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[NASBO: Key Differences Between State and Federal Fiscal Processes](#)

What are the key characteristics of state budgeting and how do they contrast with federal budget practices? How do the fiscal roles of federal, state, and local governments vary and interact in our federalism system, and what are the implications for budget processes? Why is it important for the federal government to understand how state governments manage their finances and what can they learn from states? These questions and others are addressed in a recently released paper, [Fiscal Contrast: An Analysis of State and Federal Fiscal Processes](#), a joint project of the Kem C. Gardner Policy Institute and NASBO published this month in the Gardner Business Review.

State and Federal Practices Differ

Under the U.S. Constitution, states and the federal government both hold sovereign fiscal powers to spend, tax, and borrow. However, the processes they follow for employing these powers differ in fundamental ways. States typically balance their budgets over a one- or two-year cycle, adopt budgets on a predictable schedule with most spending subject to standard appropriation processes, and practice proactive planning to prepare for an economic downturn or other contingencies, such as building up rainy day funds and conducting stress testing. States' use of debt is generally limited to capital purposes. Meanwhile, the federal government practices routine annual deficit spending using a ten-year budget window, with most spending happening outside of a regular annual appropriations process, and primarily relies on debt as its contingency management tool.

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