PAD 642

Overview

In this module, you learned about the budget execution stage, in which agencies work with the central budget office to implement the revenue and spending plans approved by the legislature. You also learned about risk management, which involves using various tools to assess where future uncertainties exist, estimating the consequences of those uncertainties, and selecting appropriate strategies to mitigate those risks. When risks become reality, unexpected events may occur, and agencies may need to work with legislatures to obtain supplemental appropriations or revise existing appropriations.

One unexpected event this year is the U.S.-Israel war with Iran, which began on February 28, 2026. When budget officials and legislatures were making budget decisions for Fiscal Year 2026, whether at the federal, state, or local level, it is unlikely that they anticipated this event. However, this war could have substantial effects on government finances, including but not limited to its effects on energy prices, inflation, interest rates, supply chains, and the costs of capital projects associated with these factors.

In this discussion, you will apply what you have learned in class about budgeting and financial management, along with additional credible sources on the possible effects of the Iran war, to discuss how the conflict may affect federal, state, or local government finances and how governments can respond to these external shocks.

Your task

For this discussion post, choose ONE level of government: federal, state, or local.

Then discuss how the Iran war might affect that level of government's finances, including areas such as:

- revenues
- expenditures
- costs of capital projects
- borrowing and interest costs
- budget reserves or rainy-day funds
- the possible need for revised or supplemental appropriations

Write your response as if you are preparing a memo for a budget officer while serving as a research assistant in a budget office.

Sources

Using relevant and credible sources, write a post of at least 500 words responding to 2–3 of the guiding questions below. Your post should apply concepts from the course, such as risk management, budget execution, revised appropriations, reserves, and rainy-day funds. Your discussion should be guided by credible evidence.

Below are several suggested sources:

- BBC: How the Iran war may affect your money and bills
- CBS News: Iran war fallout raises odds of a U.S. recession, economists say
- Fraser of Allander Institute: The Iran War, inflation and the public finances
- AEI: The Economic Consequences of the Iran War
- Fortune: How badly the war in Iran is impacting your finances depends on where you live
- CSIS: The Hidden Costs of the Iran War (video)

Guiding Questions

Pick 2–3 of the questions below to guide your discussion.

1. If you choose the federal government:

   How might the Iran war affect the federal budget this year? What kinds of supplemental appropriations might be needed, and what are the prospects for Congress passing those supplemental appropriations?

2. If you choose state or local government:

   How might the Iran war affect energy prices, inflation, and interest rates, and how would these changes eventually affect state and local governments' costs of construction and service delivery? What strategies could state and local governments use to deal with these revenue or expenditure shocks?

3. For any level of government:

   What role could reserves, rainy-day funds, or revised appropriations play in helping governments respond to the fiscal effects of the war?

4. For any level of government:

   What budgeting and risk-management tools would be most useful for responding to this type of external shock?

The use of generative AI

You may use generative AI to help with your research, but you must verify any information you receive from AI with credible sources. Do not directly submit AI-generated content as your discussion post.

For example, you may use AI to ask questions about how the Iran war could affect energy prices, inflation, interest rates, supply chains, or public finances. However, you are responsible for checking the accuracy of that information and supporting your discussion with credible sources before using it in your work.