Federal and State Budget

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# Budgeting Tools

## Federal Government

The constitution assigns budget responsibility to the legislative branch (Congress). Congress had trouble over the years managing this job. The 1974 Budget act established the budget process that we currently use. This process includes four primary parts that are as follows:

### Part 1

The president's budget request which usually comes out in February.

### Part 2

The budget resolution; this is important because it is required in order to pass a reconciliation bill. The budget resolution is passed by the house and the senate. The president is not involved directly. This bill lays out changes to programs not covered in the appropriation bills (Hedge, 1983).

### Part 3

The appropriation bills.

### Part 4

Reconciliations- this is where changes are made in the programs not covered in appropriations and on revenue matters such as taxes. The reconciliation bill has special protection in the senate so it cannot be filibustered.

## State Government

The tools used by the state government to design its budget are as follows:

* Governor’s Budget
* House Ways and Means Budget
* House Budget
* Senate Ways and Means Budget
* Senate Budget
* Conference Committee
* Governor’s Actions
* Legislative Overrides
* Final Budget

One thing is worth mentioning here; every state has its own tools and ways to design the state budget. However, the above mentioned ways are more general and are used by almost all the states.

# Market Inefficiencies

The government may be cautious about the cessation of a large steel plant that might create the worst outcome in the form of unemployment. As this unemployment will indicate a market failure since the unemployed steelworkers will strive to hunt employment opportunities in other domains. Consequently, the government may need to utilize public funds to offer a subsidy to steel plant so as they can remain in the business, which is again a completely different debate (Hedge, 1983). Nevertheless, the government offering subsidies to the failing businesses will result in ultimate government failure. Moreover, if a company gets used to government subsidies, they will eventually rely on the government. There will be fewer cost incentives and to renovate a business and all the funds will be consumed in supporting the inefficient businesses. The onus is again on consumers in the form of higher taxes and high prices of steel products. The government often interfere in the agricultural markets, here the argument is that farming is prone to market failure. It may result in an unstable supply in a few years leaving the farmer with very low incomes. Thus, the government has intervened in order to subsidize food supply and farm income. The market can be manipulated where there is a serious asymmetry of information, meaning some people know a lot, and many others know a little (Krol & Svorny, 2007). Thus, we get housing boom and busts, stock runs on rumors, etc. The government finds it hard to regulate all aspects of the market, and the best protection is a properly educated population of investors.

# Rainy-Day Funds

If there are no rainy-day funds then it would mean a permanent increase in the cost of debt (read that as a trillion dollars over twenty years). This is because it would send the message to all markets and countries everywhere that the American government has a systemic weakness resulting from an inability(Hedge, 1983). Additionally, a three-week shut down wastes a hundred billion dollars from a combination of lost tax income, increased benefit costs, subcontracted labor, and reduced economic spinoff effect. Congress must authorize funding each year for all executive branch departments. Congress does so by preparing a budget based on the President’s recommendations and then passing it into law. A shutdown happens when Congress either does not pass a budget, or the President refuses to sign the budget passed by Congress and Congress cannot override the Presidential veto.

**References**

Hedge, D. M. (1983). Fiscal dependency and the state budget process. *The Journal of Politics*, *45*(1), 198–208.

Krol, R., & Svorny, S. (2007). Budget rules and state business cycles. *Public Finance Review*, *35*(4), 530–544.