The U.S. government has an annual budget cycle. The cycle normally begins with the president’s budget submission early in the calendar year. The president’s budget translates many of his political priorities into a plan of action. Then Congress responds. At a minimum, Congress must pass annual appropriations bills, or one or more “continuing resolutions,” which may substitute for appropriations bills. In many years, Congress does more. It passes legislation that changes the permanent laws affecting revenues and spending, such as Medicare. The congressional budget process is used to coordinate budget-related congressional action.

**Time horizon**

In the 1970s, presidential and congressional budgets typically covered one year. During the 1980s, the budget time horizon grew longer. Five-year congressional budgets became the norm and are now required by law. Even longer projections have sometimes been made. For example, the budget resolution approved in 1996 covered a seven-year period. The new congressional majority wanted to balance the budget and it took seven years to show that the plan could achieve balance, relying as it did on savings to grow from cutting the rate of growth of spending.

A longer budget horizon promotes better planning and discourages gimmicks that create only one-time savings or one-time revenue gains. A longer horizon also discourages spending initiatives or tax cuts that are small for many years but balloon in later years. However, over a longer time period, technical estimating limitations become more severe. Moreover, the policies assumed in a very long-range budget may not be sustainable, because the current Congress cannot tie the hands of future Congresses. This fact is particularly salient in the case of appropriations, because they are made annually and do not become part of permanent law.

**Economic assumptions**

Underlying any federal government budget is a set of economic assumptions. For example, a president may decide that his program will be “good for the economy” and he may assume in his budget that economic growth will be higher, or inflation or unemployment lower, than in recent years. His assumptions may be more optimistic than the consensus of private economic forecasters. Congress is likewise free to decide on its own economic assumptions for the congressional budget resolution.

The levels of revenues, entitlement spending, and deficits in the budget are quite sensitive to the underlying economic assumptions. Optimistic assumptions can bring budgets closer to balance and minimize the size of spending cuts or revenue increases needed to bring the budget into balance. Presidential budgeting during the late, 1980s was criticized for using “rosy scenario” economic assumptions to make it look as if the president’s program would achieve a balanced budget.

The power of economic assumptions can be illustrated: In early 1997, the Congressional Budget Office (CBO) estimated that if interest rates became one percentage point lower than the CBO had projected through the year 2002, with no change in inflation, the budget deficit would be lower by $48 billion in 2002. In 1997, the congressional budget resolution assumed a deficit reduction of $34 billion in the year 2002 to come mainly from a reduction in interest rates, which, in turn, was to come from law changes to reduce debt service. Lower interest rates reduce the cost of federal debt service. As a result, the congressional budget did not have to recommend law changes that by themselves would balance the budget. Once policies were recommended to move the budget close to balance, the assumption was that a dividend from lower debt service costs would bring the budget the rest of the way into balance.

So-called technical assumptions, such as those about patterns of medical service use, are also very important in making budget projections. Typically, the congressional budget process relies on the CBO to make these assumptions.

Economic and technical assumptions can change over time. These changes can greatly alter perceptions about budgetary problems and influence the federal government’s response. For example, in September 1993, despite the enactment of major deficit reduction earlier in the year, the CBO projected a year 2002 deficit of $320 billion. In January 1997, less than four years later, that office’s comparable projection for the year 2002 was only $188 billion, even though very little deficit-reduction legislation had become law during 1994, 1995, and 1996. The deficit reestimate was mainly a result of better-than-forecast economic performance from 1994 through 1996 and revisions in non-economic assumptions. Later in 1997, Congress used a somewhat more optimistic deficit projection based,
in part, on the assumption that deficit-reduction legislation would itself reduce interest rates and help balance the budget. The dramatic improvement in the deficit outlook between late 1993 and 1997 made it possible for Congress to cut taxes while projecting a balanced budget.

When the federal budget was far out of balance, the major limiting factors on congressional budget action were the difficulty in reaching agreement and lawmakers’ level of tolerance for painful cuts in spending or painful increases in taxes. If the federal budget comes to balance, the budget agenda may become much more sensitive to relatively small changes in budgetary projections. For example, if a $20 billion surplus is projected, Congress might want to cut taxes or increase spending. Such swings in policy could occur, even though they would be driven by statistically tiny errors in budgetary projections, given that total spending and revenues will soon exceed $1,750 billion.

