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Government (Shutdown) 101: What Does It Actually Mean?

At the end of September, Congress passed a stopgap funding measure to narrowly avoid a Federal Government shutdown and keep the government running through November 17. Since then, much has *happened*, but as the deadline looms it's not clear how much has really *changed*. Here's the *Reader's Digest* version:

- A handful of mostly hard-right Republicans united to oust Republican Rep. Kevin McCarthy from his position of U.S. House Speaker - an unprecedented move precipitated by his last-minute deal with Democrats to keep the government running.
- A chaotic search for a new Speaker ensued, and it took House Republicans four nominees and three weeks to elect Rep. Mike Johnson as Speaker. According to the [Washington Post](#), it was the longest such duration without a Speaker while the House is in session in American history.
- And now, [CNN Politics](#) says newly minted Speaker Johnson is “running smack dab into the same spending problems that plagued his predecessor, raising the prospects of a government shutdown if Congress doesn't act between now and Friday and further exposing divisions within the conference.”

With that, we expect a possible shutdown to be big news this week, so we thought we'd do a quick primer on what exactly causes a government shutdown and what it would mean for the American people. *In this newsletter, we'll focus on a U.S. Federal Government shutdown – but it's important to note that shutdowns can also occur at state, territorial, and local levels of government.*

What causes a government shutdown?

Put broadly, a government shutdown occurs when a government's legislative branch fails to enact by certain deadlines key laws to fund or authorize government operations, resulting in a reduction or cessation of government activities and services.

Timing and Deadlines

Each year, Congress must pass [12 appropriation bills](#) that make up the discretionary spending budget and set funding levels for federal agencies. The Federal Government's fiscal year runs from October 1 of one calendar year through September 30 of the next. If Congress fails to enact all or some of the appropriation bills by the time the new fiscal year starts on October 1, then a full or partial shutdown occurs. Congress can delay a shutdown by passing a short-term funding bill, which is what happened over the weekend.

What happens during a government shutdown?

Federal agencies must cease all non-essential functions until Congress acts, so many government operations grind to a halt. Hundreds of thousands of federal employees would be furloughed and sent home without pay, and thousands of federal employees would be asked to work without pay. Check out this [Washington Post article](#) for a full breakdown.

What counts as “essential?”

According to [Time Magazine](#), each federal agency decides which services and employees are essential, which typically includes law enforcement officers, national security agents, active duty military personnel, and federal prison guards. Members of the military and federal law enforcement, for example, would continue going to work, while civilian personnel working for the Defense Department would be furloughed.

What services continue?

Services that would continue unaffected during a shutdown include Social Security payments, Medicare, the U.S. Postal Service, and the Internal Revenue Service (IRS).

What services are disrupted or ceased?

As far as disruptions to day-to-day life, [CNN](#) says that during a shutdown many services Americans rely on are stopped or slowed because so many federal workers are off the job. Flight delays could increase, immigration courts may close, food safety inspections could be disrupted, transportation and infrastructure construction projects could be put on hold, thousands of low-income children would lose access to Head Start early childhood education programs, food assistance services become at risk, and many national parks and museums would close or limit access and/or services.

What's the economic impact?

According to the [Bipartisan Policy Center](#), how much a shutdown hurts the U.S. economy depends on a number of factors, including how long the shutdown lasts and what parts of government the shutdown affects. In general, longer and broader shutdowns inflict more economic damage. For example, the Congressional Budget Office (CBO) [estimates](#) that the 2018-2019 partial shutdown, lasting 34 days, resulted in \$3 billion in permanent lost economic growth.

Matt Egan, CNN Business Analyst, agrees that a shutdown probably won't wreck the economy, especially if it's short, but [argues](#) that it's the last thing the U.S. economy needs at what continues to be a delicate time. "Confidence is always a fragile thing. It's hard to see how Washington would help instill confidence among inflation-weary Americans, not to mention business leaders and investors," Egan said. "CEOs are already [sounding the alarm](#)."

What's the insurance industry impact?

According to a new [AM Best commentary](#), a U.S. government shutdown could affect the title, property, and private flood insurance segments, as well as funding for the National Flood Insurance Program (NFIP) which was set to expire on Sept. 30 but was extended to Nov. 17 with the stop-gap funding measure. Up to 1,300 property sales per day that rely on the NFIP for mandatory flood cover could be in jeopardy, the National Association of Realtors has cautioned.

"Closings on properties requiring flood insurance would be delayed, as would new Federal Housing Administration loans, which would impact property sales and purchases of property insurance and title insurance," said Christopher Graham, senior industry analyst, Industry Research and Analytics, AM Best.

AM Best noted that the potential for short-term losses and volatility in the capital markets would increase with a shutdown, so insurers may make changes to their asset allocations, shifting to investment-grade from high-yield investments.

What's next?

We're days away from a shutdown with no deal in sight, so get your popcorn ready.