

# Budgeting in the United States

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## 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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Budget  
Function  
Classification

Federal  
Budget  
Process and  
Major  
Institutions

Key Federal  
Budget Laws

Federal  
Budget Cycle

Types of  
Budget  
Authority

Main Social  
Insurance  
Programs

# 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

- 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

# Federal Budget Cycle

## Time Table

No later than the first Monday in February

- Submission of President's budget

Six weeks later

- Report of budget estimates by Congressional committees to 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

# Overview

## 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

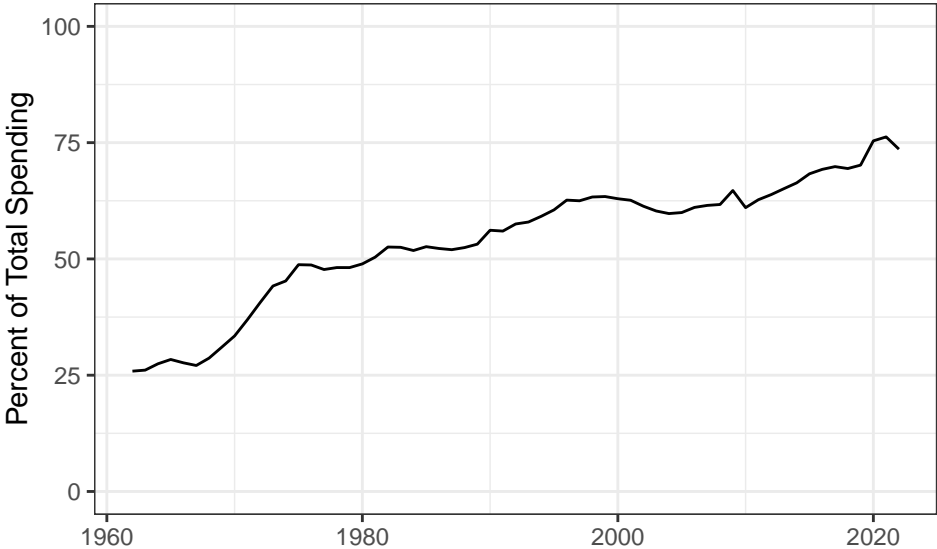
- Not part of regular appropriations process
- Control of spending by changing formula to avoid “auto pilot spending”

## 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

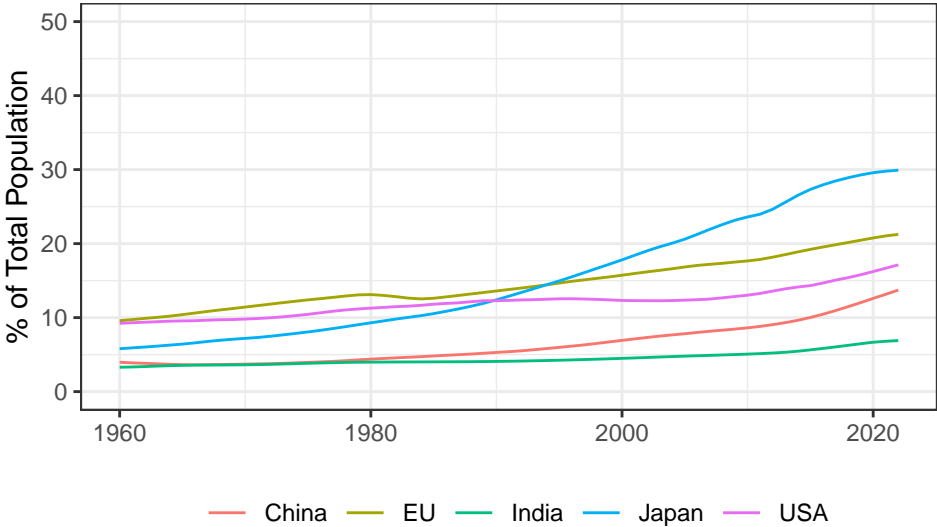
- Reasons: Low birthrates, retirement of baby boomers, low death rates
- 5 workers for each recipient in 1960 and 2 to 1 by 2030
- Increase in health care costs

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)