

Policy Backgrounder: Government Shutdown

Looms

December 20, 2024

Key Insights

Despite a deadline of December 20 to avert a government shutdown, the process has moved extremely slowly until this week. Other than securing agreement on the National Defense Authorization Act (NDAA) for Fiscal Year 2025, the lame duck session of Congress has been unable to agree on a continuing resolution (CR) to extend current levels of government funding. Having abandoned a tentative bipartisan agreement under pressure from President-Elect Trump, the House then voted down another bill which would also controversially have continued the current suspension of the debt ceiling until January 2027. All this leaves significant policy decisions for the new Congress and Administration in early 2025 regarding the FY2025 Federal Budget, the debt ceiling, and plans for a significant tax bill that would extend the expiring provisions of the 2017 Tax Cuts and Jobs Act (TCJA).

- The NDAA that Congress passed with strong bipartisan support authorizes almost \$895 billion for national defense and includes a significant pay increase for servicemembers.
- After bipartisan negotiations, House Speaker Mike Johnson (R-LA) unveiled an over 1,500-page CR that extended current government funding levels until mid-March and included over \$100 billion in disaster relief funding and aid to farmers.
- But many Republicans and President-Elect Trump opposed the bill, which did not receive a vote on the House floor. A second bill was then defeated 174-235, with 38 Republicans voting no.
- On Friday morning, House Republicans were preparing “Plan C,” possibly separating the CR into separate votes, but a shutdown remains a possibility. The level of dissatisfaction with Speaker Johnson also raises the question whether he will be reelected in the new Congress on January 3.

Congress Approves NDAA with Significant Troop Pay Raise

The FY2025 [NDAA authorizes](#) almost \$884 billion in defense spending; combined with \$11 billion in other defense funding, this brings total FY2025 defense spending to nearly \$895 billion, in line with the budget [cap](#) outlined in the 2023 Fiscal Responsibility Act (FRA) and a 1 percent increase over FY2024 funding. (The actual appropriations funding these programs will be included in the FY2025 appropriations bills). The [signature](#) of the NDAA is a 14.5% pay raise for junior enlisted servicemembers and a 4.5% pay raise for all other servicemembers. The bill also makes [investments](#) servicemembers’ quality of life by revising the cost-of-living allowance calculation, and improving barracks and family housing units, increasing access to medical care and childcare, and other measures. Furthering US strategic priorities, the NDAA [invests](#) in military and industrial base readiness, [expands](#) US joint military exercises with Israel, and authorizes \$15.6 billion for the [Pacific Deterrence Initiative](#) to support allies in the Indo-Pacific region.

The NDAA also includes several provisions related to cultural issues, including a [ban](#) on gender-affirming care for the children of servicemembers that applies to TRICARE, the military’s health care program. Rep.

Mike Rogers (R-AL), chair of the House Armed Services Committee, [said](#) he was not consulted on this provision and [viewed](#) it as unnecessary given the President-Elect's predicted administrative action on the issue. Ultimately, the House [passed](#) the NDAA 281-140, with less bipartisan [support](#) than is typical.

On Monday, the Senate invoked cloture on the bill, even though the overall funding level was also roughly \$25 billion [lower](#) than some Senate Republicans, such as ranking member of the Senate Armed Services Committee Roger Wicker (R-MS) and Senate Minority Leader Mitch McConnell (R-KY), wanted. As Senator McConnell [said](#), "Artificial budget restraints mean that major bill provisions, like a pay raise for enlisted service members, will come at the expense of investments in the critical weapons systems and munitions that deter conflict and keep them safe. For all the talk about growing threats to America's national security, it's past time for an honest conversation about the military requirements to meet those needs." Despite this, the NDAA [passed](#) the Senate on Wednesday by a 85 to 14.

Congress Struggles to Prevent Government Shutdown

Faced with an impending government shutdown on October 1, Congress [passed](#) a CR at the end of September extending current government funding levels until December 20. As the post-election "lame duck" session began, Congress faced a decision of whether to finish the FY2025 appropriations process now or wait until the new Congress and new Administration take office. Some Republicans, such as ranking member of the Senate Appropriations Committee Senator Susan Collins (R-ME), [wanted](#) to pass all 12 appropriations bills before December 20 to give the President-Elect a "clean slate" for 2025. Nevertheless, Speaker Johnson [decided](#) that another CR was the best path forward, requiring [negotiations](#) with Democrats given House Republican antipathy to short-term spending bills and the narrow Republican majority in the House.

