act implemented statutory discretionary spending caps enforced by a sequester. These caps will be further adjusted downward to make up for the savings not achieved by legislation from the Joint Select Committee on Deficit Reduction.

Discretionary Spending Caps: When first established in 1990, the caps on annual appropriations were set for five years. However, Congress was unable to adhere to the spending limits. The first extension in 1993 revised the caps after three years. The second extension lasted longer, and the caps were largely adhered to from FY1994 to FY1997. The cap for FY1998 was replaced by a new cap during the extension of the Balanced Budget Act of 1997. This extended the cap regime through FY2002. During this period, the discretionary cap was ineffective as a tool for controlling discretionary spending.

PAYGO and Sequesters: As noted previously, PAYGO requires that legislation increasing direct spending or reducing revenues be offset by other direct spending reductions or revenue increases. The balance of increases and decreases was recorded and updated throughout the year on what is known as the PAYGO "scorecard." If the scorecard showed a deficit at the end of the year, a sequester would be applied.

Problems arose with respect to the original PAYGO statute. When it was first established, deficits were a chronic problem. In the final years that PAYGO was in effect, substantial reductions in revenue and increases in direct spending occurred. During this time, Congress would periodically set the scorecard back to zero to avoid large sequesters, once again demonstrating the critical importance of political will. When a large balance remains on the scorecard, it becomes an ineffective tool for enforcing fiscal discipline. The magnitude of the sequester that would be required to erase a large balance is generally viewed as unrealistic: When the original PAYGO scorecard was reset to zero for the final time, the balance stood at $571 billion over five years.

Reconciliation

One of the purposes of the original 1974 Act was to provide greater control over what was then known as "backdoor" spending, more commonly referred to now as "entitlement," "mandatory," or "direct" spending. The Budget Act includes 1) committee-by-committee limits, or allocations, on legislation that would increase direct spending, 2) a reconciliation process to expedite the consideration of entitlement savings, and 3) special rules to limit the creation of new or expanded entitlements. Currently, the principal means of addressing entitlements is reconciliation.

Reconciliation provides Congress with a special procedure to give expedited consideration to bills enacting the entitlement, revenue, and debt policies contained in the budget resolution. Though its original intent was to help move bills that reduced spending and increased taxes, in recent years new mandatory spending and revenue decreases have moved under these procedures. Like the committee allocations, reconciliation is not program- or policy- specific. Instead, it calls on various committees to achieve specified amounts of savings in programs within their jurisdictions. The committees choose which programs to address and which policies to adopt.

However, the savings called for are usually likely to imply certain programs because of the committees involved and the magnitude of savings required. Customarily, the budget resolution also reflects these program assumptions through recommended levels in the budget functions. The Budget Act dictates that a reconciliation

bill must cause “changes” in revenue or spending; the law does not specify spending reductions or revenue increases. It is up to the committees how they achieve those changes or savings. (In addition to tax reduction in 1997, 2001, and 2003, there have been spending increases included in reconciliation bills as well, e.g., the recently enacted Affordable Care Act, which resulted in increased spending, as well as the State Children’s Health Insurance Program included in the Balanced Budget Act of 1997.)

Conclusion

The current budget process reflects prior attempts to improve it and to increase congressional control over the budget. Over time, well-intentioned reforms have broken down,and the process has lost effectiveness, particularly in the area of spending control. To implement reforms, policymakers should take stock of experience and consider the implications of the budget process both for policy and for the practical operations of Congress.

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.

APPENDIX

The Congressional Budget Process Timetable	
Date	**Action**
First Monday in February	President submits budget to Congress.
February 15	Congressional Budget Office submits economic and budget outlook report to Budget Committees.
Six weeks after President submits budget	Committees submit views and estimates to Budget Committees.
April 1	Senate Budget Committee reports budget resolution.
April 15	Congress completes action on budget resolution.
May 15	Annual appropriations bills may be considered in the House, even if action on budget resolution has not been completed.
June 10	House Appropriations Committee reports last annual appropriations bill.
June 15	Congress completes action on reconciliation legislation (if required by budget resolution).
June 30	House completes action on annual appropriations bills.
July 15	President submits mid-session review of his budget to Congress.
October 1	Fiscal year begins.

The Executive Budget Process Timetable	
Date	**Action**
Calendar Year Prior to the Year in Which Fiscal Year Begins	
Spring	OMB issues planning guidance to executive agencies for the budget beginning October 1 of the following year.
Spring and Summer	Agencies begin development of budget requests
July	OMB issues annual update to Circular A-11, providing detailed instructions for submitting budget data and material for agency budget requests.
September	Agencies submit initial budget requests to OMB.
October-November	OMB staff review agency budget requests in relation to President's priorities, program performance, and budget constraints.
November-December	President, based on recommendations by the OMB director, makes decisions on agency requests. OMB informs agencies of decisions, commonly referred to as OMB "passback."
December	Agencies may appeal these decisions to the OMB director and in some cases directly to the President.
Calendar Year in Which Fiscal Year Begins	
By first Monday in February	President submits budget to Congress.
February-September	Congressional phase. Agencies interact with Congress, justifying and explaining President's budget.
By July 15	President submits mid-session review to Congress.
August 21 (or within 10 days after approval of a spending bill)	Agencies submit apportionment requests to OMB for each budget account.
September 10 (or within 30 days after approval of a spending bill)	OMB apportions available funds to agencies by time period, program, project, or activity.
October 1	Fiscal year begins.
Calendar Years in Which Fiscal Year Begins and Ends	
October-September	Agencies make allotments, obligate funds, conduct activities, and request supplemental appropriations, if necessary. President may propose supplemental appropriations and impoundments (i.e., deferrals or rescissions) to Congress.
September 30	Fiscal year ends.