

MNI POLITICAL RISK ANALYSIS - Government Shutdown Underway

by Adam Burrowes

At 00:01 ET 05:01 BST this morning, the US government shut down for the first time since 2018-19, after the Senate rejected a House-passed Continuing Resolution to extend FY25 government funding through November. The Senate also rejected a competing Democratic funding bill that would extend expiring Obamacare subsidies, among a raft of healthcare measures.

- There are no ongoing negotiations or meetings planned today, but Senate Majority Leader John Thune (R-SD) is expected to hold a third vote on both bills at 11:00 ET 16:00 BST. They are expected to fail again.
- The Senate is out of session on Thursday in observance of Yom Kippur. Thune is expected to continue voting on the funding bill on Friday and Saturday.
- Punchbowl notes, “Both sides are deeply entrenched right now, and this shutdown could potentially drag on for days or weeks... The House is out of town. Senate leaders aren’t negotiating. Trump is openly mocking Senate Minority Leader Chuck Schumer [D-NY] and House Minority Leader Hakeem Jeffries [D-NY] on social media. The chances of a quick resolution to the impasse are low — unless one side abruptly folds.”

Roughly 750,000 federal employees will be placed on furlough. Federal staff deemed “essential,” including military personnel, will be required to work without pay. When the government reopens, essential and furloughed employees will receive back pay.

- Unlike previous shutdowns, the Pentagon has indicated it could tap additional funding from the GOP’s ‘One Big Beautiful Bill,’ which releases a major pressure valve on Republicans.

Shutdown Framing

Ahead of the shutdown, Republicans and Democrats sought to frame the standoff in favourable political terms. For Democrats, the shutdown is a response to healthcare cuts, an issue they believe will be a vote-winner at the 2026 midterm election.

- Republicans have framed the standoff in immigration terms, arguing that Democrats want billions of dollars of healthcare funding extended to undocumented migrants. Vice President JD Vance said last week, “Democrats are about to shut down the government because they demand we fund healthcare for illegal aliens,”
- Trump said similarly on Truth Social, “The Democrats want Illegal Aliens, many of them VIOLENT CRIMINALS, to receive FREE Healthcare,”

Neither position is strong:

- The Democrat framing of an existential health crisis is countered by a Republican argument that Obamacare subsidies will not expire within the period covered by the GOP CR, therefore leaving sufficient time for Congress to negotiate an extension within the regular appropriations process.
- The Republican argument that Democrats are seeking funding for undocumented migrants is also misleading. The two healthcare programmes highlighted by Democrats - Medicaid and Obamacare subsidies - cannot be accessed by undocumented migrants.

Ultimately, the length of the shutdown is likely to be determined by which argument is more persuasive to voters in the short term. The GOP's more sophisticated political messaging apparatus and Trump's powerful bully pulpit put Democrats at a disadvantage.

- Moreover, despite Democrats' strong position on healthcare, voters are likely to be unsympathetic to a government shutdown that appears to have been pushed as a negotiating strategy, after years of Democrats opposing the same tactics.
- Thune said on the Senate floor yesterday, "This is a made-up problem by the Democrats who desperately need to satisfy a political base that is hostile to Donald Trump. Nothing more, nothing less."
- OMB Director Russell Vought told Fox News yesterday, "We're on the brink of a government shutdown that is caused entirely by Democrats based on their outrageous demands of about \$1.5 trillion... We're not going to be held hostage to these kinds of insane, ridiculous demands..."

It's worth noting that it wasn't so long ago that Democrats accused Republicans of leveraging the threat of a government shutdown to advance policy demands. House Speaker Mike Johnson (R-LA) and then-Senator JD Vance were among a group of conservatives who repeatedly voted down 'clean' CRs.

- This week, Vance repeated an adage often directed at his group of conservatives, "You don't shut the government down," Vance said. "You don't use your policy disagreements as leverage to not pay our troops and not have essential services."

Route Out of a Shutdown

Three Democrats Senators voted in favour of the GOP CR yesterday: John Fetterman (D-PA), Catherine Cortez Masto (D-NV), and (Democrat-aligned Independent) Angus King (I-ME). That means Thune needs to flip five more Democrats as voting continues.

- Note: Senator Rand Paul (R-KY) will always oppose short-term funding measures, taking the required number of Democrat-backers to eight. Senators Jeanne Shaheen (D-NH) and retiring Gary Peters (D-MI) are among Democrats to watch in today's vote. If either or both of them join with Republicans, Senate Minority Leader Chuck Schumer's (D-NY) leverage will be further diminished.

Both President Trump and OMB Director Russell Vought have stated they intend to direct the pain of a shutdown on Democrats.

- Vought wrote in a memo on Tuesday, "It is unclear how long Democrats will maintain their untenable posture, making the duration of the shutdown difficult to predict. Regardless, employees should report to work for their next regularly scheduled tour

of duty to undertake orderly shutdown activities. We will issue another memorandum indicating the government functions should resume once the President has signed a bill providing for appropriations.”

If Democrats hold the line, the most obvious route out of the shutdown is a deal on extending the expiring Obamacare subsidies. An extension could be included in a rewritten CR, in a handshake deal, although Democrats have questioned whether such a deal could be trusted.

- Indeed, Democrats believe that Trump, often out of lockstep with GOP orthodoxy, can be convinced that extending Obamacare subsidies is in his own political interests. NBC News notes, “Trump could face a public backlash over rising insurance premiums if he doesn’t give Democrats the ACA extension they seek. In other words, they’re asking him to accept a policy that figures to help his party’s chances in the midterms...”
- Politico reports that an influential conservative lobby group, the Paragon Health Institute, which has wielded “extraordinary influence” over the GOP’s sprawling Medicaid cuts, “have been leveraging their vast alumni network and unparalleled access on Capitol Hill to convince Republicans to let the enhanced tax credits expire...”

Senator Mike Rounds (R-SD) has floated a one-year extension to the Obamacare subsidies, “which would then be followed by a one-year phasedown to return the tax credits to pre-pandemic levels,” per Politico.

- Although Rounds hasn’t suggested the measure could be included in a short-term funding bill to reopen the government, it is a potential offramp that will look increasingly palatable to moderate Democrats as the shutdown pain bites.

Yesterday’s vote indicated that moderate Democrat support for prolonging a shutdown is not particularly robust. While only Senator John Fetterman (D-PA) voted ‘yes’ on the first Senate vote last week, that number is now up to three.

- If Trump and OMB Director Russell Vought follow through on threats to use the shutdown as a pretext to enact mass layoffs across government agencies, moderate Democrat Senators will find it hard to hold the line without a clear endgame.
- As a reminder, the risk that a shutdown could empower Vought and former government advisor Elon Musk to pursue deeper cuts to government agencies was the primary reason why Schumer folded ahead of a similar shutdown in March.
- Moreover, when federal employees miss paychecks next week, constituent anger will be a powerful motivator for Democrats to seek an offramp.

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