

The National Budget Process

Who Decides the Federal Budget?

The vision of democracy is that the federal budget and all activities of the federal government reflect the values of a majority of Americans. Yet most people feel that the federal budget does not currently reflect their values and that the budgeting process is too complex to understand.

It is indeed a complicated process. Many forces shape the federal budget. Some of them are forces written into law — for example, the president’s role in drafting the budget — while other forces stem from the realities of our political system.

And while the federal budget may not always reflect the values of a majority of Americans, the ultimate power over the US government lies with the people because we have a right and responsibility to choose our elected officials by voting. Many Americans feel it is difficult to make their voices heard in Washington, but the first step is to understand what’s going on.

An Evolving Process

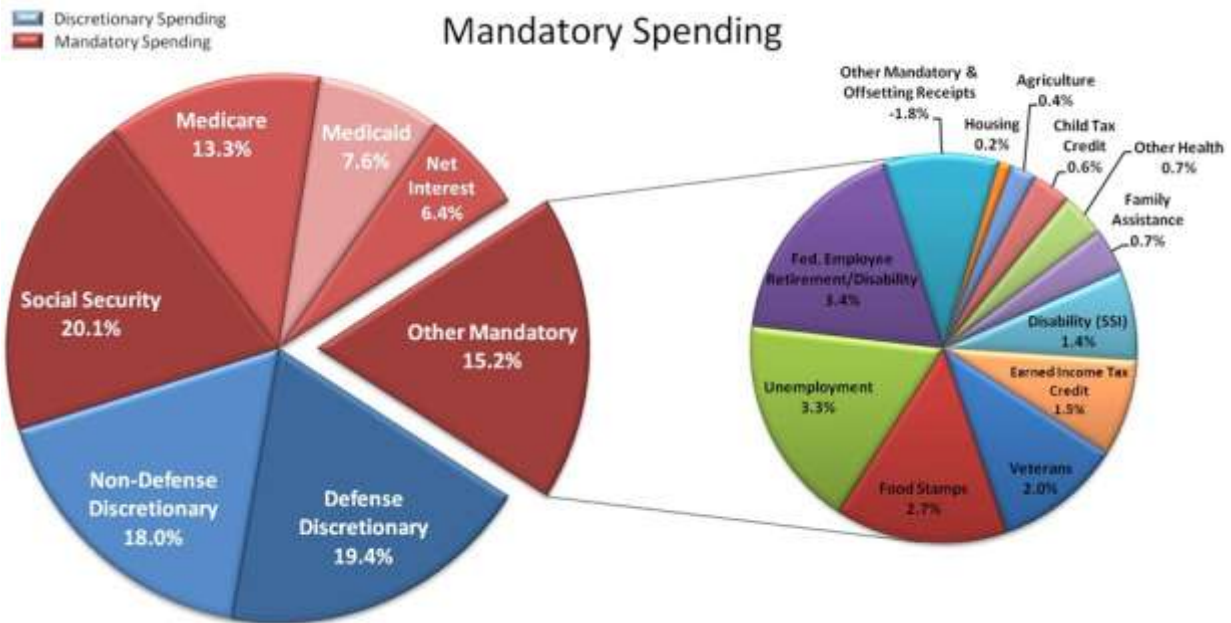
The Constitution designates the “power of the purse” as a function of Congress. That includes the authority to create and collect taxes and to borrow money as needed. The Constitution does not, however, specify how Congress should exercise these powers or how the budgeting process should work. Nor does the Constitution specify a role for the president in managing the nation’s finances.

As a result Congress has established a process that has evolved over time. Over the course of the 20th century, Congress passed key laws that shaped the budgeting process into what it is today and created the federal agencies — the Office of Management and Budget, the Government Accountability Office, the Congressional Budget Office — that provide the oversight and research crucial to creating the budget.

