

Budgeting in the United States

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Overview

Topics covered

- Budget function classification
- Federal budget process and major institutions
- Federal budget laws
- Federal budget cycle
- Types of budget authority
- Main social insurance programs

Infographic: [The Federal Government's Budget Process](#)

Budget Function Classification

Overview

Function

- “... *categorize federal spending according to the purpose or mission of government...*”

Government Accountability Office (GAO) reports

- Budget Function Classification
- A Glossary of Terms Used in the Federal Budget Process

Functions are not administrative departments

- One functions and multiple departments: National defense is in the Department of Defense (DOD) and Department of Energy (among others)
- One department and multiple functions: DOD in national security and natural resources and environment

Occasional categorization of data by function and sub-function

Structure of budget resolutions around 20 functions

- Broad areas of national need: 17
- Miscellaneous (e.g., interest payments on federal debt): 3

Examples

- **Community and Regional Development:** (1) Community development, (2) area and regional development, and (3) disaster relief and insurance
- **Energy:** (1) Energy supply, (2) energy conservation, (3) emergency energy preparedness, and (4) energy information, policy, and regulation
- **General Science, Space and Technology:** (1) General science and basic research and (2) space flight, research, and supporting activities

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Federal Budget Process and Major Institutions

Offices, Departments, and Agencies

Executive branch offices

- Office of Management and Budget (OMB)

Legislative branch offices (reporting to Congress)

- Congressional Budget Office (CBO)
- Government Accountability Office (GAO)
- Congressional Research Service (CRS)

Federal departments

- USDA, DOD, DOE, DHS, DOJ, State, DOT, etc.

Federal agencies

- CIA, EPA, FEMA, NASA, etc.

Office of Management and Budget (OMB) I

Organization of the President's budget

- Setting of funding priorities
- Evaluation of effectiveness of agency programs, policies, and procedures
- Assessment of competing funding demands among agencies

Current Services Estimate (see CBPP [The Current Services Baseline: A Tool for Understanding Budget Choices](#))

- Baseline or benchmark *“reflecting this year’s enacted policies and programs for each year in the future”*
- Part of supporting material (e.g., current services budget)

Submission of President's annual budget and supporting materials to Congress

Office of Management and Budget (OMB) II

Supervision and coordination of the administration's procurement, financial management, information, and regulatory policies

- Improvement of administrative management
- Development of performance measures

Controlling for consistency of agency reports, rules, testimony, and proposed legislation with President's budget and administration policies and priorities

Congressional Budget Office (CBO)

Provision of nonpartisan budgetary information and analyses to Congress and its committees

- Annual five-year economic forecast
- Review of President's annual budget submission
- Budget baseline projections
- Preparation of financial reports
- Evaluation of spending and revenue options for reducing budget deficit

Key Federal Budget Laws

Constitution and Anti-Deficiency Act

Constitution (Article 1, Section 9)

- *“No Money shall be drawn from the Treasury, but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time.”*

Anti-Deficiency Act (earliest version 1870)

- Prohibition for departments to spend more than appropriated by Congress

Budget Acts of 1921 and 1974

Budget and Accounting Act of 1921

- Creation of the Bureau of Budget (now OMB) and GAO
- Setting start of fiscal year to July 1
- Establishment of national budget system and independent audits of government accounts

Congressional Budget and Impoundment Control Act of 1974

- Establishment of House and Senate budget committees and CBO
- Functional classification in President's budget
- Rescission/deferral instead of impoundment
- Setting start of fiscal year to October 1

Terminology

Impoundment

- Decision by the President to withdraw funds

Rescission

- Proposal by President to withdraw funds
- Requirement of majority vote of approval by Congress within 45 days

Deferral

- “... *temporary delays in the release of funds for obligation.*”
- Maximum delay: End of fiscal year

More information: [Judicial Review of Rescissions and Deferrals Under the Impoundment Control Act](#)

Gramm-Rudman-Hollings Act

Also known as **Balanced Budget and Emergency Deficit Control Act of 1985**

- Purpose: Deficit targets to balance federal budget by 1991

Mechanism to meet targets: Sequestration

- Provision of automatic spending cuts (“cancellation of budgetary resources” called “sequestration”) if total discretionary appropriations exceed budget spending thresholds
- Automatic trigger discretionary expenditure cuts affecting all departments and programs by an equal percentage

