

BRIEF ANALYSIS

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Why the Government Shut Down

The recent shutdown of parts of the federal government lasted 21 days and ended on January 5. It idled thousands of federal employees and closed numerous government agencies.

On the surface, it all happened because President Clinton and congressional Republicans could not agree on legislation appropriating money. The president had vetoed several spending bills the Congress sent him and was threatening to veto others. Beneath the surface, the two sides disagree over the need to curtail government spending, stop the federal government from going further into debt and eliminate the annual federal deficit.

Currently, the national debt is about \$3.7 trillion — an amount equal to \$32,100 for every household in America. If we continue on the current spending path, that debt will grow indefinitely into the future. For example, by the year 2002 the debt will equal about \$41,300 for every household in America. [See Figure I.]

What does the shutdown have to do with a balanced federal budget? Congressional Republicans have been trying to force President Clinton to agree to a budget path that brings spending into line with revenues in seven years (by fiscal year 2002). Their first tactic was to refuse to raise the debt limit — preventing the executive branch from borrowing more money. So far, the administration has dodged this restriction by borrowing from the pension trust funds of federal employees [see the discussion below]. Republicans also are passing spending bills consistent with their own plan to get to a balanced budget. President Clinton has responded by vetoing the bills.

The third Republican tactic has been to respond to President Clinton's vetoes by doing nothing. In the absence of bills appropriating the money they spend, agencies by law are forced to shut down.

Why did parts of the government shut down while others didn't? By law, government agencies cannot spend money unless it is specifically appropriated. In most cases, agencies get their funds from 13 major appropriations bills covering the fiscal year. As of

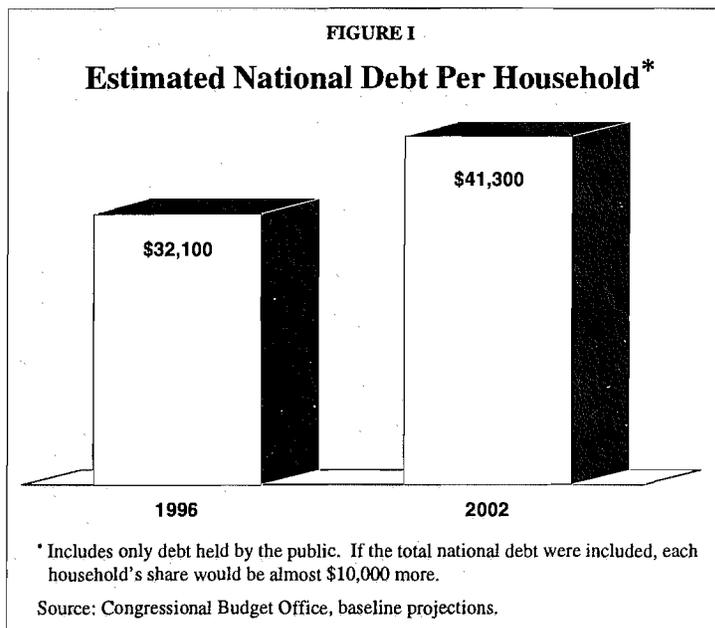
January 1, 1996, seven of the bills had become law, including appropriations for defense and agriculture.

Clinton vetoed three appropriations bills — one covering veterans affairs, housing and independent agencies; one covering commerce, justice, state and the judiciary; and one covering the interior. Three bills, including a \$259 billion appropriation for labor, health and human services being held up by a Democratic filibuster in the Senate, have yet to

pass Congress, but the president has promised to veto all three if they pass in their present form.

When the shutdown came, parts of the government covered by the six appropriations bills that had been signed into law continued to operate. So did certain other activities authorized by law, such as the payment of Social Security benefits. The rest of government — except for work performed by employees deemed "essential" — did not operate.

What determines who are "essential" and "nonessential" workers? That is covered by the Anti-Deficiency Act, which provides criminal penalties for government spending not authorized by law. "Essential" workers are those employed "for emergencies involving the safety of human life or the protection of property."



How can the situation be resolved? There are three ways: (1) the president and Congress can agree on the remaining appropriations bills; (2) Congress can override the president's vetoes; or (3) Congress can pass, and the president sign, a *continuing resolution* (CR). A CR provides legal authority for departments and agencies to spend money, usually at the previous year's level, while an appropriations bill is being considered. For example, Congress passed and President Clinton signed a CR on January 5 that brought federal workers back to work through January 26.

CRs are necessary because of the Anti-Deficiency Act. When Congress did not finish work on the 13 appropriations bills by the end of the 1995 fiscal year on September 30, it passed a CR effective until November 13. While the CR was in effect, several appropriations bill were passed and signed into law. When the CR expired, "nonessential" workers in those agencies that had not yet received appropriations had to go home. A second CR brought everybody back after a few days, but that one expired December 15, and the lengthy shutdown occurred.

What promises have the two sides made? Republicans have repeatedly said that they are willing to compromise on every part of their budget plan except two nonnegotiable demands: (1) the budget must balance in seven years and (2) the numbers used to determine whether balance is achieved must be those of the Congressional Budget Office (CBO).

Although President Clinton campaigned on a balanced budget platform and although he has repeatedly

said he favors one, he did not propose a federal budget that balanced until the weekend of January 6.

What is the relationship between the shutdown and the federal government's ability to borrow? The Treasury Department needs legal authority to borrow money. Congress historically has used the debt limit as a lever in budget negotiations.

However, under authority from a 1986 law, Treasury

Secretary Robert Rubin has raised cash by borrowing from government trust funds. He can do this because the debt limit applies to the gross federal debt, which is about \$1 trillion more than the debt held by the public. By replacing bonds from government trust funds with IOUs not subject to the debt limit, Rubin has been able to continue selling bonds to the public and raising cash to pay government bills. It is not

clear how long Rubin can continue to evade the debt limit. Some House Republicans suggest that if he oversteps legal bounds they will move to impeach him.

How much does Clinton's budget differ from the Republicans' budget? According to the CBO, Clinton's during-the-shutdown budget offer proposed spending \$12,454 billion over the next seven years, compared to the Republicans' \$11,859 billion, a difference of \$595 billion. [See Figure II.] While \$595 billion sounds like a large number, in fact it represents less than 1 percent of gross domestic product over the next seven years. To put this number in perspective, federal spending fell by 1.4 percent of GDP between 1992 and 1995 — and no one noticed.

