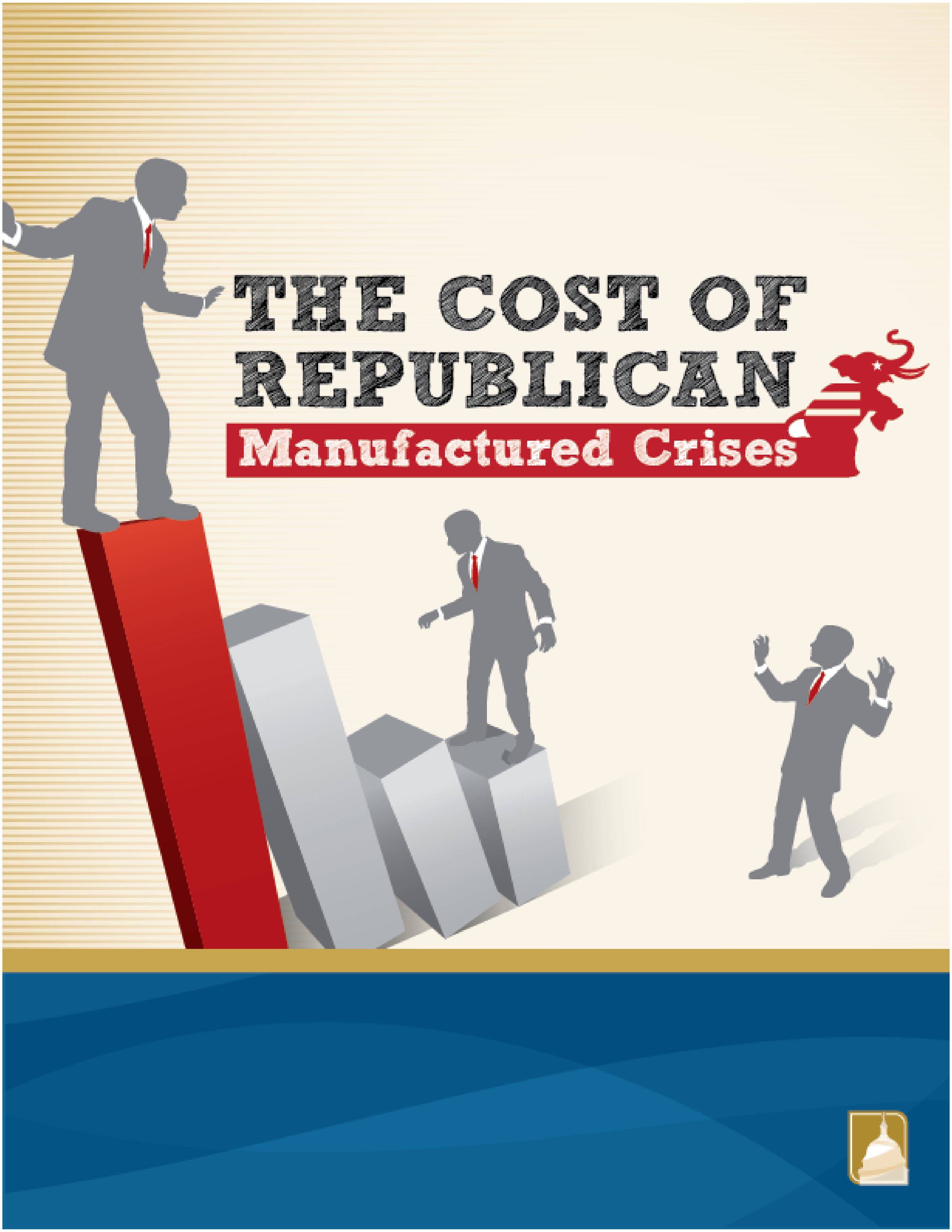
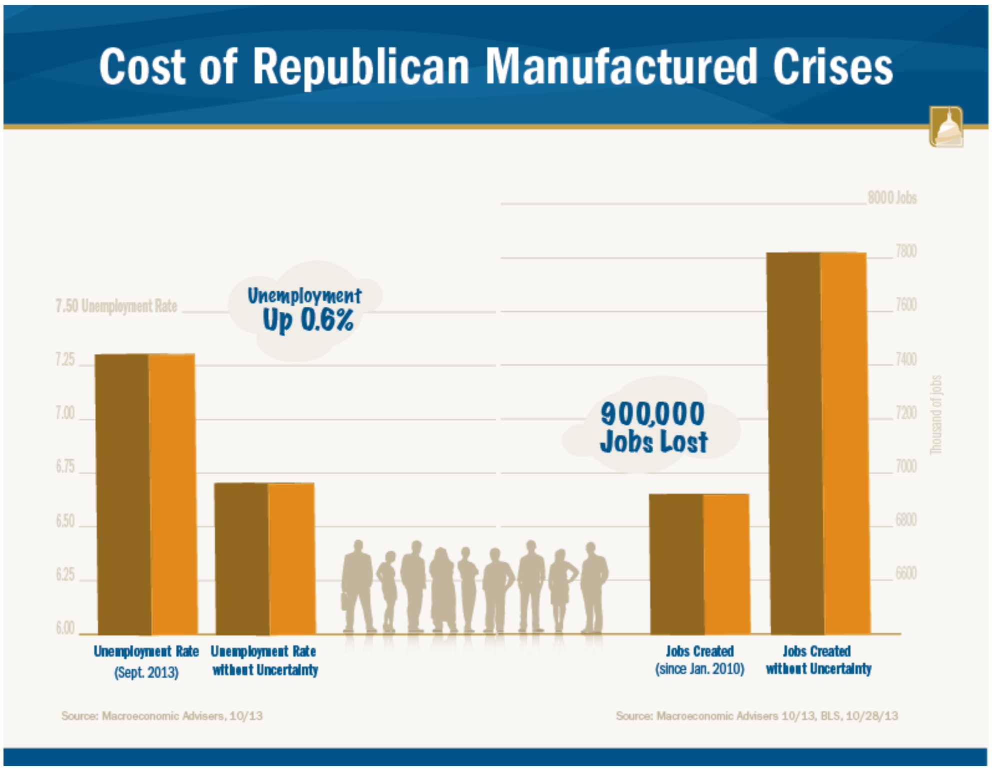
THE COST OF REPUBLICAN

