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**AP US Government & Politics**  
**The Federal Budget Process**

**Federal Budget Process Flowchart:**

**Overview:**

- Law requires that by the first Monday in February the President must submit to Congress the proposed federal budget for the next fiscal year, which begins on October 1<sup>st</sup>.
- The budget is complicated due the number of agencies within the bureaucracy that require funding.
- According to the Constitution, Congress has the power of the purse. However, early in the twentieth century, Congress relinquished some of this power to the President, due to the increasing complexity of the federal budget.
- The President prepares his overall economic agenda with help from the Secretary of Treasury and the Council of Economic Advisors.
- The President is responsible for preparing a budget blueprint that is submitted to Congress. He does this with assistance from the Office of Management and Budget (OMB). OMB gathers all the funding requests from the numerous agencies and gives these requests to the President.
- Agency heads will normally request more funding than they received the previous year. Contemporary presidents, for political reasons, have wanted to cut back on the size of the federal bureaucracy. Conflict between these agency heads and the President has been the result.
- The President will propose the budget to Congress, where it is first reviewed and debated in budget committees in the respective chambers.
- The annual budget proposal is controversial for a number of reasons. First, taxing and spending priorities are at the heart of political differences between the two parties. Second, there are disagreements about appropriate levels of deficit spending. Some take a Keynesian approach, arguing that deficit spending is not necessarily bad.

- Finally certain programs like entitlements are called mandatory spending and cannot be easily cut, leaving the main debate centered on discretionary spending, like defense and other departments. A certain part of our spending is called uncontrollable because we cannot anticipate exactly how much it will cost. Finally, there are often disagreements among policymakers about how to stimulate the economy. Some want to use fiscal policy while others want to use monetary policy.
- By the end of the 1980's the national debt had reached trillions of dollars, and since then Presidents have more actively tried to reduce the debt. What is the debt today? You will find out ☹
- A law passed in the 1980's called Gramm-Rudmann put a cap on the amount of deficit spending that we can have. A Balanced Budget Amendment to the Constitution was proposed but it did not pass. The Line Item veto was passed but declared unconstitutional.
- If the President and the Congress cannot agree on a budget by the start of the fiscal year, the government has no authority to spend and may **shut down** as it did 1996 during Clinton's Presidency. This can mean furloughs for government workers and closing of government services.
- *Last* year we were on the brink of another government shutdown and observers feared that due to the size of our debt the US may lose its AAA credit rating. In order to avoid this potential catastrophe, President Obama was able to negotiate a compromise with Republicans that included appointing a "Super Committee" in Congress charged with finding bipartisan ways to cut spending – up to a debt limit. This put off another government shutdown be we are not out of the weeds yet – the Super Committee was unable to find agreements. And our credit rating was downgraded anyway due to the drama.
- The yearly budget is a dramatic event for the White House and the Congress. A formal signing ceremony takes place on White House when the annual budget is complete.

health insurance, secure retirement plans, and substantial vacation time and sick leave—than do most private-sector employees.

Federal employees can form labor unions, but their unions by law have limited scope; the government has full control of job assignments, compensation, and promotion. Moreover, the Taft-Hartley Act of 1947 prohibits strikes by federal employees and permits the firing of striking workers. When federal air traffic controllers went on strike anyway in 1981, President Reagan fired them. There are also limits on the partisan activities of civil servants. The Hatch Act of 1939 prohibited them from holding key jobs in election campaigns. Congress relaxed this prohibition in 1993, although some high-ranking administrators are still barred from taking such positions.

## POLITICAL



### THINKING What Is the Proper Balance?

The patronage model of administrative appointments has a democratic justification—the will of the people as expressed in a presidential election should be carried through in appointments to high executive office. In contrast, supporters of the merit system say that neutral competence—impartial and expert administration—should be the goal of a governmental bureaucracy and that the merit system is the only realistic way of approaching the goal. What balance would you strike between the merit and patronage systems? Would you have the same opinion about the balance if control of the White House were to shift to the other political party?

#### budgetary process

The process through which annual federal spending and revenue determinations are made.

## The Budgetary Process

The Constitution mentions executive agencies but does not grant them authority. Their authority derives from grants of power to the three constitutional branches: Congress, the president, and the courts.

Particularly important for executive agencies is the **budgetary process**, which is the process through which annual federal spending and revenue determinations are made. It is no exaggeration to say that agencies live and die by the outcome of the budgetary process. No agency or program can exist without funding. Although agencies play an active role in the budgetary process, the elected branches have final authority over the budget. The Constitution grants Congress the power to tax and spend, but the president, as chief executive, also helps shape the budget (see Chapter 12). In reality, the budgetary process involves give-and-take between Congress and the president as each tries to influence how federal funding will be distributed among various agencies and programs.<sup>5</sup> From beginning to end, the budgetary process lasts a year and a half (see Figure 13-3).