Negotiations Go Down to the Wire

Congressional leadership released [text](#) for a draft CR of over 1,500 pages only on December 17. This negotiated version would have extended Federal funding at current levels until March 14, six weeks before April 30 deadline when sequestration (automatic spending cuts) begins according to the revised statutory [caps](#) on discretionary spending in the 2023 Fiscal Responsibility Act.

The draft CR [contained](#) a [host](#) of [additional](#) provisions and funding, designed to piece together a bipartisan two-thirds majority to pass it under suspension of the rules in the House. It provided \$100 billion in disaster relief to the Southeast in the [aftermath](#) of Hurricanes Helene and Milton earlier this year and to farmers experiencing financial difficulties due to various natural disasters. It also included a one-year extension of the 2018 [farm bill](#) to allow for negotiations on funding major agricultural and nutrition programs next year and [allowed](#) year-round sales of ethanol fuel nationwide, a win for Republicans in states where corn is a major crop.

The [CR](#) also extended various health-related programs within Medicare and Medicaid and reauthorizes Federal child welfare programs. Additionally, the CR reauthorized the [Older Americans Act](#) and the [Workforce Innovation and Opportunity Act](#), human services programs that support the elderly, young adults, and individuals with disabilities. The CR contained [reforms](#) affecting pharmaceutical benefit managers (PBMs), including a provision prohibiting linking PBM compensation to a drug's Medicare price that attempts to dissuade PBMs from steering patients to high-cost. Finally, the bill also contained legislation [restricting](#) certain US investments in China, particularly in the areas of artificial intelligence, quantum computing, chips, telecommunications, and other technology sectors with national security risks.

Amid Fierce Opposition, Speaker Johnson Moves to Plan B

However, the bill drew widespread criticism from many Republican legislators. To address this criticism, Speaker Johnson [said](#) on Tuesday, "This is a small CR that we had to add things to that were out of our

control. These are not man-made disasters. These are things that the federal government has the appropriate role to do.”

Nevertheless, opposition to the CR emerged on Wednesday and snowballed into an avalanche by the end of the day. Members of the House Freedom Caucus were [perturbed](#) by the unrelated provisions and lack of spending offsets to disaster relief funding. Other Republicans including Rep. Mike Lawler (R-NY) and Rep. Jason Smith (R-MO), chair of the House Committee on Ways and Means, [raised](#) concerns to Speaker Johnson about concessions to Democrats and the lack of Committee involvement in crafting the CR. Elon Musk and Vivek Ramaswamy, prominent allies of the President-elect [tasked](#) with leading the proposed Department of Government Efficiency, also came out in [opposition](#).

The opposition culminated in a [statement](#) from the President-Elect and the Vice President-Elect that called on Republicans in Congress to increase the debt ceiling, which sets the maximum amount of outstanding Federal debt the US government can incur, and pass a CR without any concessions to Democrats. The FRA [suspended](#) the debt ceiling until January 1, 2025, and the negotiated CR did not extend this suspension, meaning that the Treasury Secretary would begin extraordinary measures on January 2 to raise cash to [avoid](#) default on US sovereign debt. Brinkmanship related to raising or suspending the debt ceiling [led](#) to downgrades in the Federal government’s credit rating by the three major credit rating agencies in 2011 and 2023; [defaulting](#) on the national debt could lead to a recession and financial crisis. Still, reacting to the President-Elect’s demand, Senator Elizabeth Warren (D-MA) [said](#), “Congress should terminate the debt limit and never again govern by hostage taking.”

