

Government Shutdown v Government Default

Why do Shutdown's occur?

- ↳ Failure to enact funding legislation to finance government for the next year, or a temporary funding measure

What is the debt ceiling?

When the federal government runs a deficit — that is, spends more than it collects in revenue — it borrows money to cover the difference by issuing IOUs in the form of U.S. Treasury securities. **The debt ceiling is a limit, set by Congress, on the amount of borrowing the Treasury can do**

Why do foreign countries buy US debt?

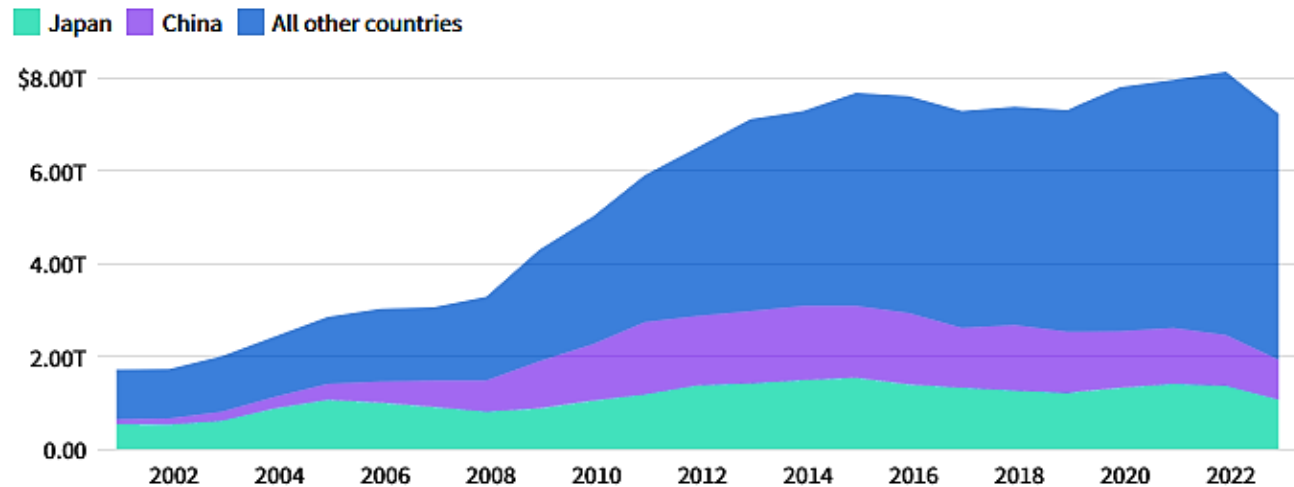
One of the main reasons foreign investors buy US Treasury securities is they are one of the most secure assets in the world. The US government is committed to repaying debts in a timely manner, which can be especially attractive in times of economic uncertainty. In fact, owning US dollars in the form of Treasuries is a part of many foreign monetary policies.

Holding a significant amount of US dollars can be advantageous because it is a widely accepted currency in international trade and transactions. Owning US Treasury securities can provide further benefits such as portfolio diversification, as well as a higher rate of return compared to other government bonds available worldwide

Who owns the most US Treasury securities?

Japan and China have been the largest foreign holders of US debt for the last two decades.

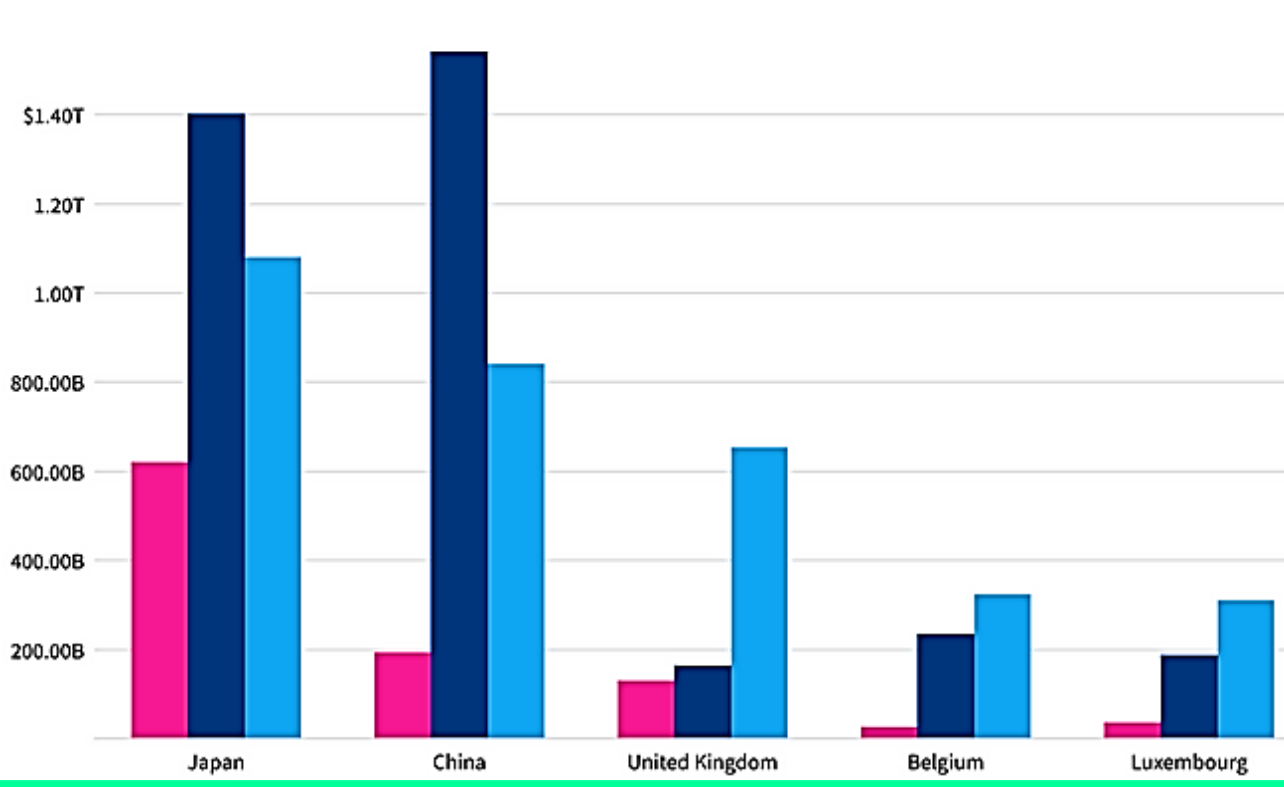
Foreign-owned US debt, separated by country, adjusted for inflation, 2000–2022



