

## **Making Sense of the Federal Budget Process**

Ideally, the federal budget should be a roadmap for the nation: the basic blueprint for the overall operation of the government as well as a statement of national priorities and how they will be financed. Unfortunately, the process often breaks down. Not surprisingly, a faltering budget process has coincided with increased dysfunction in government and rising national debt. We explain the basics of this arcane and complex process so that better understanding can lead to an improved system and better outcomes that help fix the debt.

### **What role does the budget submitted by the President play?**

Each year, the President submits a detailed budget request for the coming fiscal year to Congress as well as a broad proposal covering what he or she would like the budget to look like over the coming decade. This submission kicks off the annual budget process and is meant to guide lawmakers on spending and revenue decisions. However, it is only a proposal and is not binding. Congress decides how much the government spends and takes in via taxes.

### **How is the budget supposed to come together?**

The Senate and House of Representatives are supposed to agree on a budget resolution that focuses on government spending covered by the appropriations process for the coming year and changes in mandatory spending and revenues over the decade. The resolution is not signed by the President and does not have the force of law but serves as guidance for lawmakers as they make specific spending and tax decisions. Under the Congressional Budget Act, the budget resolution is to be passed by April 15, but there is no penalty for missing the deadline, which has not been met since 2003.

### **Does a budget happen each year?**

No. Congress often does not agree on a budget at all and there is no penalty under the law to discourage shirking this responsibility. Congress routinely waives rules to consider tax and spending legislation without a budget. In the absence of a budget resolution, Congress can issue a deeming resolution that sets total spending for the year. The congressional appropriations committees then make specific spending decisions.

### **What makes up the spending side of the budget?**

There are two basic types of government spending: discretionary and mandatory. Congress determines discretionary spending annually through the appropriations process. Defense spending is the largest part of this category. Discretionary spending represents less than one-third of all spending. Mandatory spending consists of programs that are essentially on autopilot since they do not require annual approval from Congress. Social Security, Medicare, and Medicaid are the largest programs in this category. This spending accounts for more than two-thirds of total spending when interest payments on the debt are included, which is the fastest growing part of the budget.

### **What makes up the revenue side of the budget?**

Individual income taxes are the biggest source of revenue for the federal government. Payroll taxes come next, which fund Social Security and part of Medicare. Corporate taxes and smaller revenue streams like estate and gift taxes and user fees such as customs duties round out the revenue side of the equation. About \$1.6 trillion in revenue is lost annually to the various tax breaks that are referred to as tax expenditures because they are essentially spending through the tax code. If included as part of the budget, they would account for more than a quarter of spending.

### **Is the federal budget required to balance?**

No. Spending and revenue in the budget are not required to balance. When revenue exceeds spending in a given year, a budget surplus results. The last federal surplus was recorded in 2001. A budget deficit results when spending exceeds revenue, which has happened every year since 2001 and is forecast to occur each year going forward unless something is done. The government has to borrow to make up the difference between spending and revenue when deficits occur. In 2018, about one-fifth of government spending was financed by deficits, adding to the national debt.