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BUDGET PROCESS

Policymakers use the federal budget process to establish spending priorities and to determine who will pay for those activities. Those decisions affect the lives of all Americans, as well as the nation's economy. The size and scope of those decisions make the budget process one of the most important and complex exercises in public policymaking.

The formulation of the budget is an annual process that involves the Congress, the White House and virtually all federal agencies. In truth, lawmakers do not actually approve a single budget.

Instead, the federal budget comprises many separate documents and pieces of legislation.

One of the important documents is the president's annual budget proposal, which lays out the president's budget priorities in detail. The Congress has never voted to accept the President's budget in its entirety, but it acts as a comprehensive statement of an administration's priorities.

The Congress has its own process to set its priorities: The House and Senate are each supposed to prepare a budget resolution that serves as a broad framework for the many separate pieces of legislation that will determine spending, revenues, deficits, and debt. The two sides of Congress are then supposed to reconcile their separate plans to agree on a concurrent resolution. Such compromise usually occurred through 2010, but since then, sharp disagreements about fiscal policy have prevented the Congress from agreeing on an overall budget plan. Budget resolutions are not presented to the president to sign, so they do not become law. In fact, because funding can also be provided through other means, a budget resolution is not necessary for the annual budget process to occur.

Twelve appropriation subcommittees in each congressional body manage legislation to fund the annual operations of government.

House and Senate authorization committees have oversight over tax law and entitlement programs.

Finally, the president must sign any legislation passed by the Congress before it goes into effect.

BUDGET PROCESS TIMELINE

From start to finish, the process of formulating, legislating, executing and auditing the budget lasts over a period of four fiscal years. Throughout most of that cycle, economic and political conditions can change. In response, policymakers can add or subtract funds from programs or activities; they can also extend, terminate, or modify revenue provisions.

STICKING TO THE BUDGET

Once policymakers agree on a budget framework, there are procedural and statutory provisions to help keep the budget on track. While those restrictions cannot substitute for consensus about fiscal goals, they can help impose needed budget discipline during the legislative process. Budget enforcement provisions often apply to multiple years and make it harder to enact changes to revenues or spending that would be inconsistent with the agreed-upon framework. Lawmakers are able to change the restrictions, but if the provisions are set in statute, Congress must pass, and the President must sign, a new law to modify or terminate them.

The best-known enforcement provisions include spending caps, pay-as-you-go (PAYGO) requirements, and sequestration (or across-the-board spending reductions).

Statutory discretionary spending limits, or spending caps, limit the amount of spending allowed each year the caps are in effect. For example, spending caps are currently in effect through 2021 for annually appropriated, or discretionary, spending. The caps are intended to provide budget discipline and force lawmakers to trade lower priority programs for higher priority needs. To provide a safety valve, some types of spending, such as spending for disaster relief or other emergencies, are not constrained by the caps. If spending exceeds the allowed level, a process known as sequestration enforces the limits by cutting spending on certain programs across the board by a uniform percentage. (See further below.)

Pay-as-you-go rules, commonly known as “PAYGO”, mandate that legislated changes to mandatory programs and revenues must not increase the deficit. Under PAYGO, the Office of Management and Budget (OMB) uses the “PAYGO Scorecard” to record the budgetary effects of legislation affecting revenues and mandatory spending. That excludes spending that has been designated as an emergency by the Congress or is otherwise exempt from the PAYGO rules. After the end of each session of Congress, if OMB’s scorecard shows that the deficit will increase in the upcoming year, the President must order sequestration to eliminate the deficit increase.

Sequestration is the process used to enforce spending limits and PAYGO. It imposes across-the-board cuts in certain programs to reduce spending enough to eliminate a deficit increase that results from legislation subject to caps or PAYGO. Sequestration is intended to be a blunt instrument that policymakers would seek to avoid because it automatically cuts spending regardless of the impact on programs. However, lawmakers have exempted many programs from sequestration — for example, Social Security and Medicaid. Those exemptions increase the size of potential across-the-board cuts to programs that remain subject to sequestration.

Budgeting is always difficult due to competing priorities and the important issues at stake. Without compromise and consensus, the process can "gridlock." In its most extreme form, gridlock can interrupt funding, disrupting federal operations and eroding the public's confidence in the government's ability to manage its affairs. That is another reason why it is important for lawmakers to agree to put the budget on a sustainable long-term path — a sustainable long-term plan can accommodate short-term priorities, while also giving the nation a stable fiscal outlook.

UNDERSTANDING THE BUDGET

SPENDING

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