On Wednesday night, House Majority Leader Steve Scalise (R-LA) [declared](#) that the negotiated CR had been officially scrapped. House Republican leadership spent Thursday crafting another CR, releasing a much narrower [one](#) on Thursday afternoon. This [new CR](#) included the disaster relief and funding for farmers; a clean, one-year extension of the 2018 farm bill; clean extensions of various health care programs; and a two-year suspension of the debt ceiling through January 30, 2027. It also [dropped](#) the provisions relating to PBMs and ethanol and (surprisingly given strong bipartisan views on China) the provision codifying restrictions on outbound US investment to China of certain very high technology products. House Minority Leader Hakeem Jeffries (D-NY) [said](#) that Democrats will not support a CR that differs from the negotiated agreement, adding, “[y]ou break the bipartisan agreement, you own the consequences that follow.” Rep. Bob Good (R-VA) [said](#) that “[t]he bad spending package just got worse, and it now includes an inexcusable unlimited 2-year debt ceiling increase with no spending cuts!!!”

On [Truth Social](#), the President-Elect [posted](#), “Speaker Mike Johnson and the House have come to a very good Deal for the American People. . . . A VERY important piece, VITAL to the America First Agenda, was added as well – The date of the very unnecessary Debt Ceiling will be pushed out two years, to January 30, 2027.” However, on Thursday evening, the House defeated the measure, 174-235, with 38 Republicans voting no and only two Democrats voting yes.

Plan C?

On Friday morning, Republicans were attempting to present a third bill; one option reportedly [discussed](#) would simply be a CR lasting three weeks, thus putting the next deadline still under the Biden Administration, perhaps consistent with the President-Elect’s [statement](#) that “If there is going to be a shutdown of government, let it begin now, under the Biden Administration, not after January 20th, under “TRUMP.” This is a Biden problem to solve, but if Republicans can help solve it, they will!” The President-Elect also [proposed](#) extending the debt ceiling suspension “to, perhaps, 2029 [.]”

While the bill had not been presented at press time, Senator Markwayne Mullin (R-OK) [expected](#) to avoid a shutdown through a “clean” bill as “we’re pushed up against Christmas here” -- “that’s really the option that’s on the table.” But even if the House approves a bill, the Senate would also have to act, and time is short, leading to the possibility of a technical shutdown not affecting government operations on Monday. Another option is [reportedly](#) separate votes on up to three bills, including a “clean” CR, disaster relief, and

possibly raising the debt ceiling, a step which might help deficit hawks vote for at least the clean CR and avoid a shutdown.

Economic Consequences of a Shutdown

On Friday morning, the path forward was unclear, with a realistic possibility of a shutdown. According to The Conference Board's Economy, Strategy, & Finance Center, the economic implications of a shutdown are significant. Depending upon the duration of the shutdown, the economic impact would be somewhere between a 0.1pp and 0.3pp cut to real GDP growth, though this would be made up quickly once the government reopens. Government workers on furlough would be made whole, but contractors are not guaranteed back pay, and businesses depending on government workers and services would be inconvenienced. While essential government workers such as the [armed services](#), TSA, and air traffic controllers would continue to work, they would not be paid until the shutdown ends. Social Security checks, Medicare and Medicaid payments, and veterans' benefits would continue, but other major government functions would halt. Notably, an extended shutdown would [delay](#) release of key economic data on GDP, labor, inflation, trade, and sales that the [Fed](#) and financial markets use to gauge the health of the US economy and harming trading and oversight of financial markets.

Conclusion

Perhaps ironically, during a shutdown Members of Congress are paid but staff are not unless Congress votes to make them whole. The dysfunctional budget process in the House has dramatically increased the chances of a shutdown, whether a temporary one over the weekend or a more prolonged shutdown that lasts through the holidays and into the New Year when Congress reconvenes. In the next Congress, House Republicans will have an even [narrower](#) majority, raising the prospect that Speaker Johnson will struggle to win reelection as Speaker.

As Congressional Republicans [debate](#) the best path forward to enact core components of the new Administration's agenda, this week's events portend future contentious debates over fiscal priorities next year, particularly how to extend many of the expiring provisions of the TCJA. More broadly, the habitual use of CRs and the frustration felt by many Members of Congress about the broken budget process also highlight the urgent need for Federal budget process reform. During the debate on Thursday, the gavel the presiding officer used to quiet the House [broke](#), shattering on the House floor—a visible sign of an exceptionally fraught process on one of Congress' most basic functions: to pass a budget.

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