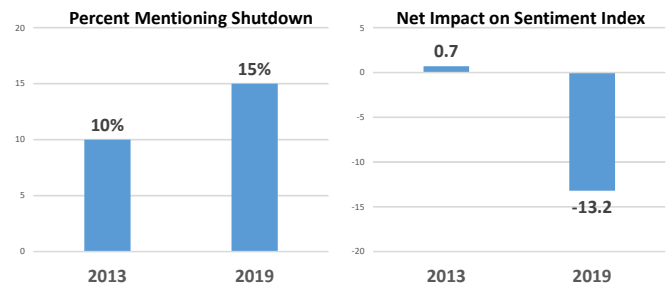


Subject: Impact of Government Shutdowns
From: Richard Curtin, Director

January 25, 2019

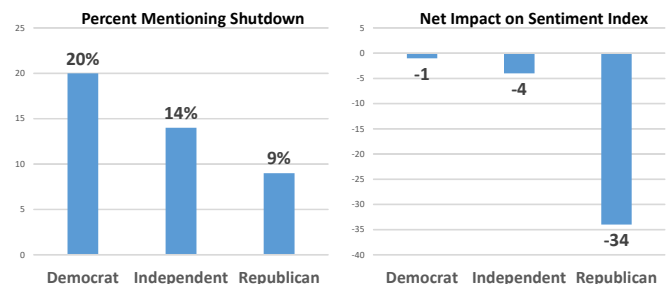
There have been ten government shutdowns in the past several decades, most were very short interruptions from one to five days. Three were longer, including 21 days, from December 16, 1995 to January 6, 1996; 16 days from October 1 to October 17, 2013; and the current and longest shutdown which started on December 22, 2018. The University of Michigan surveys have never directly asked consumers to evaluate the desirability or the expected economic impact from government shutdowns but have preferred to assess them indirectly by assessing consumers spontaneous mentions of the shutdown. The surveys have maintained for the past few decades the complete text of responses to all questions. The importance of issues is then measured by the percentage of consumers that mention specific events; these responses are spontaneous and unprompted, and thus represent a better measure of concerns about future economic prospects. As a result, it is not a measure of overall views about the shutdown, but a measure of how the shutdown influenced people's economic expectations. Thus far in the January 2019 survey, 15% of all respondents spontaneously mentioned their concerns about the impact of the government shutdown. This unprompted reporting of the government shutdown was above the 10% recorded during the 2013 shutdown (see the chart). Unaided awareness of the shutdown had a significant negative impact on the Index of Consumer Sentiment, with a 2019 differential of 13.2 Index-points. In contrast, the shutdown in 2013 had no significant impact on the Sentiment Index as it was trivially higher among those who mentioned the shutdown. Given that the 2019 shutdown is now about twice as long as the 2013 closure, that difference is hardly surprising.

Unaided References to Government Shutdown and Impact on Sentiment Index



The origin of the Sentiment gap in 2019 was surprising, however. The 2019 data were split by political party affiliation as shown in the chart below; unfortunately, the question on party affiliation was not asked in the 2013 survey. The 2019 data indicate that self-identified Democrats voiced much greater concerns about the 2019 shutdown, spontaneously mentioned by 20%. In comparison, just 9% of Republicans mentioned the government shutdown. The size of this difference is somewhat surprising given the amount of media attention to the shutdown. Among Independents, 14% spontaneously mentioned the shutdown, about the midpoint between Republicans and Democrats. The unexpected result was the size of the gaps in terms of the Sentiment Index. Whether or not Democrats mentioned the government shutdown had virtually no impact on the level of the Sentiment Index—differing by just 1 Index-point. In contrast, among Republicans, whether they mentioned the shutdown had a very large impact on the Sentiment Index; the gap among Republicans was a stunning 34 Index-points. The explanation is that Democrats voiced very low levels of economic confidence regardless of whether they mentioned the government shutdown. The shutdown could not make their expectations any worse than how they already viewed economic conditions under the Trump administration. In contrast, among Republicans, who generally held much more favorable levels of confidence, references to the shutdown made a relatively large difference. As a result, the gap reported above for all households in 2019 (13.2 Index-points) based on whether they mention the shutdown was primarily due to Republicans and Independents. Sensing that they had nothing more to lose, the shutdown acted as the ideal issue for Democrats to mount their opposition to the Trump administration. The moral issue is not about the wall, but about how Democrats judge Trump's views on core economic values.

Unaided References to Government Shutdown and Impact on Sentiment Index
By Political Party Affiliation, 2019



Shifts toward a new political economy require moral arguments that diminish the appeal and added gains due to the efficiency of free markets. Equity and fairness are not easily accommodated by economic rationality. The ongoing transition is only in its infancy. In the years ahead, the shift will be accompanied by even more strident debates about fundamental changes in economic policies.