

FOREX TRADING

ANALYSING THE
US GOVERNMENT
SHUTDOWN



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MORE POLITICAL DEADLOCK

FOREWORD

As the deadline approached for the US government's annual spending bill, most political commentators expected political divides in Washington to lead to another US government shutdown.

Unsurprisingly, that's what happened. There's a chance that further shutdowns could happen over the course of 2018 too.

This eBook looks into exactly what a US government shutdown is and how it occurs. It also explores the impact they can have on the country's economy.

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GOVERNMENT SHUTDOWNS EXPLAINED

WHAT IS A US GOVERNMENT SHUTDOWN?

A US government shutdown occurs when Congress fails to pass an appropriate budget to fund government operations and agencies.

Non-essential government services are frozen, meaning and employees get sent home with docked pay. They will remain out of work until a budget is passed.

Essential services such as Homeland Security, the FBI and Air Traffic Control keep running, but workers will not be paid until after the shutdown.

Public services such as national parks, zoos and museums are subject to closing or no staffing. A shutdown also affects the Bureau of alcohol, tobacco, firearms and explosives.

Before the shutdown in early 2018, the last government shutdown happened in 2013. It lasted 16 days in total, leaving over 800,000

people on furlough.

WHY DID THE GOVERNMENT SHUTDOWN IN 2018?

The US government essentially came to a halt because Republicans and Democrats could not agree on immigration reforms.

Originally, a budget had to pass by midnight on Friday 19th January 2018 for the US government to stay open. This ultimately failed to materialise.

Initially, House Republicans attempted to buy more time ahead of the budget deadline. They did this by proposing a piece of stop-gap funding legislation on January 18th. However, in the Senate, this needed 10 supporting votes from Democrats for the bill to pass. Five voted in favour, but five also voted against.

IMMIGRATION REFORM

The failed short-term funding bill threw immigration reform back into the limelight.

It transpired that Republicans and Democrats could not come to an agreement over the protection of undocumented immigrants who came to the US as children (referred to as 'dreamers').

The Democrats wanted to protect the 700,000 dreamers who were previously covered by the Deferred Act for Childhood Arrivals programme.

President Trump and the Republicans wanted a deal that would support dreamers but also fund a wall and tighter security on the border between the US and Mexico.

THE BLAME GAME

When the shutdown was official, both political parties were quick to blame each other.

Republicans claimed that the Democrats' demand for an immigration bill was 'playing politics'. Democrats said that President Trump's basic failure to govern was to blame for the shutdown.

Senior Democrats have been desperate for a permanent solution to protect young immigrants since President Trump announced that he would end the Childhood Arrivals Programme on March 5th 2018 (unless Congress opted to extend it).

Back in September 2017, President Trump appeared to sign off a framework that would lead to a short and smooth agreement for dreamers. However, tables quickly turned as immigration hard-liners convinced the president to secure new demands as part of any DACA deal. This included funding for the border wall, as well as changes to the US immigration system.

OTHER ISSUES

In addition to immigration reform, there was disagreement over the increase in defence spending that the Trump administration demanded.

The re-authorisation of the Children's Health Insurance Programme was also a topic of contention between Republicans and Democrats.

Some members of both parties have also admitted that President Trump's unorthodox negotiating style made bridging the clear divide between senior party figures more difficult.

In 2013, the shutdown was more simple. That shutdown happened after Republicans refused to fund the government for 16 days. This was a bid to deny money for the Affordable Care Act (also known as Obamacare).

TEMPORARY FUNDING

US government funding for the fiscal year is yet to be secured. Two temporary funding bills (known as continuing resolutions) have been passed since the January shutdown to keep the government open. The latest, which lasts for six weeks, was passed on February 9th 2018.

IS THERE NOW AGREEMENT?

IS IMMIGRATION REFORM SOLVED?

Currently, immigration reform is not solved. With the March 5th expiration deadline fast approaching, lawmakers are scrambling to find and pass a final solution.

They need to do this to stop the deportation of thousands of dreamers. Attempts have already been made since the US government shutdown.

On February 15th 2018, a bipartisan proposal was put forward. It provided 1.8 million young immigrants with the chance to be granted citizenship, as well as a contribution of \$25 billion for the border wall. This was President Trump's 'hard-line' package - but it was ultimately denied by the Senate.

Other proposals have been knocked back too. From a 100 member chamber, at least 60 Senate votes are needed for a bill to pass. If a plan is not put into place by the March 5th deadline, over

1,000 permits will begin to expire each day.

IMPACT ON THE US ECONOMY

It may seem counter-intuitive, but a government shutdown doesn't actually save money.

While people cannot make use of government services, economists estimate that approximately \$2 billion a week is lost in economic output. Economists also estimate that a tenth of a percentage point is lost from GDP growth each week.

For example, one effect of government shutdowns concerns federal employees and contractors. During these periods, they have less money to spend. Shutdowns can also have a negative impact on US tourism, as many national parks are forced to close.

Luckily, the government is still able to run vital services, such as social security and food stamps.

In terms of the financial markets, US government shutdowns tend to have little impact, as everyone knows that funding will simply have to be secured at some stage. Deadlock for any prolonged period of time would be politically damaging for both Democrats and Republicans.

However, the frequency of government shutdowns could hamper investor confidence over the long-term. They could start to question an administration's ability to pass legislation through the House and Senate, raising further doubts about the likelihood of its fiscal programme.

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