

US govt shutdown & the state of its Budget

The US government shuts down when Congress fails to pass the Budget by October 1. The recent shutdown was the longest ever

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US President Donald Trump signed a stopgap bill on Wednesday **to end the longest shutdown of the US government in history.**

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Since the current budget process was instituted in 1976, the US government has been shut down 11 times, according to the US Office of the Historian; the recent shutdown, which went on for 43 days, was by far the longest ahead of the 34-day shutdown in 2018-19, during Trump's last term.

What is a shutdown?

Any government gets its money by essentially taxing people. But in a democracy a government must seek the permission to tax people from their representatives. A shutdown does not mean that the US has run out of money but rather that the US government has run out of the permission of its people to tax them and spend their money.

India has never seen a similar shutdown because it has a completely different form of government.

In India, the Executive (the government) is part of the Legislature (Parliament); the government, headed by the Prime Minister, stays in power as long as it enjoys a majority in Parliament.

This means that when the government in India wants to pass a budget of its choice, it necessarily gets its way; not being able to do so would essentially mean that the government has lost its trust and the Prime Minister would, by law, have to resign.

In the US, the Executive (the President) is not part of the Legislature (the US Congress, comprising the House of Representatives and the US Senate).

This means two things. One, the President can't just make the budget and expect it to be passed because he is the President; they have to wait for the Legislature to play ball. Two, if the budget proposed by the President is not passed, they don't have to resign. Instead, the federal government shuts down.

The deadlock in the Legislature can happen because the members of the two parties — the Republicans and Democrats — do not agree on the President's budget proposal. In the recent instance, while the Republicans held both houses of Congress, they did not have the necessary 60 votes in the Senate to pass Trump's budget proposal. The deadlock was broken when eight Democrats voted with the Republicans to end the shutdown.

Process for passing Budget

In the US, the fiscal year — that is what constitutes a year for the purposes of government's spending and taxation purposes — runs from October 1 to September 30. The shutdown

began on October 1, after the Trump administration failed to pass its Budget in Congress.

The process of passing the budget, however, starts much earlier in February. As Table 1 details, the office of the US President has to send the budget proposals by the first Monday of February. After that, through a series of back and forth steps, the two houses of the US Congress have to deliberate and agree on the budget proposals. This typically leads to long and often rancorous debates over how much to tax and who to tax as well as what to spend on and how much.

In the current instance, for example, one of the disagreements was around the running and scope of the Supplemental Nutrition Assistance Program (SNAP); this was earlier referred to as the food stamps scheme.

According to the Congressional Research Service, October 1 represents a hard deadline for Congress to enact appropriations for the new fiscal year, as much of the funding provided in appropriations acts expires at the end of the fiscal year.

“Current law generally prohibits the obligation of funds in the absence of appropriations. When a lapse in funding occurs (known as a funding gap or funding lapse), federal agencies are generally required to commence a shutdown of affected projects and activities.”

State of US finances

According to the latest report of the Congressional Budget Office that provides nonpartisan analysis for the US Congress, the US budget deficit was \$1.8 trillion in FY2025 (the fiscal year that ended on September 30).

As Table 2 shows, the US government's receipts (read income) in FY2025 was \$5.2 trillion while its outlays (read expenditures) were \$7 trillion. For perspective, the Indian economy's total GDP is less than \$4 trillion, and the size of the government budget (total expenditure) is \$0.6 trillion.

The gap between the receipts and outlays — the deficit of \$1.8 trillion — was 5.9% of the total GDP of the US in 2025. This is much higher than the average deficit of 3.8% (of the GDP) between 1975 and 2025. Typically deficits are measured as a percentage of GDP.

Deficits essentially mean the government has to borrow to sustain its expenses. High levels of deficits add to the mountain of public debt in any economy. That in turn, shows up in higher

payments towards annual interest repayment. As can be seen by data in Table 3, paying off interest on past loans is the second biggest expenditure item of the US government.

Another point of note in Table 3 is that tariffs, regardless of what President Trump claims, still account for a remarkably small fraction of government revenues. The gap is so wide that it is quite unlikely, as some Trump supporters believe, that tariffs will contribute enough to obviate the need for personal income tax.

That's because after a point, higher tariffs will lead to a shutdown of trade, thus resulting in no additional revenue.

For India, a cautionary tale

Many Indians have often suggested that India should shift to a Presidential style of government. But as this episode of shutdown brings out, such a system is deeply susceptible to breakdowns in governance. The Parliamentary system in India, on the other hand, allows for the government to function without a break. (Although it has its own drawbacks).

Of course, this is not the only factor while choosing the system of democracy. But it does underscore the vulnerabilities of a Presidential system for a developing economy like India that may not be able to withstand a prolonged government shutdown like the one that the US just got out of.



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