Understanding the Budget

The federal budget is one of the most important policy instruments of our government. Through their budget decisions, our elected leaders fulfill their constitutional responsibilities, signal their policy priorities, and manage the federal purse. The budget reflects their decisions to tax and spend, to borrow and lend, and to consume and invest. These decisions define the size of the federal government and its role in the national economy.

Policymakers use the federal budget process to establish spending priorities and identify revenue to pay for those activities. The size and scope of the decisions make the budget process one of the most important and complex exercises in public policy making.

Budget Process. The formulation of the budget is an annual process that involves the Congress, the White House, and virtually all federal agencies. From start to finish, the process of formulating, legislating, executing, and auditing the budget is complex and lasts over a period of four fiscal years.

Spending. Each year, lawmakers determine how much the federal government will spend and where the money will be allocated among 15 cabinet departments and dozens of independent agencies and commissions. But the budget is more than just a tally of numbers. It also expresses the policy priorities of our government — and country. In 2018, total federal spending was $4.1 trillion — about one-fifth of the economy and $12,500 for each person living in the United States. That spending is often divided into three categories:

- Discretionary spending, which is determined on an annual basis by Congress and the President through enactment of appropriations;
- Mandatory spending, which consists of programs that are governed by permanent laws; and
- Interest on the national debt.

Revenue. The federal government finances its operations with revenues, including taxes, fees, and other receipts collected from many different sectors of the economy. In 2018, total federal receipts were $3.3 trillion, about 16.5% of GDP. The largest sources of tax revenue are the individual income tax and payroll taxes, followed by the corporate income tax, excise taxes, and estate and gift taxes.

Over the coming decades, there will be a growing structural mismatch between revenues and spending. This poses significant challenges for our budget, as well as our political system. Politically, it is always easier to cut taxes and increase spending than it is to raise taxes and cut spending. Yet addressing our rising debt will require policymakers to face those choices, and delay will make them even more difficult.
The growing debt is caused by a structural mismatch between spending and revenues.

**FEDERAL SPENDING AND REVENUES (% OF GDP)**

- **Average Spending (1984–2018)**
- **Average Revenues (1984–2018)**

**Spending**

**Revenues**

**Actual** | **Projected**


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