

3. How Does the Government Create a Budget?

The President and Congress both play major roles in developing the Federal budget.

The President's Budget

The law requires that, by the first Monday in February, the President submit to Congress his proposed Federal budget for the next *fiscal year*, which begins October 1.

The White House's Office of Management and Budget (OMB) prepares the budget proposal, after receiving direction from the President and consulting with his senior advisors and officials from Cabinet departments and other agencies.

The President's budget—which typically includes a main book and several accompanying books¹—covers thousands of pages and provides reams of details.

The Budget Process

Through the budget process, the President and Congress decide how much to spend and tax in any one fiscal year. More specifically, they decide how much to spend on each activity, ensure that the Government spends no more and spends it only for that activity, and report on that spending at the end of each budget cycle.

The President's budget is *his* plan for the next year. But it's just a proposal. After receiving it, Congress has its own budget process to follow. Only after the Congress passes, and the President signs, the required spending bills has the Government created its actual budget.

¹ They are the main budget book, entitled, *Budget of the United States Government: Fiscal Year 2000*, as well as *Analytical Perspectives*, *Appendix*, *Historical Tables*, and *A Citizen's Guide to the Federal Budget*, which you are now reading.

For fiscal 2000—that is, October 1, 1999 to September 30, 2000—the major steps in the budget process are outlined in Chart 3-1.

Chart 3-1. Major Steps in the Budget Process

Formulation of the President's budget for fiscal 2000.	Executive Branch agencies develop requests for funds and submit them to the Office of Management and Budget. The President reviews the requests and makes the final decisions on what goes in his budget.	February–December 1998
Budget preparation and transmittal.	The budget documents are prepared and transmitted to Congress.	December 1998–February 1999
Congressional action on the budget.	Congress reviews the President's budget, develops its own budget, and approves spending and revenue bills.	March–September 1999
The fiscal year begins.		October 1, 1999
Agency program managers execute the budget provided in law.		October 1, 1999–September 30, 2000
Data on actual spending and receipts for the completed fiscal year become available.		October–November 2000

Action in Congress

Congress first must pass a “budget resolution”—a framework within which the Members will make their decisions about spending and taxes. It includes targets for total spending, total revenues, and the deficit, and allocations within the spending target for the two types of spending—*discretionary* and *mandatory*—explained below.

- *Discretionary spending*, which accounts for one-third of all Federal spending, is what the President and Congress must decide to spend for the next year through the 13 annual appropriations bills. It includes money for such activities as the FBI and the Coast Guard, for housing and education, for space exploration and highway construction, and for defense and foreign aid.
- *Mandatory spending*, which accounts for two-thirds of all spending, is authorized by permanent laws, not by the 13 annual appropriations bills. It includes entitlements—such as Social Security, Medicare, veterans’

benefits, and Food Stamps—through which individuals receive benefits because they are eligible based on their age, income, or other criteria. It also includes interest on the national debt, which the Government pays to individuals and institutions that hold Treasury bonds and other Government securities. The President and Congress can change the law in order to change the spending on entitlements and other mandatory programs—but they don’t have to.

Think of it this way: For discretionary programs, Congress and the President *must* act each year to provide spending authority. For mandatory programs, they *may* act in order to change the spending that current laws require.

Currently, the law imposes a limit, or “cap,” through 2002 on total annual discretionary spending. Within the cap, however, the President and Congress can, and often do, change the spending levels from year to year for the thousands of individual Federal spending programs.

In addition, the law requires that legislation that would raise mandatory spending or lower revenues—compared to existing law—be offset by spending cuts or revenue increases. This requirement, called “pay-as-you-go,” is designed to prevent new legislation from increasing the deficit.

Once Congress passes the budget resolution, it turns its attention to passing the 13 annual appropriations bills and, if it chooses, “authorizing” bills to change the laws governing mandatory spending and revenues.

Congress begins by examining the President’s budget in detail. Scores of committees and subcommittees hold hearings on proposals under their jurisdiction. The House and Senate Armed Services Authorizing Committees, and the Defense and Military Construction Subcommittees of the Appropriations Committees, for instance, hold hearings on the President’s defense plan. If the President’s budget proposed changes in taxes, the House Ways and Means and the Senate Finance Committees would hold hearings. The Budget Director, Cabinet officers, and other Administration officials work with Congress as it accepts some of the President’s proposals, rejects others, and changes still others. Congressional rules require that these committees and subcommittees take actions that reflect the budget resolution.

If you read through the President’s budget, the budget resolution, or the appropriations or authorizing bills that Congress drafts, you will notice that the Government measures spending in two ways—“budget authority” and “outlays.”

Budget authority (or BA) is what the law authorizes the Federal Government to spend for certain programs, projects, or activities. What the Government actually spends in a particular year, however, is an *outlay*. To see the difference, consider what happens when the Government decides to build a space exploration system.

The President and Congress may agree to spend \$1 billion for the space system. Congress appropriates \$1 billion in BA. But the system may take 10 years to build. Thus, the Government may spend \$100 million in outlays in the first year to begin construction and the remaining \$900 million over the next nine years as construction continues.

Monitoring the Budget

Once the President and Congress approve spending, the Government monitors the budget through:

- agency program managers and budget officials, including the Inspectors General, or IGs;
- OMB;
- congressional committees; and
- the General Accounting Office, an auditing arm of Congress.

This oversight is designed to:

- ensure that agencies comply with legal limits on spending, and that they use budget authority only for the purposes intended;
- see that programs are operating consistently with legal requirements and existing policy; and, finally,
- ensure that programs are well managed and achieving the intended results.

The Government has paid more attention to good management of late, through the work of Vice President Gore's National Partnership for Reinventing Government and implementation of the 1993 Government Performance and Results Act. This law is designed to improve Government programs by using better measurements of their results in order to evaluate their effectiveness.