The federal budget is the government's yearly plan for collecting and spending money. It shows how much revenue the federal government expects to receive, which programs it intends to fund, and how much it expects to borrow when spending exceeds revenue. The budget affects retirement benefits, military operations, medical programs, highways, courts, education grants, federal workers, scientific research and interest on the national debt. It is not one large account controlled by the president. It is a complicated system of laws, programs, trust funds, agencies and congressional decisions.

The federal government's fiscal year does not follow the ordinary calendar year. It begins on October 1 and ends on September 30 of the following year. Fiscal year 2027, for example, begins on October 1, 2026, even though most of that fiscal year occurs during 2027. This difference matters when reading government reports because the year attached to a budget does not mean the money was spent only between January and December. Federal agencies organize their planning, contracts and financial reports around the fiscal year.

The federal budget has two main sides: money coming in and money going out. Money coming in is called revenue or receipts. Money going out is called spending or outlays. When receipts are greater than outlays, the government has a budget surplus. When outlays are greater than receipts, the government has a budget deficit and usually borrows to cover the difference.

Most federal revenue comes from individual income taxes and payroll taxes. Corporate income taxes, excise taxes, customs duties, estate and gift taxes, fees and other collections provide additional revenue. Individual income taxes are connected to taxable income, while payroll taxes are mainly connected to wages and self-employment earnings. Revenue changes when employment, wages, business profits, investment gains and tax laws change. A strong economy generally produces more tax revenue, while a recession usually reduces it.

Payroll taxes largely support Social Security and parts of Medicare. Workers see these taxes removed from their paychecks, and employers generally contribute additional amounts. The money is associated with specific programs, but it is not placed in a private account holding each worker's personal contributions. Current taxes help pay current benefits, while workers earn credits toward future eligibility. This structure becomes strained when the number of beneficiaries grows faster than the number of workers supporting the system.

Federal spending is commonly divided into mandatory spending, discretionary spending and net interest. These categories explain how the money is controlled. Mandatory does not mean the program is more morally important than everything else. It means the spending is produced by laws that continue operating without requiring Congress to approve a new amount every year.

Social Security, Medicare, Medicaid and several income-support programs are major examples of mandatory spending. If a person meets the legal requirements for a benefit, the government generally must provide the payment according to the existing formula. The number of eligible people and the cost of their benefits determine how much the government spends. Congress can change mandatory spending, but it must change the underlying law rather than simply ignoring the obligation during the annual appropriations process.

Calling this spending mandatory can create the false impression that nothing can ever be changed. Congress created these programs and can revise their eligibility rules, taxes, payment formulas or benefits. The political difficulty is that millions of people have planned their lives around them. A legal change affecting retirement or health coverage can immediately touch families in every state. The programs are difficult to change because of their importance and public support, not because they exist beyond the reach of law.

Discretionary spending is controlled through annual appropriations. It includes most defense operations as well as funding for education programs, transportation, housing, scientific research, environmental protection, federal law enforcement and many government agencies. Congress decides how much budget authority these activities receive for the fiscal year. The word “discretionary” does not mean the spending is casual or unnecessary. It means lawmakers reconsider the funding through the regular appropriations process.

Defense spending pays for military personnel, training, weapons, ships, aircraft, bases, maintenance, research and military operations. Nondefense discretionary spending covers a wide range of activities, from the Federal Bureau of Investigation and national parks to medical research and food inspections. People sometimes discuss discretionary spending as though it were one giant pile of waste. In reality, it contains programs with very different purposes, costs and levels of public support.

Net interest is the cost of servicing federal debt after accounting for certain interest income received by the government. When the Treasury borrows, it sells securities and promises to repay investors with interest. Those investors include individuals, banks, pension funds, mutual funds, foreign governments, the Federal Reserve and other institutions. Interest payments do not build a road, treat a patient or operate a school. They pay for borrowing that financed earlier deficits.

Interest costs depend on the amount of debt and the interest rates attached to it. A large debt can remain less expensive when rates are low, but refinancing that debt at higher rates increases the government’s interest burden. As interest takes a larger portion of federal revenue, less money remains available for other priorities unless taxes rise or borrowing increases. This is why a debt accumulated during low-rate years can become more difficult to manage later.

The president begins the public budget process by sending a proposed budget to Congress. Federal agencies first develop requests based on their expected needs, existing programs and the administration’s goals. The Office of Management and Budget reviews those requests and helps assemble the president’s proposal. The proposal explains what the administration wants to spend, reduce, expand or change. It is an opening position, not a final budget that automatically becomes law.