## The President and Agency Budgets

The budgetary process begins in the executive branch when the president, in consultation with the Office of Management and Budget (OMB), establishes general budget guidelines. OMB is part of the Executive Office of the President (see Chapter 12) and takes its directives from the president. Hundreds of agencies are covered by the budget, and OMB uses the president's directives to issue guidelines for each agency's budget preparations. Each agency, for example, is assigned a budget ceiling that it cannot exceed in developing its budget proposal.

January

April

September

October

The agencies receive their guidelines in the spring and then work through the summer to create a detailed agency budget, taking into account their existing programs and new proposals. Agency budgets are then submitted to OMB in September for a full review that invariably includes further consultation with each agency and the White House. OMB then finalizes the agency budgets and combines them into the president's budget proposal.

The agencies naturally seek additional funding for their programs, whereas OMB has the job of matching the budget to the president's priorities. However, the president does not have any real say over most of the budget, about two-thirds of which involves mandatory spending. This spending is required by law, as in the case of social security payments to retirees. The president has no authority to suspend or reduce such payments. Accordingly, OMB focuses on the one-third of the budget that involves discretionary spending, which includes spending on defense, foreign aid, education, national parks, space exploration, and highways. In reality, even a large part of this spending is not truly discretionary. No president would slash defense spending to almost nothing or cut off funding for the national parks.

The president, then, works on the margins of the budget. In most policy areas, the president will propose a modest spending increase or decrease over the previous year. There are always a few areas, however, where the president will seek a substantial adjustment. In his 2010 budget, for example, President Barack Obama requested an additional \$45 billion in defense spending to support a troop increase in Afghanistan.

## **Congress and the Agency Budgets**

In January, the president's budget is submitted to Congress. During its work on the budget, the president's recommendations undergo varying degrees of change. Congress has constitutional authority over government spending and its priorities are never exactly the same as the president's, even when the congressional majority is of the same political party. When it is of the opposite party, its priorities will differ substantially from those of the president.

Upon reaching Congress, the president's budget proposal goes to the House and Senate budget committees. Their job is to recommend overall spending and revenue levels. Once approved by the full House and Senate, the levels are a constraint on the rest of Congress's work on the budget.

The House and Senate appropriations committees take over at this point. The House Appropriations Committee through its thirteen subcommittees reviews the budget, which includes hearings with officials from each federal agency. Each subcommittee has responsibility for a particular substantive area, such as defense or agriculture. A subcommittee may cut an agency's budget if it concludes that the agency is overfunded or may increase the budget if it concludes that the agency is underfunded. The subcommittees' recommendations are then reviewed by the House Appropriations Committee as a whole. The budget is also reviewed by the Senate Appropriations Committee and its subcommittees. However, the Senate is a smaller body, and its review of agency requests is less exacting than that of the House. To a degree, the Senate Appropriations Committee serves as a "court of last resort" for agencies that have had their funding requests cut by OMB or by the House Appropriations Committee.

Throughout this process, members of the House and Senate rely on the Congressional Budget Office, which, as discussed in Chapter 11, is the congressional equivalent of OMB. If the Congressional Budget Office believes that OMB or an agency has miscalculated the amount of money needed to carry out its mandated programs, it will alert Congress to the discrepancy.

After the House and Senate appropriations committees have completed their work, they submit their recommendations to the full chambers for a vote. If approved by a majority in the House and in the Senate, differences in the Senate and House versions are then reconciled in conference committee (see Chapter 11). The reconciled version of the budget is then voted upon in the House and Senate and, if approved, is sent to the president to sign or veto. The threat of a presidential veto can be enough to persuade Congress to accept many of the president's recommendations. In the end, the budget inevitably reflects both presidential and congressional priorities. Neither branch gets everything it wants, but each branch always gets some of what it seeks.

## POLITICAL



### THINKING

#### Balanced Budget, Good Idea or Bad Idea?

A constitutional amendment to require a balanced federal budget has been proposed from time to time. The amendment would force lawmakers to bring spending and revenues into line each year. Do you think a balanced budget amendment is a good idea? Would you make an exception in time of war or economic recession? If such an amendment were enacted, what spending cuts and tax increases would you like to see in order to balance the budget?

After the budget has been signed by the president, it takes effect on October 1, the starting date of the federal government's fiscal year. If agreement on the budget has not been reached by October 1, temporary funding legislation is required in order to maintain government operations. In late 1995, President Clinton and the Republican Congress deadlocked on budgetary issues to such an extent that they could not even agree on temporary funding. Their standoff twice forced a brief shutdown of nonessential government activities, such as the national parks.