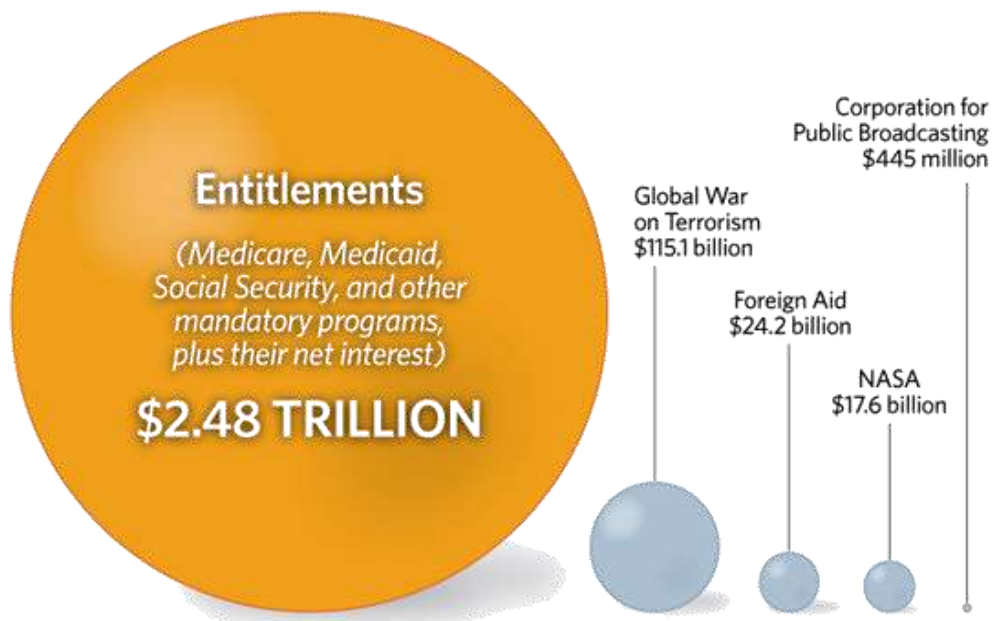
Before the Budget

The annual congressional budget process is officially called the **appropriations process**. Appropriations bills specify how much money will go to different agencies and programs. In addition to these funding bills, Congress must pass legislation that provides the federal government the legal authority to actually spend the money. These laws are called **authorizations**. Authorizations often cover multiple years, so authorizing legislation does not

need to pass Congress every year the way appropriations bills do. When a multi-year authorization expires, Congress often passes a **reauthorization** to continue the programs.



Authorizations also serve another purpose. There are some types of spending that are not subject to the appropriations process. Such spending is called direct or **mandatory spending**. Authorizations provide the legal authority for mandatory spending. Federal spending for Social Security and Medicare benefits is mandatory spending because the government must by law pay out benefits to all eligible recipients.



Entitlements (yellow) are mandatory... they must be paid and at the levels specified by law. Congress has control only over discretionary spending (gray).

How Does the Federal Government Create a Budget?

There are five key steps in the federal budget process:

1. The President submits a budget request to Congress.
2. The House and Senate pass budget resolutions.
3. House and Senate Appropriations subcommittees “markup” appropriations bills.
4. The House and Senate vote on appropriations bills and reconcile differences.
5. The President signs each appropriations bill and the budget becomes law.

Step 1: The President Submits a Budget Request

The president sends a **budget request** to Congress each February for the coming fiscal year, which begins on October 1st. For example, President Obama submitted his budget request for fiscal year (FY) 2016 in February 2015. Fiscal year 2016 commences on October 1, 2015, and ends on September 30, 2016.

The president’s budget request is just a proposal. Congress reviews the request but passes its own appropriations bills. Only after the president signs these bills does the country have a budget for the new fiscal year.