President’s budget—level of detail and specifics

The president’s budget is not just a set of highlights and suggestions, or a presentation of the president’s political preferences—although it is surely that. The president’s budget is normally presented in great “line-item” detail. Large documents are printed and backed up with detailed supporting materials from the government agencies. Because of the president’s prominence as a nationwide elected official, his ability to marshal the resources of the executive branch, and, in comparison, Congress’s presentation of so many varied points of view, the president’s budget is often the point of departure for subsequent congressional decisions.

Congressional budget

The present congressional budget process was implemented in the Congressional Budget Act of 1974. That legislation was partly a congressional response to concerns over President Nixon’s unilateral and aggressive withholding of authority to spend. The new budget act created a new, less one-sided mechanism. The legislation was also a response to the criticism that Congress lacked a mechanism for coordinating the response of its numerous committees to the president’s budget, or for coordinating an alternative budget. The drafters of that legislation did not wish to take away more power than necessary from the then-standing committees of Congress. When they created the new budget committees, they did not eliminate other committees, nor did they intend that the budget committees become creators of “line-item” authorization law changes or appropriations bills. The mission of the budget committees and the budget resolution is to provide guidelines and targets for the money-related actions of other committees. The budget resolution allows Congress to speak with one voice to its various committees.

The original budget act included a variety of procedural rules, and since its passage the Senate has added its own special procedural rules, which are too extensive to discuss in this entry. The act also established the CBO, which produces studies related to the budget and estimates the budget effects of proposed legislation, except for changes in revenues, which are generally estimated by the Joint Committee on Taxation. The CBO is independent of the executive branch and is separate from the much smaller staffs of the House and Senate budget committees.

The congressional budget takes the form of a resolution that is voted on by the House and the Senate, first separately and then in response to a conference committee recommendation. The final budget resolution is not submitted to the president for his approval or veto. The congressional document is normally quite different in character from the president’s budget.

Content of a budget resolution

The report accompanying the budget resolution includes a statement of underlying economic assumptions. These are recommended by the budget committees and need not be identical to the president’s, or the same as the advisory assumptions normally suggested by the CBO.

The congressional budget resolution presents total spending, total revenues, the recommended change in revenues, the budget deficit (or surplus), and the implied level of federal debt that is subject to statutory limit. (If that level of debt is higher than the amount authorized by current law, Congress must later vote to raise the “debt ceiling,” even though it has already voted on a budget that will create higher debt. This must-pass debt legislation often becomes a vehicle for legislative riders, one of which was the original Gramm-Rudman-Hollings law discussed further on.) In the budget resolution, spending is broken down among 20 budget “functions” covering such categories as defense, international affairs, agriculture, transportation, Medicare, other health services, and net interest. The “functions” include many government programs and do not track one-for-one with congressional committee jurisdictions.

Officially, the amounts in the budget resolution no longer include the Social Security trust funds,
which are expected to run surpluses for many years. Nonetheless, committee report language typically provides projections for the budget including Social Security, and the budget has been discussed in terms of the total, including Social Security. For example, when the 1997 budget resolution was presented as a plan for balancing the budget, that balance was achieved only with Social Security Trust Fund surpluses included. The official numbers in the budget resolution continued to show deficits, because they did not include Social Security surpluses.

The report on a budget resolution also includes committee “allocations” (i.e., ceilings) and a revenue floor, and it may include “reconciliation instructions.” Allocations and the floor on revenues are enforced through points of order in the House and Senate. Most often, it takes 60 votes in the 100-member Senate to waive a point of order against considering legislation that would cause spending to exceed a budget allocation or revenues to be cut below the floor. In the House, the “rule” controlling amendments and debate may waive points of order, and the rule is subject to a majority vote.