Original version: Unconstitutional by the Supreme Court because it violates *the Constitution's command that Congress play no direct role in the execution of the laws.*

Budget Enforcement Act

Part of Omnibus Budget Reconciliation Act of 1990

- Replacement of Balanced Budget and Emergency Deficit Control Act of 1987 (previous version from 1985)
- Upper limits on discretionary spending
- Expiration in 2002

Pay-as-you-go (PAYGO) rules

- Implementation of PAYGO rules for entitlements and taxes
- Requirement of changes to be deficit-neutral or deficit-reducing

Various Acts after 2010

Statutory Pay-As-You-Go Act of 2010 (“PAYGO”)

- Prevention of new tax cuts or entitlement spending legislation from increasing deficits

Budget Control Act of 2011

- Reintroduction of discretionary spending limits with sequestration
- Balanced budget amendment

Bipartisan Budget Acts of 2013 and 2015

- Relaxation of upper limits imposed by Budget Control Act 2011 due to excessive restrictiveness

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Federal Budget Cycle

No later than the first Monday in February

- Submission of President's budget

Six weeks later

- Report of budget estimates by Congressional budget committees

Important dates

- April 15: Completion of Congressional budget resolution
- May 15: Beginning of House consideration of appropriations bills
- June 15: Completion of reconciliation
- June 30: Appropriations by the House
- July 15: Submission of President's mid-session budget review
- October 1: Start of fiscal year

President's Budget Request

Development by the OMB based on agency submissions

- ① Outline of President's overall fiscal policies to Congress
 - Spending, tax revenue, deficit/surplus spending
- ② Outline of President's relative priorities for federal programs for next five years
 - Examples: Spending on defense, agriculture, or education
- ③ Recommendation of spending and tax policy changes

More information:

- U.S. Federal Budget Process 101
- The Executive Budget Process Timetable

Congressional Budget Resolution I

CBO explanation

- *“... a blueprint to guide Congressional action on budget-related legislation over the course of the year. It does not provide funding for federal programs or change tax law; rather, it sets overall spending and revenue targets, sometimes for as many as 10 years. A budget resolution is not a law, because it is not signed by the President; it takes effect if approved by both Houses of Congress.”*

Inclusion of spending ceilings for the 20 budget functions and revenue estimates

- Draft of [House](#) and [Senate](#) budget committees' budget resolution
- House and Senate floor voting (amendments by majority vote)
- Resolution of differences in Senate and House conference committees
- Cannot be filibustered

Congressional Budget Resolution II

Passage by April 1

- Previous year's resolution remaining in effect if delayed or not passed

Budget resolution enforcement

- Possibility of blocking legislation in violation of budget resolutions by House and Senate members (waived by simple majority vote in the House and 60 votes in the Senate)

Budget reconciliation

- Enforcement to produce spending cuts or tax increases called for in the budget resolution by specific date
- Instruction in reconciliation directive

Appropriation Bills

Annual appropriations for discretionary funding

- Passage by appropriation committees (i.e., [Senate](#) and [House](#))
- Become law with President' signature

Passage of Appropriation Bills

- Start of most fiscal years without all appropriation bills passed
- 1977–2008: Bills passed on time in 1977, 1989, 1995, and 1997
- 2008: One bill passed with remaining rolled together in single appropriation
- Some fiscal year: No appropriation bills passed at all

Example of an appropriation bill

- [S.3109 - Department of Homeland Security Appropriations Act, 2019](#)

[Appropriations Status Table](#)

Appropriation Accounts

Framework for expenditure control

- Congressional “power of the purse” prescribed in U.S. Constitution (Article I, section 9)
- Power enforced through “appropriation accounts”

Appropriation accounts

- Primary mechanism for Congress to allocate funds to programs
- Building block for agencies to prepare budget requests
- Basic unit in agency internal control systems to keep spending within what Congress has approved
- Basis for reporting and audit.

