

# Q&A: Congressional Budget and Impoundment Control Act of 1974

Jul 10, 2014

A look at the Budget Act on the 40th anniversary of its passage



## **What is the Congressional Budget and Impoundment Control Act of 1974 (commonly known as the Congressional Budget Act)?**

The Congressional Budget Act was signed into law 40 years ago, in July 1974. It established the congressional budget process that we use today, shifting some budgetary power from the executive branch to the Congress, providing the Congress with a process to develop a budget resolution, and creating institutions to help the Congress prepare that budget. The budget resolution is not signed by the President into law, but is a plan that guides annual congressional deliberations over revenue and spending legislation.

## **What are some of its key features?**

The Congressional Budget Act created the House and Senate budget committees, which manage the congressional budget process. It established the Congressional Budget Office (CBO), an independent, non-partisan agency charged with providing the Congress with cost estimates of proposed legislation and analyses of the budget and the economy. The Congressional Budget Act provided for a process called "reconciliation," a powerful legislative tool meant to streamline congressional consideration of certain tax and spending legislation.

And, the Congressional Budget Act eliminated the presidential power of impoundment, which had allowed the President to withhold (or impound) funds appropriated by the Congress.

### **How did the Congress budget prior to 1974?**

Prior to the enactment of the Congressional Budget Act, the Congress did not have a process or timetable for developing a budget, setting budget priorities, managing overall revenue and spending levels, or coordinating budget-related legislation. As a result, the President, assisted by the Bureau of the Budget (which later became the Office of Management and Budget) and the Council of Economic Advisers, was able to exercise much more control over government finances than the Congress could. As is the case today, the President submitted an annual budget to the Congress. The Congress then passed individual tax and spending bills (primarily through the Appropriations and Ways and Means committees), but did so without the benefit of an overall budget to guide its actions.

### **Has the Congressional Budget Act been effective in improving the budget process?**

Outcomes have been mixed. While the Congressional Budget Act established a systematic framework for the Congress to develop budgets, it also shifted more power to an increasingly gridlocked and partisan Congress, where special interests can have outsized influence.

The budget process has become increasingly difficult. The Congress has produced budget resolutions on time<sup>2</sup> only 6 times in the past 40 years, most recently in 2003.<sup>3</sup> Moreover, since 1974, the Congress has failed to adopt budget resolutions 9 times<sup>4</sup> — all since 1999. In fact, the Congress has failed to adopt a budget resolution in the last 5 years.

### **Have budget deficits decreased since the Congressional Budget Act was passed?**

No. From 1950-1974, federal deficits averaged 0.7% of GDP. After the Congressional Budget Act was adopted, from 1975-2007, deficits averaged 2.5% of GDP. And when the Congressional Budget Act was enacted in 1974, real (inflation-adjusted) U.S. government debt per person was \$3,240. Today, that figure is \$16,527.

### **What about the longer term? Has the Congressional Budget Act helped or hindered efforts to solve our long-term fiscal outlook?**

The Congressional Budget Act is neither the cause of nor the solution to America's long-term fiscal challenges. One of the reasons is that budget resolutions set spending and revenue levels for 10 years, at most, while our most dangerous fiscal challenges occur over the coming decades. Therefore, the budgetary "window" used for most of the congressional deliberations does not reveal the most significant fiscal imbalances, or the fiscal benefits of longer term reforms. Moreover, the fundamental problem is not the budgetary process itself, but a lack of political will to make difficult choices. Without changes in policy, deficits are projected to rise to unsustainable levels in coming decades due to the aging of the population, rising healthcare costs, and an inefficient tax code. Solving these problems will take political leadership from both parties.

### **Are there ideas to update and reform the budget process?**

Yes, many. There are pros and cons to each and absent agreement about the budget, no process reform alone can solve our fiscal challenges. Some of the more frequently proposed reforms include:

- Changing the budget resolution into a joint resolution that would be signed into law by the President
- Setting declining annual targets on the debt (generally measured as a percentage of gross domestic

product — or GDP) — accompanied by revenue and spending policies designed to achieve those targets and enforcement procedures that would be put in place if the limits are breached<sup>5</sup>

- Changing from an annual to a biennial budget process
- Expanding the scope of programs within current spending caps, which now apply to annually appropriated (discretionary) spending, to include some entitlement programs (including Medicare) or to all programmatic spending
- Creating a means to automatically increase revenues (i.e., a surtax) similar to measures currently in place that automatically reduce spending, that would be triggered if budget targets are missed
- Enhancing the President’s authority to rescind funds by requiring the Congress to vote on his proposed rescissions. (Currently, the Congress can ignore the President’s request, which allows the funds to be spent).

<sup>1</sup> Reconciliation enforces budget resolution targets, provides limited time for debate, restricts amendments and allows passage by a simple majority, which, in the Senate, prevents a filibuster. Since its introduction, 20 budget reconciliation measures have been signed into law. For example, reconciliation was instrumental in the passage of the 2001 and 2003 tax cuts, healthcare reform in 2010, and welfare reform in 1996. (Back to citation)

<sup>2</sup> The Congressional Budget Act established an April 15th annual deadline for budget resolutions. (Back to citation)

<sup>3</sup> On average, when budget resolutions have been late, they have missed their target by almost 37 days. (Back to citation)

<sup>4</sup> For fiscal years 1999, 2003, 2005, 2007, 2011, 2012, 2013, 2014, and 2015. (Back to citation)

<sup>5</sup> A debt-to-GDP target would be set as part of the budget process and used to enforce agreed upon budget levels. This approach differs from the debt ceiling, which is a nominal dollar limit on the amount Treasury can borrow. The debt ceiling is a brake on borrowing that forces policymakers to act in order to prevent a default, but because it is not directly linked to the establishment of revenue and spending levels and is applied after spending commitments have already been made, it can be a crude, and disruptive, means of controlling the budget. (Back to citation)

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