Congress holds the constitutional power of the purse. This means federal money generally cannot be drawn from the Treasury unless Congress has provided legal authority. The president may recommend funding, negotiate with lawmakers and sign or veto bills, but the president cannot independently create the entire federal budget. Public discussion often gives presidents full credit or blame for spending that Congress wrote into law. Responsibility is actually shared, although the balance can differ depending on which party controls each branch.

Congress is supposed to develop a budget resolution after receiving the president’s proposal. The House and Senate budget committees prepare plans setting overall targets for revenue, spending, deficits and debt. A budget resolution is not signed by the president because it is an internal congressional agreement. It does not normally provide agencies with money. It establishes a framework that guides later legislation.

Authorization and appropriation are different actions. Authorization creates or continues a federal program and may describe what the program is allowed to do. Appropriation provides the legal authority to spend a certain amount of money. A program can be authorized but receive little or no funding. Congress can also continue funding certain activities even when their formal authorization has expired, which shows how untidy the process can become.

Congress traditionally divides annual discretionary funding among twelve regular appropriations bills. These bills cover areas such as defense, transportation, agriculture, homeland security, financial services and labor-related programs. Committees examine agency requests, hold hearings and write legislation. The House and Senate must pass compatible versions before the president can sign them. When the bills are combined into one large package, the result is commonly called an omnibus appropriations bill.

An appropriation creates budget authority, but budget authority is not always the same as the amount spent during that year. Suppose Congress authorizes a multiyear construction project. The agency may sign contracts now but pay the contractor as work is completed over several years. Budget authority measures the legal commitment Congress allowed, while outlays measure the money actually leaving the Treasury. Confusing these terms can make a budget increase appear larger or smaller than the immediate cash movement.

Congress frequently fails to complete all appropriations bills before October 1. To prevent affected agencies from shutting down, lawmakers may pass a continuing resolution. A continuing resolution temporarily funds programs, often near their previous levels, while negotiations continue. This keeps the government operating but creates uncertainty. Agencies may delay hiring, contracts or new projects because they do not know what their full-year funding will be.

If appropriations expire without a replacement, parts of the federal government shut down. A shutdown does not mean every federal activity stops. Programs funded through permanent laws may continue, and employees performing legally excepted work may remain on duty. Social Security checks can continue, while parks, offices and administrative services may close or slow down. Some federal employees work without receiving immediate pay, while others are furloughed until funding returns.

Shutdowns are political failures, but they are not the same as the government running out of money permanently. They occur because legal spending authority has expired for affected activities. Congress can end the shutdown by passing funding legislation that the president signs. The shutdown itself can cost money because work is interrupted, contracts are delayed and agencies must close and reopen operations. Using a shutdown as a negotiating weapon can therefore increase costs while claiming to defend fiscal responsibility.

The debt ceiling is separate from the annual budget. It limits the amount of debt the Treasury is legally permitted to issue to meet existing federal obligations. Raising the debt ceiling does not, by itself, approve a new military program, tax credit or benefit. It allows the government to borrow enough to pay commitments already created through earlier laws. The spending decision and the borrowing authorization are connected, but they occur through different legal processes.

When the government approaches the debt ceiling, the Treasury can use temporary accounting measures to delay default. These measures create time but do not eliminate the underlying obligations. If the limit is not addressed, the Treasury may eventually lack enough cash and borrowing authority to pay every bill when due. A federal default could damage credit markets, increase borrowing costs and weaken confidence in Treasury securities, which are treated as some of the world’s safest financial assets.

The debt ceiling does not work like a personal credit-card limit in a simple way. Congress may approve spending and tax laws that mathematically require borrowing, then later debate whether to permit that borrowing. Refusing to raise the ceiling after approving the underlying laws does not erase the bills. It creates a conflict between legal obligations and legal borrowing authority. A more direct approach to limiting debt would be changing spending and revenue decisions before the obligations are created.

Budget reconciliation is a special congressional process used to change taxes, mandatory spending or the debt limit. A reconciliation bill can receive expedited consideration in the Senate and avoid the usual sixty-vote requirement for overcoming a filibuster. Because of that advantage, the process is often used for major legislation when one party has only a narrow Senate majority. Its provisions must remain connected to federal spending or revenue under Senate rules. Policy changes with only an incidental budget effect can be removed.

Reconciliation cannot ordinarily be used to pass regular annual appropriations. It is designed to bring certain laws into line with the goals established in a budget resolution. It has been used for tax reductions, health-policy changes and deficit-reduction packages. Calling something reconciliation does not describe whether the policy is good or bad. It describes the legislative route used to move the policy through Congress.