Manufactured Crises



The Costs of Republican Manufactured Crises

Since the beginning of 2011, the recklessness of Tea Party Republicans has plunged our nation into a vicious cycle of government by crisis with serious consequences for our economy and middle-class families. Lurching from one irresponsible episode of brinksmanship to the next has created economic uncertainty and volatility that has cut economic growth by 12% and cost 900,000 jobs.[1] The upcoming budget conference represents an opportunity to break the cycle of manufactured crises and come to an agreement that will keep cutting the deficit and focus on job creation and economic growth.



THE COSTS OF MAJOR TEA PARTY REPUBLICAN MANUFACTURED CRISES

1. The Near-Shutdown (April 2011)

> *"The private sector responds to uncertainty by cutting back spending, leading to a rise in unemployment and reductions in both output and inflation."*
>
> - *Sylvain Leduc ad Zheng Liu, Federal Reserve Bank of San Francisco*

In the spring of 2011, Tea Party Republicans were willing to push the country to the brink of a government shutdown over their demands for extreme spending cuts that would have cost 700,000 jobs through 2012,[2] as well as their insistence on unrelated policy concessions on funding for Planned Parenthood and EPA climate rules.[3] A shutdown was only averted by compromise with literally minutes to spare, but not before creating significant economic uncertainty.[4]

[1] Macroeconomic Advisers, 10/13
[2] Moody's Analytics, 2/28/11
[3] New York Times, 4/7/11; Huffington Post, 4/8/11
[4] CBS News, 4/8/11

- From January to March of 2011, the Economic Policy Uncertainty Index jumped from over 142 to over 174, close to the levels seen in November and December of 2010, which were shaped by the mid-term elections and debate over whether to extend the Bush tax cuts and other expiring provisions.[5]

- From January to March of 2011, the Thomson Reuters/University of Michigan Index of Consumer sentiment dropped from 74.2 to 67.5.[6]

- The Gallup Economic Certainty Index dropped 18 points, from -21 during the first week of 2011 to -39 during the week of April 18th to April 24th, 2011.[7]

Increases in uncertainty have real economic consequences. In an uncertain environment, businesses are less likely to hire and grow, and households are less likely to engage in the consumer spending that drives our economy. As an analysis by the Federal Reserve Bank of San Francisco noted, the evidence shows that, "uncertainty harms economic activity, with effects similar to a decline in aggregate demand. The private sector responds to rising uncertainty by cutting back spending, leading to a rise in unemployment and reductions in both output and inflation."[8]

Even narrowly averted government shutdowns still cost taxpayers money. Anticipating a shutdown wastes a great deal of time in agency preparations and determinations about who is excepted or essential, and the possibility of a shutdown can create incentives for managers to "hoard funds" bringing a premature stop to hiring and purchasing.[9]

2. Debt Limit Brinksmanship (August 2011)

"...brinksmanship does not come free; instead, it imposes costs in its own right."

