

A Shutdown Would Be Positive

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Sometimes, news really is important. The Pope’s visit to the U.S. was big, but the resignation of House Speaker John Boehner, effective October 30, was huge.

If you were worried about a government shutdown this fall, now it’s less likely. Boehner is free to work with Democrats, ignoring conservatives who want to defund Planned Parenthood, and pass a “continuing resolution.” This will keep the current budget fully funded through early December.

Just avoiding vetoes infuriates conservatives (and most of the GOP presidential field). They say the “establishment GOP” is ignoring Congress’s Constitutional power of the purse and capitulating to Democrats. The GOP leadership says it has to give in to “get something done.” It also says this will help elect a Republican president, who will then work in tandem with a Republican Congress to make drastic changes in fiscal policy.

The problem with this strategy is that the last time the GOP controlled the White House, it enacted No Child Left Behind, which federalized primary education, expanded Medicare, passed TARP (instead of changing mark-to-market accounting) and spent big during 2001-08. In other words, the GOP does not have a good track record on spending.

But Boehner’s resignation means a government shutdown is more likely in the longer-run. The GOP majority now has a chance to elect a speaker who will be more combative on spending and deficits. These budget battles will take place later this year, and if Republicans want to cut spending, they probably can’t avoid a government shutdown.

If Congress passes bills that cut spending, President Obama will veto them and a more combative Republican

majority will get “blamed” by the media and Democrats for causing a fight that results in a government shutdown.

In that scenario, instead of trying to “avoid the blame,” conservatives should “take the credit” for any shutdown.

Yes, that’s right, take the credit. Shutdowns are not as scary as they’re portrayed. Money still flows into the Treasury Department and money still flows out, for Social Security or to make interest payments on the debt, for example. The military, border control, food inspections, air traffic, prisons, weather service, and post office, all keep running.

The downside is that if you need a passport or want to get into a national park, you are out of luck. Non-essential services stop and non-essential federal workers get furloughed. Meanwhile, the budget deficit drops.

Some say a shutdown will hurt the economy, but history doesn’t agree. The longest shutdown was from mid-December 1995 to early January 1996. Real GDP grew 2.7% in the year before the shutdown, and then at a 2.8% annualized rate in Q4-1995 and Q1-1996, in spite of the shutdown and a massive East Coast Blizzard. And after the shutdown, the U.S. passed welfare reform and moved to budget surpluses.

The government shut down in October 2013 and the economy grew at a 3.8% rate that quarter. Again, no problem.

The U.S. faces a future of trillion dollar annual deficits if we don’t cut spending. If shutting down the government helps alter that path, the U.S. economy will not only survive the short-term, but thrive in the longer term. So, if Boehner’s resignation finally makes that possible, a shutdown will be a positive for the U.S. economy.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-28 / 7:30 am	Personal Income – Aug	+0.4%	+0.5%	+0.3%	+0.4%
7:30 am	Personal Spending – Aug	+0.3%	+0.3%	+0.4%	+0.3%
9-30 / 8:45 am	Chicago PMI	53.0	53.7		54.4
10-1 / 7:30 am	Initial Claims – Sep 26	271K	271K		267K
9:00 am	ISM Index – Sep	50.6	50.2		51.1
9:00 am	Construction Spending – Aug	+0.5%	+0.3%		+0.7%
afternoon	Total Car/Truck Sales – Sep	17.6 Mil	17.8 Mil		17.7 Mil
10-2 / 7:30 am	Non-Farm Payrolls – Sep	202K	200K		173K
7:30 am	Private Payrolls – Sep	198K	190K		140K
7:30 am	Manufacturing Payrolls – Sep	0	-1K		-17K
7:30 am	Unemployment Rate – Sep	5.1%	5.1%		5.1%
7:30 am	Average Hourly Earnings – Sep	+0.2%	+0.1%		+0.3%
7:30 am	Average Weekly Hours – Sep	34.6	34.6		34.6
9:00 am	Factory Orders – Sep	-1.3%	-2.4%		+0.4%

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.