Appropriations and Budget Resources

Departments to Accounts

Departments to Bureaus

- Subdivision of departments into bureaus (main organizational units)
- Various appropriation accounts by bureau
- Determination of account funding by Congress

Bureaus to Accounts

- Subdivision of bureaus into accounts by operations
- Level for budget determination by Congress of the Department of Interior

Types of Budget Authority

Budget authority

- Authority provided by law to enter into obligations resulting in immediate or future outlays involving federal government funds

Forms of budget authority

- **Appropriations:** Provision of funds for the upcoming year as result of the legislative phase of the budget process
 - Appropriation act as a statute providing authorization for federal agencies to incur obligations and make payments for specified purposes
 - Most common means of providing budget authority
- **Authority to borrow:** Authority provided by law to borrow funds
- **Contract authority:** Authority provided by law to enter into contracts

Entitlements

For programs not covered by the appropriation acts

- Not required to go through appropriation process
- Spending determined by formula/eligibility requirements (mandatory spending)
 - Examples: Medicare, social security, veteran's benefits
- Eligibility criteria established by law

Appropriation

Regular

- Annual appropriation
- Multi-year Appropriation
- Advance appropriation
- No year appropriation
- Permanent

Continuing Resolution and Supplemental Appropriation

Continuing resolution: Based on spending formula from previous year, which has drawbacks

- Hinder development of new programs in response to changing operating conditions due to restricting operations to previous years level

Supplemental appropriation: Emergency or ordinary

- Requirement of an unforeseen change in operating conditions, e.g., 9/11, financial crisis, COVID-19
- Cost shortfall from previous years appropriations due incorrect projections, e.g., underestimation of medical needs for Veterans affairs

Discretionary and Mandatory Spending

Discretionary spending

- Flows through the annual appropriation process with possibility for annual spending adjustments by Congress
- Decreased from approximately 74% of total outlays in 1962 to 26% in 2022

Mandatory spending

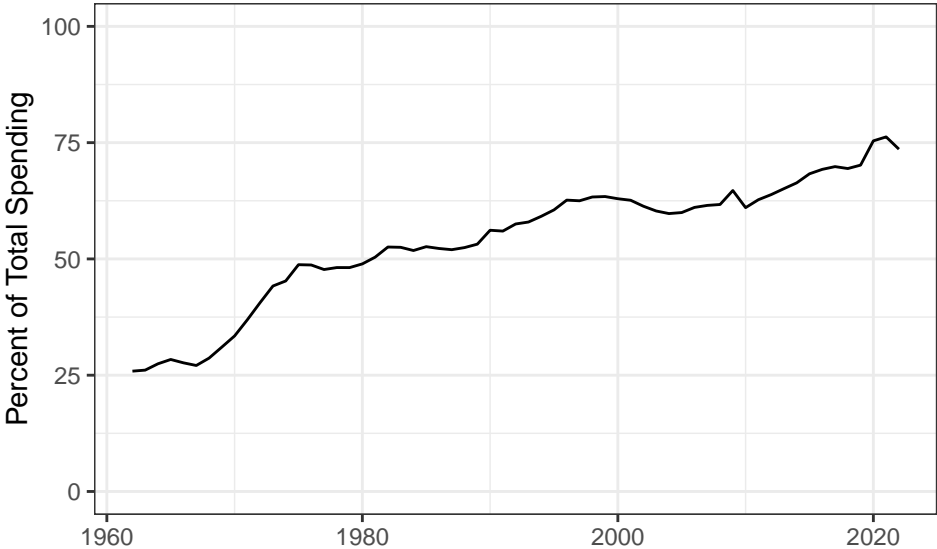
- Not part of regular appropriations process
- Control of spending by changing formula to avoid “auto pilot spending”

Means-tested versus non-means test

- Means-tested: Assistance depends on economic status of recipient
- Non-means tested: Assistance is based on demographic or other eligibility, not economic status

CBO: [Outlook for the Budget and the Economy](#)

Mandatory Spending over Time



Main Social Insurance Programs

Old-Age, Survivors, and Disability Insurance

Two trust funds in Old-Age, Survivors, and Disability Insurance (OASDI) (also known as Social Security)