One allocation is made to the Appropriations Committee. Appropriations are made each year for fixed dollar amounts. This one allocation covers a great deal of spending. For example, for fiscal year 1997, spending determined by appropriations was about $550 billion, one-third of total spending including Social Security. For a “budget year” (e.g., for calendar year 1997, the “budget year” was the coming fiscal year, 1998), this allocation is enforceable by a point of order. In the more than 20 years since the process began, total appropriations have been held quite closely to the allocation in the budget resolution.

Because there is only one budget resolution allocation for all appropriations, program-by-program assumptions that the budget committees may have used may not be very influential. On the other hand, if a major issue, such as a division of funds between defense and nondefense, were to be articulated and fully debated, the assumption might greatly influence the subsequent appropriations process.

The rest of the budget comprises revenues and “mandatory” spending. Mandatory spending includes “entitlements,” which are created by laws that entitle certain classes of people to benefits. The largest entitlements are Social Security ($365 billion in 1997) and Medicare ($213 billion). Mandatory spending also includes obligatory spending, such as interest on the federal debt ($244 billion in 1997) and payments arising from court decisions. Typically, neither tax law nor underlying authorizations specify numerical amounts; rather, they set the terms and conditions under which individuals pay taxes and receive benefits such as Social Security. Unlike spending subject to appropriations, revenues and mandatory spending will be whatever results from the underlying law. For this reason, revenues and mandatory spending are more difficult to predict, and they are more difficult to control than spending subject to appropriations.

While detailed appropriations are the responsibility of a single committee in the House and Senate, responsibility for revenues and mandatory spending is spread among many committees. The report on a budget resolution creates allocations for each of the authorizing committees. These allocations cover the total amount of mandatory spending contemplated in the budget resolution. Because the authorizing committees have different program responsibilities, the program implications of these multiple allocations may be clearer than for the single allocation provided for annual appropriations. For example, if the Committee on Ways and Means has a spending allocation that is significantly below the current law level, Congress most probably knows whether Medicare reductions are likely and, if so, the broad outlines of the probable changes.

Although there are points of order against considering legislation that would cause spending to exceed an allocation, or revenues to fall below the floor, points of order are powerless to reduce spending that would occur under existing law, or to raise revenues. For this reason, management of mandatory spending, unlike appropriations, also takes place through “reconciliation instructions” to the various authorizing committees. These instructions do not have to be included in a budget resolution, but they frequently have been included since budget deficits became a concern. Reconciliation instructions are numerical targets stretching over several years. Recently, the time span has been five years or more.

After 1981 and through 1993, the instructions have been to reduce mandatory spending and/or raise revenues. In 1995, however, the new congressional majority began to include an instruction for a major tax cut. A tax cut was ultimately enacted in 1997.

Historically, Congress has usually come quite close to meeting the reconciliation targets, although in one year a reconciliation effort was abandoned, and once, during the mid-1980s, reconciliation action was not completed until early in the next session of Congress. In 1995, reconciliation was not completed because the president vetoed the implementing legislation. In 1996, Congress completed action on only one of three reconciliation bills that were planned in the budget resolution.
Level of detail and specifics

The level of detail reported in budget resolutions is much less than in the president’s budget. This is not to say that the numbers in a budget resolution are arbitrary. To win a majority of votes for budget resolutions, the budget committees, the congressional leadership, committee chairs, and others must reach understandings about the assumptions behind the numbers in a budget resolution. Budget committee reports may or may not be specific about these understandings.

Reconciliation amounts are usually net numbers, and committees have frequently included both pluses and minuses in their reconciliation recommendations. For example, the tax-writing committees might have been reconciled to raise $50 billion in added revenue over several years. Such an instruction would not normally preclude tax cuts when they are paid for with other changes. For example, a committee might include $60 billion of added revenues and $10 billion of tax cuts to arrive at the net increase of $50 billion. A committee might even pay for tax cuts with spending reductions rather than tax increases.

Misunderstandings about the congressional budget process

The congressional budget process is sometimes misunderstood. As explained above, the congressional budget resolution frequently lacks the kind of detail that some observers may wish to have. There may not be an up-or-down vote on a budget resolution that reflects the president’s budget submission. There is no one up-or-down vote that sends an entire congressional budget to the president for his signature (or veto). The budget resolution is not sent to the president.

