US Shutdown - US-Mexico Border Wall Issue - II

Click here for Part -I

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What is the issue?

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- The partial US shutdown, which started in December, 2018, is reaching almost a month now, with no resolution in sight yet.
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- This partial shutdown is getting to be the longest in the history of the US, with economic implications getting severe.
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What is the economic impact?

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- In the period of the shutdown, there was a mixed reaction from the markets.
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- While the US Dollar Index fell by 0.5%, the S&P 500 improved by 11% after a stock market crash in December, 2018.
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- The 10-year bond yields softened only marginally in the same period to 2.7%.
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- Financial markets seem to have so far ignored the shutdown event risk.
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- They have been focusing on hopes of a positive outcome from US-China trade negotiations and favourable policies of Federal Reserve.
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- This risk may, however, come to the fore in case the issue remains unresolved.
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How will a prolonged shutdown impact?

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- Uncertainty in the US government, the US-China trade war, and concerns of an impending slowdown continue to pose risks for the US economy.
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- This shutdown has particularly increased the uncertainty of the state of the economy and the movement of interest rates.
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- If it continues for longer, it will likely hamper business confidence and government data releases such as Nonfarm payrolls, inflation.
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- It remains a challenge for the Fed to decide on interest rate hike without reliable data and definitive signs of continued recovery.
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- There are also increased concerns on growth despite the guidance for two Fed rate hikes in 2019 in their previous meeting.
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- Moreover, the total cost of the US-Mexico border is estimated at $25 billion, which will be around $200 per US household.
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- So, even if the current demand of $6 billion is approved, this could only be a short-term resolution.
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- A prolonged standoff over the borrowing cap increases the risk of a ratings downgrade from Aaa/AA+.
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Can an emergency be brought?

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- The Donald Trump administration is still firm on its demand for $6 billion to build a wall on the US-Mexico border.
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- Given the ongoing tensions, the possibility of a national emergency cannot be ruled out.
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- President Trump requires two components to build the wall
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1. the authorisation to start the construction
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2. the land to build the wall on
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- Currently, a significant portion of the land on which the wall is to be built is private property of citizens.
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- In case of an emergency, the President has the powers to unilaterally authorise construction without Congress's approval.
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- However, he cannot seize private property in an emergency without paying the market price for it.
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- The question then would be if Trump can reallocate funds from the defence budget or would it be disallowed by the courts.
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What are the other recent U.S. government shutdowns?

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- **2017** - In 2017, the U.S. avoided a near shutdown.
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- Congress had not allocated funds for the FY 2017 budget, which covered October 1, 2016, to September 30, 2017.
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- The continuing resolution funded the government during the 2016 presidential election and transition.
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- The government thus avoided a shutdown on April 28, 2017, when the continuing resolution, passed on September 30, 2016, expired.
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- The Senate and House approved the spending bill on May 1, 2017. It appropriated $1.1 trillion in spending.
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- Trump asked Congress to cut $10 billion from all other departments. Included in that budget was $1.6 billion for a border wall with Mexico.
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- In August, 2017, he promised his administration would shut down the

government if Congress did not include funding for the wall.
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- Democrats oppose the wall; they would prefer to use the funds to keep Obamacare subsidies and the other domestic spending programs.
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- **2013** - The government shutdown began on October 1, 2013.
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- The Republican-controlled House submitted a continuing resolution without administrative funds for Obamacare.
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- The Senate rejected the bill and sent one back that included Obamacare. The House ignored that bill.
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- It sent one back that delayed the mandate that everyone should buy health insurance and deleted the subsidies for Congress and their staffers.
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- The Senate ignored that bill and the government shut down.
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- Ironically, the shutdown did not stop the rollout of Obamacare.
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- **1995** - This was one of the longest shutdowns in the U.S.
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- The government shut down twice from November 13 to November 19, 1995, and December 5, 1995, to January 6, 1996.
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- This was driven by a budget issue over introducing a balanced budget amendment to the Constitution.
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- When no budget deal was reached, the government shut down.
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- By January 1996, conflicting sides negotiated an agreement that cut some spending and raised some taxes, balancing the budget over the next seven years.
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Source: Financial Express

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