- *Bush Council of Economic Advisors Member Donald Marron*

- A 27.9% decline in monthly job growth and slumping GDP growth.
- Middle-class families absorbed a $700 billion hit to retirement savings and higher mortgage costs.
- $18.9 billion in additional interest payments.

Later in 2011, Tea Party Republicans were willing to up their reckless brinksmanship by putting the full faith and credit of the United States at risk. At the last moment, a deal was struck to avoid an unprecedented national default, but not before political brinksmanship and economic uncertainty led to the first downgrade of the United States' credit rating, higher borrowing costs, a blow to middle-class savings, and a weakened economy.

The lingering effects of the manufactured crisis depressed job growth, hurt consumer confidence, and weakened our economy. In the four months during and immediately after the crisis, monthly job growth plummeted by 27.9%, costing America more than 200,000 jobs by one estimate. The instability also dampened consumer spirits as demonstrated by a 15.3% decline in consumer confidence, and hits

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5 Economic Policy Uncertainty Index, U.S. Monthly Index
6 Thomson Reuters, University of Michigan, 2013
7 Gallup, 2013
8 Moody's Analytics, 10/21/13; Macroeconomic Advisers, 10/13; Federal Reserve Bank of San Francisco, 9/17/12
9 Washington Post, 9/25/13; UMBC, 1997

to small business confidence and manufacturing.[10] As the effects of brinksmanship and the Eurozone financial crisis took their toll, GDP growth slipped from 3.2% during the second quarter of the year to 1.3% in the third quarter.[11]

The fallout from debt limit brinksmanship was also directly felt by middle-class families. As the crisis played out between July and August of 2011, the S&P 500 dropped 220 points, and the Dow Jones Industrial Average fell over 2,000 points over four weeks.[12] The result was a serious blow to middle-class retirement savings. The four-month average of the S&P index lost 7.1% (including the 6.7% nosedive on August 8th), costing 401(k) holders over $700 billion, before the market recovered to pre-crisis levels in January 2012.[13] According to the Treasury Department, mortgage spreads jumped by 70 basis points, which would have added about $100 per month to the cost of a typical mortgage.[14]

The debt limit crisis also directly led to our first ever downgrade. On August 5, 2011 S&P downgraded the long-term sovereign credit rating on the United States of America from AAA to AA+. S&P specifically noted Republican willingness to use the debt ceiling and threat of default as "political bargaining chips" in its analysis.[15] In addition to long-term, reputational consequences, uncertainty over whether the United States would honor its obligations hit taxpayers with real costs. Over the long-term, increased interest costs to the federal government on bonds issued during the 2011 debt limit standoff will cost taxpayers an estimated $18.9 billion in extra interest costs.[16]

3. The Fiscal Cliff (December 2012)

> *"…the uncertainty is manifesting itself in the business community. Companies are pushing off investment decisions until next year. Lending, hiring, and business spending have slowed."*
>
> - *Financial Services Roundtable*
>
> - A nearly 10-point drop in consumer confidence.
> - A 1.1% shortfall in retail sales.
> - 61% of surveyed businesses reported influence on their hiring plans.

When the Bush Tax Cuts and a variety of other fiscal policies were set to expire at the end of 2012, Republicans were willing to risk a tax hike of $2,200 on a typical middle-class family to protect unnecessary tax breaks for the wealthiest 2% of Americans. By refusing to compromise until New Year's Eve, Republicans created an unnecessary economic disruption.

As the economy neared the fiscal cliff, several major gauges of economic uncertainty showed dramatic upswings in growth-dampening uncertainty.