① Old-Age and Survivors Insurance (OASI)

- Retired workers and dependents of retired workers
- Survivors of deceased workers

② Disability Insurance (DI)

- Disabled workers and dependents of disabled workers

Financed by earmarked payroll taxes ([Annual Report](#))

Hospital insurance (HI trust fund) Part A

- Financed with earmarked payroll taxes

Supplementary Medical Insurance (SMI trust fund): Parts B and D (since 2006)

- Part B pays for medical care (e.g., to see a doctor)
- Part D pays for medication
- Financed with premium and mostly general fund revenue
- Rapidly increasing cost

Combinations of Part A and B benefits in Part C

- Financed by a combination of HI (Hospital Insurance) trust and SMI (Supplementary Medical Insurance) trust funds

Medicaid

- Medical care for low-income individuals
- No trust fund
- Joint federal/state program

Federal portion financed from general funds

- At least \$1 in matching funds for every \$1 a state spends
- Higher in poorer states
- On average, the federal government covers about 57% of Medicaid costs across all states

Problems with Financing Social Insurance

Until mid-1980s, handled as “pay-as-you-go”

- Premiums collected this year covered benefits paid this year

Problem: Falling ratio of workers to beneficiaries, i.e., benefits payout exceeding payments

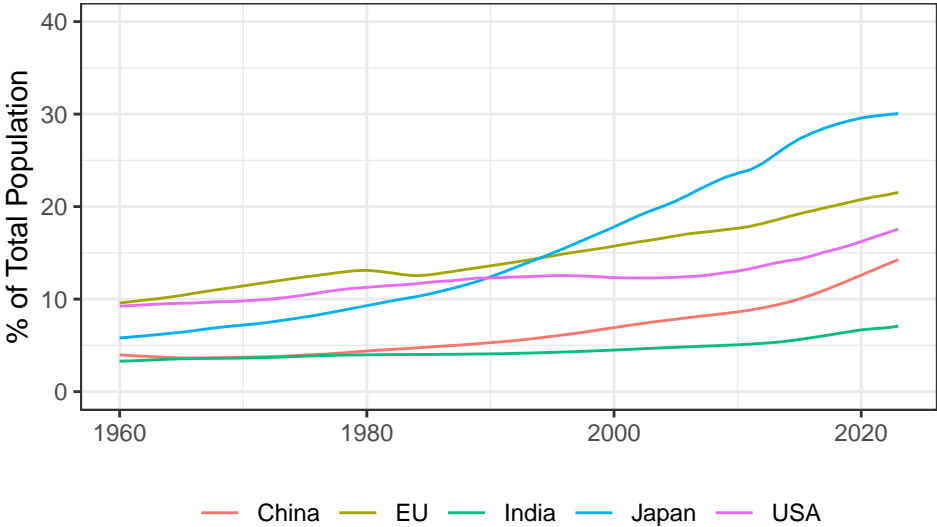
- Reasons: Low birthrates, retirement of baby boomers, low death rates
- 5 workers for each recipient in 1960 and 2 to 1 by 2030
- Increase in health care costs

Possible solution: Actuarial Funding

- Pay into the fund during working years
- Receive principal plus interest upon retirement

CBO Report (February 1996): [Mandatory Spending Control Mechanisms](#)

Population Age 65 and over



Actuarial Funding for Social Insurance Programs

Establishment of trust funds

- Dedication of payments to fund (payroll taxes) during individual's working life
- Investment of funds in secure investment vehicles (e.g., U.S. government securities)
- Use of fund's proceeds (i.e., contributions plus interest earnings) for benefit coverage during retirement

Application

- Possible for Social Security and Medicare: Predictable cycle of work following retirement
- Not possible for Medicaid: No predictable cycle of prosperity and poverty

Federal Debt

Problems associated with federal debt

- Threat to long-term economic growth due to resources taken out of the capital market and not allocated to productive use (e.g., loans to firms)
- Payments to foreign investors
- Constrains response to important issues (e.g., financial crisis, COVID-19)
- Potential for inflation in the case of debt monetization (unlikely in countries with strong institutions)