Nearly half of all US foreign-owned debt comes from five countries.

US foreign-owned debt by top five holding countries as of January 2023

■ January 2003 ■ January 2013 ■ January 2023



What is the difference between a government Shutdown and a government Default?

↪ In a shutdown, the federal government temporarily stops paying employees and contractors who perform government services, whereas in a default the list of parties not paid is much broader. In a default, the government exceeds the statutory debt limit and is unable to pay some of its creditors

➤ Because tax revenues aren't sufficient to cover all federal spending, the federal government borrows a lot—an average of more than \$7 billion per business day. Raising the debt ceiling doesn't increase federal spending beyond what already has been approved by Congress; it simply allows the government to pay for purchases and obligations it already has made.

What happens if the US government defaults (ie, the debt ceiling is not lifted)?

- Unclear, as it has never happened before.
- A recession is possible.
- Negative economic effects can be global.

Office of Budget and Management determines what parts of government is shut down.

What stays open

- "Emergency personnel" continue to be employed.
 - ↳ Including the active-duty military, federal law enforcement agents, doctors and nurses working in federal hospitals, and air traffic controllers.
- Members of Congress continue to be paid (due to Constitutional Amendment)
- Mail delivery is not affected as it is self-funded, and the funds are not appropriated by Congress.
- Sometimes the Washington, D.C. municipal government remains open.
 - ↳ For example, during the 2013 shutdown, the city remained open because mayor Vincent Gray declared the entire municipal government to be essential.

Open or closed...?

- More than 420,000 federal employees are required to work without pay
 - ↳ This includes agents from the FBI, ATF, DEA, and TSA (airports), as well as staff from the State Department, Coast Guard, IRS and Department of Homeland Security

What shuts down?

- For the Department of Defense...
 - ↳ at least half of the civilian workforce, and the full-time, dual-status military technicians in the US National Guard and traditional Guardsmen are furloughed and not paid while the shutdown is in effect.
- Programs that are funded by laws other than annual appropriations acts (like Social Security) may also be affected by a funding gap, if program execution relies on activities that receive annually appropriated funding.
- Sometimes parts of the Washington, D.C. municipal government shut down, closing schools and suspending utilities such as garbage collection
- National Parks
 - ↳ Some close completely, others remain open with no services (like restroom cleaning)
- National Museums (Smithsonian, etc)
- National Zoo
- Environmental Protection Agency
- DMV's in each state
- Passport processing
- Immigration Courts
 - ↳ cases are postponed; backlog of 1 million cases in 2019!
- FDA ceases to do routine inspections of domestic food-processing facilities
- Multiple federal departments
 - ↳ In 2019, 9 of 15 federal departments were closed

Longest Government Shutdowns

(as of 15 May 2023)

#1

35 Days in 2018-2019

President Trump

Cost to government: \$5 billion

Main topic: Funding of US/Mexico security barrier

#2

21 Days in 1995-1996

President Clinton

Cost to government: \$400 million

Main topic: Opposition to major spending cuts

#3

16 Days in 2013

President Obama

Cost to Government: \$2.1 billion

Main topic: Obamacare

What can government do to avoid this?

Possible solutions:

1. Congress negotiates a CR (continuing resolution) or permanent budget increase.

2. (Controversial) President cites the 14th Amendment

Section 4 reads: “The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned,”

This would theoretically lift the borrowing cap without Congressional approval or consent.

↳ Were Biden to invoke the 14th Amendment to allow Treasury to borrow above the debt ceiling to pay the nation’s obligations, it would almost certainly prompt a constitutional crisis and swift legal action.

3. (Theorized...possible?) Mint a coin.

Comparative governments

Only two countries have a debt ceiling set at an absolute amount (rather than percentage of GDP)

United States

Denmark

↳ Denmark's is set well above expenditures.

Videos

Vox <https://www.youtube.com/watch?v=Kdv07eIC8Wg> (8 min)

Hip Hughes, Re 2013 shutdown <https://www.youtube.com/watch?v=lQwkRzKsmfE> (7:50)

US Debt and Deficit, from 2012 <https://www.youtube.com/watch?v=3ugDU2qNcyg> (7 min)