The Congressional Budget Office, known as CBO, provides nonpartisan budget analysis for Congress. It estimates what proposed legislation may cost, how revenue may change and what could happen to deficits and debt. These estimates are called budget scores. CBO does not decide whether Congress should pass a bill. It attempts to calculate the likely federal financial effects under stated economic and technical assumptions.

Budget estimates are not guarantees because they deal with future behavior. A tax cut may affect work, investment and business decisions, but economists may disagree about the size of those effects. A health program may cost more if enrollment rises or less if medical inflation slows. CBO uses established methods so lawmakers can compare proposals on a consistent basis. The estimate may later prove wrong without having been dishonest when produced.

The Office of Management and Budget works for the president, while CBO works for Congress. The Treasury Department manages government cash, borrowing and debt payments. The Government Accountability Office examines how federal money is used and investigates waste, fraud and management problems. Agency inspectors general conduct audits and investigations within specific departments. These institutions have different jobs even though all of them deal with federal money.

A baseline is a projection of what revenue, spending and deficits would look like if current laws continued under specified assumptions. Lawmakers compare proposed changes with this baseline. A bill can be described as reducing the deficit even while the total debt continues rising, as long as the debt is projected to rise more slowly than it would under the baseline. This language is mathematically valid, but it can sound misleading when not explained.

Suppose the government is projected to add ten trillion dollars to the debt over a decade. A proposal that reduces the projected increase to eight trillion may be described as producing two trillion dollars in deficit reduction. The proposal does not reduce the existing debt by two trillion dollars. It reduces projected future borrowing by that amount. Understanding the comparison prevents political language from hiding what is actually changing.

A spending cut can also mean several different things. It may mean spending less than last year, eliminating a program or reducing a future increase. If a program is expected to grow from one hundred billion dollars to one hundred twenty billion, but legislation allows it to grow only to one hundred ten billion, supporters may call that a ten-billion-dollar cut. The program still receives more money than before. The cut exists relative to the projected baseline.

Deficits are yearly measurements, while the national debt is accumulated borrowing. If the government collects five trillion dollars and spends seven trillion in one year, the simplified deficit is two trillion dollars. That shortfall adds to federal debt. A smaller deficit means the debt is still rising, only more slowly. A true surplus would allow the government to reduce certain debt or build additional financial capacity.

The national debt includes debt held by the public and intragovernmental holdings. Debt held by the public is owned by investors outside the federal government, including individuals, financial institutions, the Federal Reserve and foreign holders. Intragovernmental holdings arise when one federal account holds Treasury securities issued by another part of the government. Social Security trust funds are a major example. Both categories represent obligations, but they affect federal finances differently.

Foreign countries do not own the United States merely because they hold Treasury securities. They own financial claims that the United States has promised to repay. Foreign investors purchase Treasuries because the market is large, the securities are widely trusted and dollars are heavily used throughout global finance. Foreign holdings can create financial connections and political concerns, but the majority of federal debt is not simply controlled by one foreign government.

A trust fund in the federal budget is an accounting arrangement established by law. Payroll taxes dedicated to Social Security, for example, are recorded in trust funds and used to pay benefits. When collections exceed current benefits, the surplus is invested in special Treasury securities. The Treasury uses the cash for other government operations and promises to repay the trust fund with interest when needed. The securities are real legal obligations, but the arrangement does not create a vault filled with untouched cash.

When a trust fund begins redeeming securities, the Treasury must obtain the money through taxes, spending reductions, other revenue or additional borrowing from the public. Trust-fund assets give the program a legal claim, but they do not remove the government’s need to produce cash. This distinction explains why a trust fund can possess trillions in Treasury securities while policymakers still worry about its future finances.

Social Security and Medicare face long-term pressure because the population is aging, people are living longer and health care is expensive. These programs can be strengthened through some combination of higher revenue, modified benefits, changes to eligibility, slower payment growth or broader economic growth. Every option affects real people. Political leaders often promise to protect every benefit, reject every tax increase and still balance the budget, but those promises do not fit together mathematically.

Discretionary spending receives enormous attention because Congress votes on it annually, but it is only one portion of the budget. Eliminating a collection of small agencies may satisfy a political goal without solving the long-term deficit. Major budget changes eventually require confronting large categories: retirement programs, health programs, defense, interest or revenue. The arithmetic becomes difficult because these are also the areas with the strongest public support and political protection.