Step 2: The House and Senate Pass Budget Resolutions

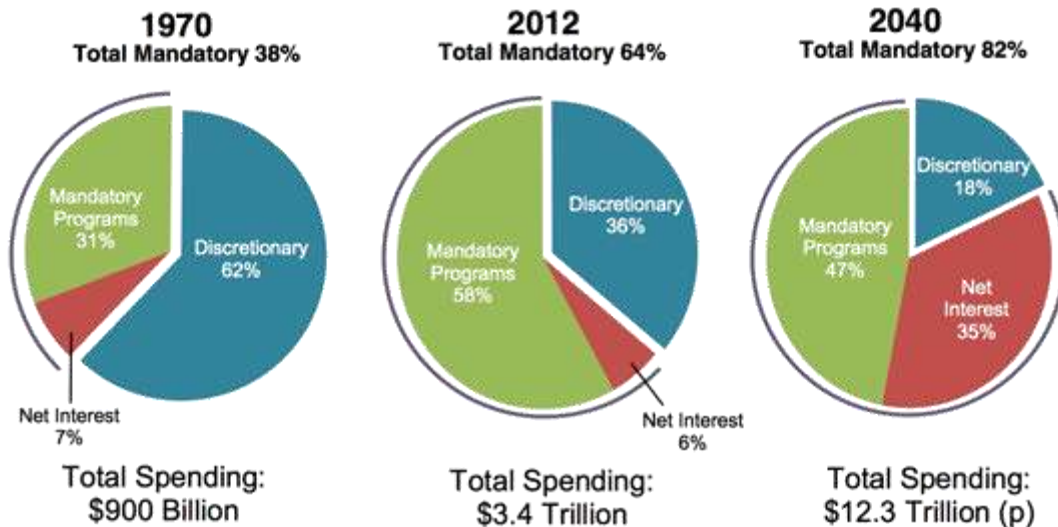
Once the president’s budget request has been released, Congress begins the months-long process of reviewing the request. After the president submits the budget request and lawmakers have thoroughly reviewed it, the House Committee on the Budget and the Senate Committee on the Budget each writes a **budget resolution**. A budget resolution is not a binding document, but is more like a blueprint. It provides Congress with a framework for making budget decisions about spending and taxes. It sets overall annual spending limits for federal agencies, but does not set specific spending amounts for particular programs. After the two chambers pass their budget resolutions, a joint conference is formed to iron out differences between the two and a reconciled version is then voted on by each chamber.

Step 3: House and Senate Subcommittees “Markup” Appropriation Bills

The Appropriations Committees in both the House and the Senate are responsible for determining the precise levels of budget authority for all **discretionary spending**. The Appropriations Committees in both the House and Senate are broken down into smaller

Appropriations subcommittees, which review the president's budget request pertaining to the federal agencies under their specific jurisdictions. (Subcommittees cover different areas of the federal government – for example, there is a subcommittee for defense spending, one for energy and water, etc.) After each subcommittee reviews the president's request, it conducts hearings and poses questions to leaders of its associated federal agencies about each agency's requested budget.

Growth in Entitlements Means Less Money to Budget



Source: Office of Management and Budget, Government Accountability Office, Congressional Budget Office data via the Peter G. Peterson Foundation.
Data Note: All figures are in constant 2009 dollars. Authors' calculations for 2012.
Produced by Jason Fichtner and Veronique de Rugy, Mercatus Center at George Mason University.

Based on this information, the chair of each subcommittee writes a first draft of the subcommittee's appropriations bill, abiding by the spending limits set out in the budget resolution. All subcommittee members then consider, amend and finally vote on the bill. Once it has passed the subcommittee, the bill goes to the full Appropriations Committee. The full committee reviews it, and then sends it to the full House or Senate for consideration.

Step 4: The House and Senate Vote on Appropriations Bills and Reconcile Differences

The full House and Senate then debate and vote on **appropriations bills** from each of the 12 subcommittees. After both the House and Senate pass their versions of each appropriations bill, a conference committee meets to resolve differences between the House and Senate versions. After the conference committee produces a reconciled version of the bill, the House and Senate vote again, but this time on a bill that is identical in both chambers. After passing both the House and Senate, each appropriations bill goes to the president.

Step 5: The President Signs Each Appropriations Bill and the Budget Becomes Law

For the bill to become law, the president must sign each appropriations bill after it has passed Congress. When the president has signed all 12 appropriations bills, the budget process is complete. Rarely, however, is work finished on all 12 bills by October 1st, the start of the new fiscal year.

Continuing Resolutions

When the budget process is not complete by October 1st, Congress passes a continuing resolution so that agencies continue to receive funding until the full budget is in place. A continuing resolution provides temporary funding for federal agencies until new appropriations bills become law.

Supplemental Appropriations

Because of the length of the federal budget process, from time to time the government has to respond to unanticipated situations for which there is no funding, such as natural disasters or wars. In these cases the government has to allocate additional resources and do so in a timely manner. This type of funding is allocated through legislation known as supplemental appropriations.

It's Even Messier than It Sounds

So that's how the budgeting process is supposed to go. And while that sounds pretty complicated, in practice, it's even more so. Other factors that include party politics, differing economic philosophies and the impact of lobbying and campaign contributions can also have a considerable impact on the federal budget process.

