



Tax Policy Center
Urban Institute and Brookings Institution

THE TAX POLICY

BRIEFING BOOK

*A Citizens' Guide for the
2008 Election and Beyond*

THE BUDGET PROCESS

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The Budget Process: How does it work?

Each year, the Congress is supposed to pass a concurrent budget resolution setting out aggregate spending, revenue, and deficit targets for at least the next five years. "Concurrent" means that the resolution lacks the force of law and does not require the president's signature-which, of course, implies that the president cannot veto it either.

- The budget resolution divides total spending among the main functions of government, such as defense, transportation, and health. Spending allocations are provided to individual Congressional committees and the House and Senate appropriations committees further divide their spending allocation among their subcommittees.
- The budget resolution leaves it up to individual congressional committees to decide the details of the budget, program by program, consistent with the aggregate targets. In practice, however, the general debate over the budget resolution often ends up discussing the budgets for individual programs and their implications.
- The Congressional Budget Office (CBO) was created to provide technical advice to the Congress on budget matters in a nonpartisan manner. Every bill reported to the floor by the Senate and House committees must attach a CBO cost estimate that covers at least five years, to show that the proposed spending is consistent with the budget resolution's targets.

See Also

Budget Process: What is the history?

Budget Process: What is the schedule?

Budget Process: What is reconciliation?

Budget Process: How is it enforced?

Budget Process: What is PAYGO?

Author: Rudy Penner

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Further Reading

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Schick, Allen 1995. *The Federal Budget: Politics, Policy, Process*. Washington: Brookings Institute Press.

The Budget Process: What is the history?

Today's congressional budget process has its origins in the Congressional Budget and Impoundment Control Act of 1974. That law sought to create a coherent process for Congress' revenue and spending decisions and to constrain a president's ability to impound funds appropriated by Congress.

- In 1972, newly reelected President Richard M. Nixon refused to spend funds appropriated by Congress for various social programs. Although the Constitution provides that a president may not spend money without a congressional appropriation, it was less clear whether he had to spend every dollar that Congress appropriated.
- Nixon's impoundments were quickly challenged in court, and he lost every case at the appellate level except one. Before the Supreme Court could consider the issue, Congress moved explicitly to limit the president's power to impound funds.
- But Nixon had an effective counterargument. He pointed out that Congress had no formal, orderly process of its own for adding up individual spending and revenue decisions and for relating total spending to total revenue. Nixon argued that if the president lacked the power to impound spending, total spending might expand without limit.
- Congress realized that Nixon had won the substantive argument and that it could not limit the president's impoundment powers unless it created a formal budget process of its own. It responded by passing the Congressional Budget and Impoundment Control Act of 1974.

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The Budget Process: What is the schedule?

The budget process begins each year with the submission of the president's budget for the following fiscal year, usually no later than the first Monday in February. The process is slated for completion by June 30, but that almost never happens.

- Within six weeks following submission of the president's budget, the various congressional committees are expected to submit reports to the House and Senate budget committees outlining how their spending and revenue proposals will differ from those of the president's budget.
- After compiling this information, the budget committees are expected to formulate a concurrent budget resolution by April 15, after which the House Appropriations Committee may begin the appropriations process. If the budget resolution is not passed by May 15, the House Appropriations Committee may begin the appropriations process in its absence.
- All necessary appropriations bills are supposed to be passed by June 30, but they seldom are. Reconciliation bills that alter tax and entitlement laws are supposed to be completed by June 15.
- If appropriations are not completed by October 1 - and that is common - federal agencies are funded under continuing resolutions that typically cover spending for only part of a year, but may sometimes be extended to cover the whole fiscal year. These resolutions typically limit spending to last year's level or to the lower of House or Senate approved spending levels if legislative action has not yet been completed by the whole Congress.
- Congress successfully passed budget resolutions each year from the first effective year of the process in fiscal 1976 through 1998. The failure to pass a budget resolution has become more common in recent years, as the whole Congress was not able to pass resolutions for fiscal 1999, 2003, 2005, and 2007.

