



Economics Group

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Capitol Hill Update: Funding Deadline Looms

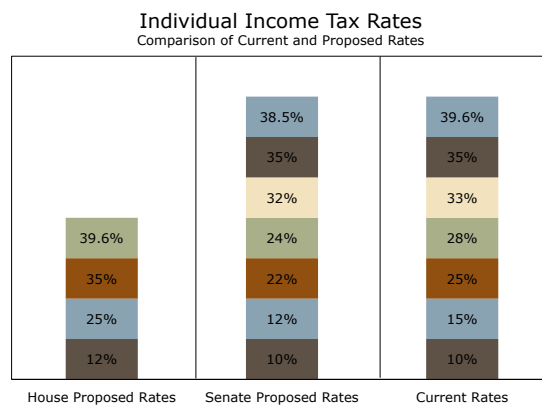
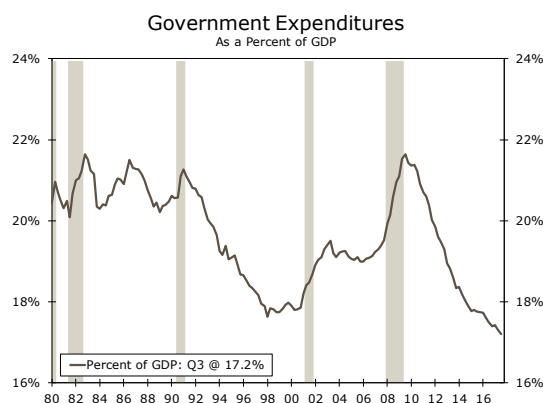
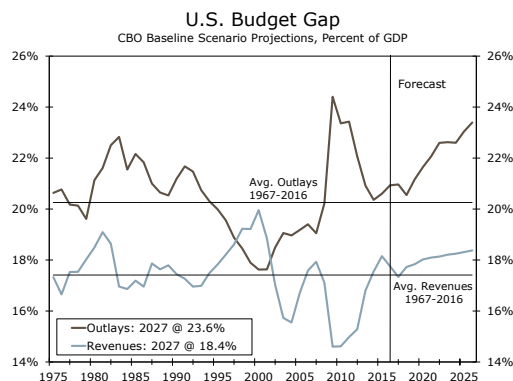
While Congress has been consumed by tax policy legislation, there has been little mention of the impending December 8 deadline to fund the government. Time is short, and the policy differences are quite large.

The Risk of a Partial Government Shutdown Is Elevated

Over the past several weeks, attention on Capitol Hill has focused on tax policy legislation, but there is yet another hard deadline that Congress must deal with in the coming days. The federal funding bill passed at the end of September funded the government until December 8 and also set that date as the end of the debt ceiling-suspension period. We expect the Treasury to begin using extraordinary measures to keep the nation under the borrowing limit. We estimate that these extraordinary measures can last until the middle to end of March.* The more pressing deadline is the need to pass another funding bill before a partial government shutdown takes place. At the heart of the funding bill issues are a tight timeline and vastly different policy positions. President Trump has been insisting since the September funding bill that some money be set aside for the construction of a border wall. Democrats, whose support will be needed in the Senate to pass the funding bill, are demanding a permanent fix to the Deferred Action of Childhood Arrivals (DACA) policy in the funding bill. The DACA program allows individuals who were brought to the U.S. illegally by their parents to gain temporary legal status and deportation protection. While some work has been done behind the scenes on a permanent DACA fix, there are very few signs of progress in finalizing a deal. Complicating matters further, there are just eight legislative days scheduled in the House of Representatives before the December 8 deadline. Given the short timeline to enact legislation and the vast differences on immigration issues, we assign a 40 percent chance of a partial federal government shutdown. The economic impact of a partial shutdown, as long as it does not span two quarters, would likely be minimal given that the dip in activity and subsequent rebound would be contained in one quarter. While the probability of a shutdown is elevated, we expect a short-term funding bill (continuing resolution) to be passed before the deadline.

Funding Bill May Take Time Away from Tax Reform

We have been estimating since September that the final passage of any tax package is not likely until the first quarter of 2018. One of the key reasons behind our thinking was this legislative deadline to keep the government funded. This Tuesday the Senate Budget Committee will take up the tax bill. Should it pass the committee vote, it would then head to a full floor vote in the Senate. Assuming the Senate then passes its version of the tax bill, the House and Senate will then need to assign a conference committee to work out the differences between the two plans. With the funding bill sandwiched in between Senate passage of its version of the tax bill and the conference committee, along with the fact that there are just four legislative days scheduled in the House on the other side of the December 8 funding deadline, we maintain the view that should a tax package pass both houses of Congress, it will likely be in Q1-2018.



Source: Joint Committee on Taxation, Congressional Budget Office, U.S. Department of Commerce and Wells Fargo Securities

*Brown, M.A., Pugliese, M., Seery, S. (Oct. 2017). "Capitol Hill Update: Estimating the Debt Ceiling "X Date." Wells Fargo Economics Group.

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