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[10] Third Way, 10/13
[11] Macroeconomic Advisers, 10/13
[12] Standard & Poor's, 8/5/11; Federal Reserve Bank of St. Louis
[13] Third Way, 10/13
[14] Treasury, 10/13
[15] Standard & Poors, 8/5/11
[16] Government Accountability Office, 7/1/12; Bipartisan Policy Center, 11/27/12

- From October to December of 2012, the Economic Policy Uncertainty Index jumped from over 168 to almost 195.[17]

- The Moody's Political Uncertainty Index rose to levels higher than experienced during the 2008-2009 economic downturn, and nearly reached levels seen during the 2011 debt limit brinksmanship.[18]

- The Thomson-Reuters, University of Michigan Consumer Index dropped nearly 10 points, from 82.7 to 72.9, between November and December of 2012.[19]

Fiscal cliff uncertainty hurt retail spending and caused businesses to be more cautious when it came to hiring and investing. The National Retail Federation had originally projected that holiday sales would increase by 4.1% over 2011 levels, but actual sales came in 1.1% short of that goal. According to National Retail Foundation President Matthew Shay: "For over 6 months, we've been saying that the fiscal cliff and economic uncertainty could impact holiday sales. As the number shows, these issues had a visible impact on consumer spending this holiday season."[20]

In an October 2012 survey, J.P. Morgan found that 61% of their American clients reported that uncertainty around the fiscal cliff was influencing their hiring plans.[21] On October 24, 2012, the Financial Services Roundtable declared that, "the uncertainty is manifesting itself in the business community. Companies are pushing off investment decisions until next year. Lending, hiring, and business spending have slowed."[22]

4. Government Shutdown and Debt Limit Brinksmanship II (October 2013)

- 120,000 jobs lost and $20 billion taken out of the economy.

- Consumer confidence back to levels seen during the financial crisis.

- A threat of $5 billion per year in additional interest payment costs.

Tea Party Republicans' obsession with refighting old political battles over health care recently caused the first government shutdown in 17 years and once again threatened the full faith and credit of the United States. The reckless Tea Party Republican shutdown and another round of irresponsible debt limit brinksmanship have dealt a severe blow to our economy after Americans have worked so hard to recover from the recession.

The combination of the government shutdown and near-default has significantly impacted our economy. An analysis of the October 2013 government shutdown and brinksmanship surrounding the debt limit from Moody's economist Mark Zandi found that these events will cost the country $20 billion, or roughly 0.5% of GDP growth, in the fourth quarter of 2013. Zandi credits half of the GDP decline directly to the government shutdown, and the other half to the uncertainty surrounding the

[17] EPUI
[18] Moody's Analytics, 10/21/13
[19] Thomson Reuters, University of Michigan, 2013
[20] NRF, 1/15/13
[21] Economist, 10/6/12
[22] Financial Services Roundtable, 10/24/12

shutdown and debt limit crises.[23] Further, the housing market saw blowback with mortgage purchase applications for government programs taking a dive to their lowest level since December 2007.[24]

These unnecessary crises also took a serious toll on job growth and consumer confidence. The White House Council of Economic Advisers tracked an array of weekly economic indicators and found that in the first two weeks of October, our economy shed roughly 120,000 private sector jobs.[25] Meanwhile, consumer confidence plummeted to levels similar to those around the 2008 collapse of Lehman Brothers and the financial crisis.[26]

Like the previous round of debt limit brinksmanship, the October 2013 round has also had serious consequences for America's borrowing costs and global standing. In the midst of the standoff, interest rates on one-month Treasury bills spiked from near 0% to 0.35%, and although these rates fell after the debt limit was extended, 3-month rates remain elevated. In addition, 10-year Treasury rates gained roughly 10 basis points during the standoff. According to Zandi, early evidence shows Treasury rates increased by an average of 4 basis points which, if sustained, imposes an additional $5 billion in interest costs for the government each year.[27]

More damage was also done to America's reputation, as Fitch ratings put U.S. Treasury debt on negative watch during the crisis.[28] Even as a deal was in hand, China's Dagong Global Credit Rating agency downgraded the US debt rating from A to A-. This signal was only amplified by the Xinhua News Agency, China's leading government-controlled news outlet, calling for a "de-Americanized" world. Some have even warned about the risk posed to the status of the dollar as the world's reserve currency.[29]

CONCLUSION

These manufactured crises sparked by extreme Tea Party Republican demands come at a real cost to our economy and middle-class. It's time to break the cycle of government by crisis with a budget agreement that will set responsible funding levels for FY14 and pave the way for economic growth and job creation.

[23] Moody's Analytics, 10/21/13; CEA, 10/22/13
[24] Calculated Risk, 10/16/13
[25] Moody's Analytics, 10/21/13; CEA, 10/22/13
[26] WSJ, 10/17/13; Gallup, 10/8/13
[27] Moody's Analytics, 10/21/13
[28] CNBC, 10/15/13
[29] CNBC, 10/17/13; Washington Post, 10/14/13; CNBC, 10/14/13