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Collender, Stanley E., *The Guide to the Federal Budget, Fiscal 2000* (Washington: The Century Foundation, 1999).

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The Budget Process: What is reconciliation?

Congress uses the reconciliation process when it wants to legislate policy changes in mandatory or other direct spending or tax laws to achieve the budget resolution's goals.

- Budget resolutions may contain "reconciliation instructions" that tell the relevant committees how much they should alter revenue or entitlement outlays to make them consistent with the resolution's targets.
- The committees' actions responding to these instructions are then bundled into a reconciliation law. Assuming they are free of points of order, reconciliation laws can be passed in the Senate by a simple majority; they do not require the sixty votes necessary to shut off a filibuster.
- The content of reconciliation laws is limited by the Senate's Byrd rule, which, in general, disallows items that do not affect outlays or revenue. The Byrd rule also prohibits initiatives that would increase the deficit beyond the time horizon used for the budget resolution. This is the main reason that the tax cuts of the early 2000s and certain other tax initiatives are temporary.

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Author: Rudy Penner

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The Budget Process: How is it enforced?

Spending and revenue targets set in the annual budget resolution are enforced by points of order, which any member of Congress may raise against legislation that is inconsistent with those targets.

- The House and Senate budget committees are responsible for providing estimates and calculations that track whether the targets are being met.
- In the House, the Rules Committee often reports so-called special rules that set aside one or more points of order. The House then votes on the adoption of the special rule, which needs only a simple majority to pass.
- In the Senate, if a point of order is lodged against a bill or an amendment, it takes a supermajority vote of sixty senators to overcome it.
- The chairperson of the House or the Senate budget committee, often with the concurrence of the ranking member, may threaten to lodge a point of order against a legislative initiative that seriously violates the budget resolution or an established budget rule, but this step may just start a bargaining process. Eventually, the member pushing the initiative may settle for a less egregious violation in return for passage.

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Schick, Allen, *The Federal Budget: Politics, Policy, Process* (Washington: Brookings Institution Press, 1995).

The Budget Process: What is PAYGO?

PAYGO, which stands for “pay-as-you-go,” is a budget rule requiring that, relative to current law, any tax cuts or entitlement and other mandatory spending increases must be paid for by a tax increase or a cut in mandatory spending. The legislation must be paid for over two time periods: 1) the period of the current year, the budget year and the ensuing four fiscal years, and 2) the period of the current year, the budget year and the ensuing nine fiscal years.

- The original PAYGO was part of the Budget Enforcement Act of 1990. In that year, President George H. W. Bush and the leadership of the Congress painfully negotiated a very large deficit reduction package of spending cuts and tax increases. Having accomplished so much, the Congress was concerned that the package would eventually erode, because future Congresses would reverse the spending cuts and tax increases bit by bit. PAYGO helped to prevent this and was supplemented by caps on appropriations and outlays for discretionary programs.
- Budget experts generally agree that PAYGO worked extremely well from 1990 through 1997. In 1998, a budget surplus emerged by surprise and the discipline implied by PAYGO began to wane. The law officially expired at the end of fiscal 2002.
- After Democrats won control of the Congress in 2006, the House of Representatives quickly re-instituted PAYGO and the Senate adopted a similar rule with the Budget Resolution for fiscal year 2008. Unlike the version passed in 1990, the new PAYGO is not a law. It is simply a procedural rule. If legislative changes were not fully paid for, the earlier law required a sequester of spending to make up the difference. The new rule does not.
- Violations of the PAYGO rule are subject to points of order in the House and Senate. In the Senate, points of order against PAYGO violations can be overcome by 60 votes, and when considering particular bills, the House can adopt a rule prohibiting such points of order with a simple majority.

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Author: Rudolph G. Penner
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