Waste, fraud and abuse are real problems, but they should not be treated as one thing. Waste may involve unnecessary spending, poor planning or an overpriced contract. Fraud involves intentional deception for financial gain. Abuse may involve using authority or resources improperly even when the conduct does not meet the legal definition of fraud. Each problem requires different prevention, enforcement and management.

Eliminating waste sounds painless because nearly everyone opposes it. The difficulty is identifying waste before money is spent and distinguishing it from programs someone merely dislikes. A research project that fails to produce the expected result is not automatically waste because research includes uncertainty. A weapon system with repeated delays and cost overruns may show serious management failure. A fraudulent medical claim involves deliberate theft and should be treated accordingly.

Federal agencies are audited, but a failed audit does not necessarily mean the entire budget disappeared. An audit examines whether financial records are accurate, internal controls work and transactions can be properly traced. A department can possess its equipment and still fail an audit because it cannot document everything according to accounting standards. That is still serious because weak records make waste and fraud harder to detect, but it is different from proving that every undocumented dollar was stolen.

Emergency spending may be added after the regular budget is enacted. Congress passes supplemental appropriations for wars, natural disasters, public-health emergencies and other unexpected needs. Emergency designations can provide flexibility when immediate action is necessary. They can also be used to avoid normal budget limits or reduce scrutiny. A legitimate emergency still requires accounting and oversight.

Some federal programs operate as automatic stabilizers during economic downturns. When people lose jobs, income-tax collections fall while unemployment benefits, nutrition assistance and other support may rise. The deficit can increase even without Congress passing a new stimulus bill. This automatic response supports household spending and can prevent a recession from becoming even deeper. When the economy recovers, revenue normally rises and some emergency spending falls.

Fiscal policy refers to government decisions involving taxes and spending. Monetary policy refers to actions taken by the Federal Reserve involving interest rates, bank reserves and the supply of money and credit. Congress and the president control fiscal policy through legislation. The Federal Reserve operates with a degree of independence when conducting monetary policy. Both can affect employment, inflation and economic growth, but they use different tools.

Government spending can increase demand in the economy. During a recession, that may help businesses retain workers and prevent a collapse. When the economy is already operating near capacity, additional deficit spending can contribute to inflation if demand grows faster than the supply of goods and services. The effect depends on timing, the condition of the economy and what the money purchases. Spending on productive infrastructure may affect the future differently from spending that creates only temporary consumption.

The federal budget is often compared with a household budget, and the comparison is useful only to a point. Both households and governments must consider income, spending, borrowing and interest. The federal government, however, can collect taxes, issue currency through the national monetary system and borrow in financial markets on a scale unavailable to a household. It also has continuing responsibilities that do not end when money becomes tight. A family can cancel a vacation, but the federal government cannot casually stop defending the country or paying legally owed benefits.

The government’s ability to borrow does not mean deficits never matter. Persistent borrowing increases debt and interest costs, while excessive demand can contribute to inflation. However, refusing to borrow under every circumstance can also be harmful. Borrowing during a war, recession or major disaster may prevent greater economic and human damage. The serious question is whether the borrowing serves a necessary purpose and whether the country can manage the resulting obligation.

A balanced budget is not automatically evidence of wise government. A government could balance its budget by neglecting bridges, weakening public health or imposing taxes that damage the economy. A deficit is not automatically evidence of irresponsibility. The condition of the economy, the reason for borrowing and the long-term return all matter. Fiscal responsibility means matching commitments with sustainable resources, not simply forcing every year’s figures to look identical.

Tax cuts affect the budget unless they are matched by spending reductions or generate enough additional economic activity to replace the lost revenue. Tax increases can reduce deficits, but poorly designed increases may discourage useful investment or place excessive burdens on households. Spending cuts can reduce borrowing, but they may also remove services, income or investments that support growth. Every budget choice has an economic effect and a human effect.

Politicians often describe the federal budget as though it contains enough obvious waste to solve every problem without sacrifice. The numbers do not support that comforting story. Waste should be removed, fraud should be prosecuted and agencies should operate efficiently. Even after serious improvements, the country would still face major decisions about health care, retirement, defense, taxation and debt. Budgeting becomes painful when citizens want expensive commitments but reject the revenue needed to support them.

The federal budget is ultimately a statement of national priorities backed by law and money. Speeches may promise support for veterans, families, infrastructure or national security, but the budget reveals whether resources were actually provided. It also shows which costs were pushed into the future through borrowing. Reading the federal budget means looking beyond one dramatic number and asking what is being funded, who receives the benefit, who bears the cost and how long the commitment will last.