A vote on a House-Senate conference agreement on the budget resolution is not the end of budget-related votes. After this vote, there are votes on separate appropriations bills (House, Senate, and conference agreements), which can number up to 13. There may be votes on interim appropriations measures called “continuing resolutions.” There are often votes on a reconciliation bill.

Gramm-Rudman-Hollings fixed deficit targets

In 1985, budget law took a new turn when the Gramm-Rudman-Hollings (GRH) law was enacted. This law pushed budget statutes beyond the point of establishing institutions and procedures. It required that budget deficits be brought down to specified amounts. The budget was to be balanced in 1991. If Congress did not enact legislation sufficient to do so, automatic spending cuts would be triggered. This automatic mechanism did not include tax increases. The manner in which spending would be cut was specified by formula, and some programs were exempted—for example, Social Security.

In 1990, the 1985 GRH law was replaced. The original ambitious deficit targets had proved politically unattainable. Before 1990, Congress had delayed and revised the targets. In 1990, Congress passed major deficit-reduction legislation and changed the law to emphasize prevention of future legislation that would increase budget deficits. The pursuit of further deficit reduction then became, once again, a matter of judgment, rather than law.

Pay-as-you-go and caps

The 1990 law established a two-part control mechanism. Spending subject to appropriation was made subject to a separate series of annual caps. If this spending exceeded the cap in any year, there would be an automatic cut in programs subject to appropriation.

The second part of the mechanism was called “pay-as-you-go.” Pay-as-you-go covered the rest of the budget: mandatory spending and revenues. In simplified terms, if the cumulative effect of mandatory spending and revenue legislation is to raise the budget deficit in any one year, then “sequestration” is triggered. Mandatory spending programs like Medicaid and farm price supports are cut across-the-board, except that Medicare can be cut by no more than 4 percent, and numerous programs, such as Social Security and unemployment compensation, are exempt. There is no automatic increase in revenues.

In 1993, as part of another deficit-reduction bill, the caps and pay-as-you-go mechanisms were extended. In 1997, the mechanisms were again extended as part of another deficit-reduction bill.

Constitutional amendment to balance the budget

In 1995, the major budget process issue became a proposed constitutional amendment to require a balanced budget. In the Senate, in both 1995 and 1996, that amendment fell a few votes short of the necessary two-thirds needed to send it to the states for possible ratification. However, in 1997, the constitutional amendment seemed less urgent to supporters, because of the passage of legislation that reduced program spending enough to balance the budget.

Line-item veto

In 1996, Congress passed a law to give the president the power to react to enacted legislation by cancel-
ing funding for items drawing upon appropriations, to cancel new items of mandatory spending, or to cancel “limited tax benefits,” if the president found that such cancellations would reduce budget deficits. That power became effective in 1997 and expires after the year 2004. After cancellations by a president, the burden is on Congress to enact legislation overturning the cancellations. The law provides for expedited congressional procedures to make it less difficult than normal for Congress to work its will in this matter. In 1997, the president canceled a number of items that were included in appropriations bills, one item of added direct spending from a budget reconciliation bill, and two “limited tax benefits” from a tax bill. Court review of the constitutionality of several of these actions has begun.

**Budget surpluses**

In September 1997, the CBO projected that a small budget surplus would emerge in the year 2002, counting Social Security. The projection assumed that future Congresses would adhere to the caps on spending subject to appropriations and assumed no economic recession in the year or two preceding 2002. In fact, the budget surplus occurred somewhat earlier. For fiscal 1998 (the 12 months ending September 30), the budget recorded a $70 billion surplus (the figure includes excess payroll taxes being collected for Social Security). Although these surpluses are projected to vanish when the baby boomers retire and the costs of Social Security and Medicare escalate more rapidly, Congress and the president have begun to debate the unfamiliar issue of whether to run budget surpluses—i.e., to move closer toward balance in the non–Social Security budget—or whether to cut taxes and raise spending.

**Additional readings**


Cross references: revenue estimation, federal; revenue forecasting, federal; Social Security Trust Fund.