September 26, 2025

# The Looming 2025 U.S. Federal Government Shutdown

Deepening Polarization and the Risk of a Protracted Shutdown

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- With no clear exit ramp and both the House and the Senate adjourned until the end of September or later, a shutdown at the start of the fiscal year (October 1st to September 30th of the following year) now appears highly likely. Unlike previous standoffs, both parties believe they can gain politically, raising the risk of a prolonged impasse.
- By tying their demands to the extension of enhanced ACA premium tax credits and restoration of healthcare funding, Democrats are adopting an unusually aggressive stance. This breaks from their traditional reluctance to sustain shutdowns, reflecting a willingness to absorb greater short-term political costs in hopes of shaping longer-term outcomes.
- With unified control of government, Republicans have more leverage over shutdown operations and are framing it as an opportunity to shrink the bureaucracy. Yet if the standoff drags into 2026 and voters face higher health costs amid stagflation, the GOP could be punished at the ballot box — a dynamic Democrats are betting on.

Washington is again in the midst of Congressional brinkmanship over federal funding. For close observers of Washington, this has become a recurring ritual in recent years.

Unlike past standoffs, however, this time there is no obvious exit ramp. Congressional Republicans, encouraged by President Trump, see little reason to compromise with Democrats, since they control both chambers of Congress and the White House. Democrats, however, retain leverage in the Senate, where appropriations bills require 60 votes to overcome a filibuster. With Republicans holding 53 seats to Democrats' 47, the majority still needs at least some Democratic support to pass funding bills or even a temporary continuing resolution.

That support has been difficult to secure. Democrats point to President Trump's prior attempts to claw back congressionally approved funds, at times through formal rescission packages approved by Congress, but also through unilateral withholdings that the Government Accountability Office deemed unlawful under the Impoundment Control Act. In their view, even if a compromise is reached, there is little guarantee that the White House will honor it.

As expected, the continuing resolution (CR) passed by the House last week failed in the Senate, while the Senate Democrats' version (which included more than $1 trillion to extend Affordable Care Act subsidies and restore Medicaid funding) was rejected by Republicans. Both chambers have adjourned for the Rosh Hashanah holiday period, with the Senate scheduled to return on September 29 and the House not until after the new fiscal year begins on October 1st. President Trump initially agreed to, but later cancelled, a requested meeting with Democratic leaders, and at present the two sides are not engaged in talks. Unless Speaker Johnson recalls the House earlier, or leaders in both chambers act quickly to fast-track an agreement, a shutdown at the start of the new fiscal year now appears highly likely. The question is no longer if but how long.

## A Primer on Appropriations and Government Shutdowns

The government's discretionary spending is funded by 12 annual appropriations bills, which provide budget authority for specific agencies and functions for the duration of a fiscal year. If Congress fails to enact appropriations by the start of the fiscal year, funding authority lapses for the affected agencies.

Shutdowns can be broad or limited. If Congress passes some, but not all, of the 12 appropriations bills, unfunded agencies suspend operations, resulting in a partial shutdown. If none are passed, large portions of the government cease operations, though mandatory spending programs such as Social Security and Medicare continue. In practice, this means hundreds of thousands of federal employees are furloughed or required to work without pay until funding resumes. National parks and museums close, regulatory and permitting activities halt, and many public services, from passport processing to federal housing programs, are delayed. While essential functions like air traffic control, border security, and military operations continue, shutdowns disrupt a wide range of government services and inject uncertainty into the broader economy.

In lieu of a full year appropriations bill, Congress can pass a continuing resolution (CR), a temporary measure that keeps agencies funded at the prior year's levels while negotiations continue. In some cases, when gridlock persists, CRs are extended for the full fiscal year (as is the case for the current fiscal year 2025), effectively freezing spending at the previous year's level. This can strain agencies over time, as inflation erodes purchasing power and prevents adjustments to new priorities. Government shutdowns can have major political and economic ramifications.

## Three Major Episodes Showcasing the Modern Government Shutdown

The frequency and duration of government shutdowns have increased as partisan polarization has deepened. Trust between the parties has eroded, leaving little room for compromise in the name of the collective good.

The first major episode signaling this shift was the 1995–1996 shutdown, driven by a confrontation between House Speaker Newt Gingrich and President Bill Clinton. Fresh off their sweeping 1994 midterm victory (the so-called "Republican Revolution," which gave the GOP unified control of Congress for the first time since 1952) Republicans sought to force spending cuts by threatening to withhold funding. The standoff lasted 21 days, the longest in U.S. history at that time.

The second major episode came in 2013, after the rise of the Tea Party, a movement of conservative voters frustrated by rising federal spending under President Barack Obama. A Republican-controlled House and a Democratic-controlled Senate clashed over the future of the Affordable Care Act, Obama's signature policy achievement. The result was a 16-day shutdown, then the second-longest on record.

The third episode came in December 2018, during President Trump's first term. The 35-day impasse (setting a new record) was triggered by Trump's demand that a Democratic-controlled House approve funding for his proposed border wall along the U.S.–Mexico border. This remains the longest shutdown in history.

Now, Washington is once again on the brink of a shutdown, with political partisanship arguably at an all-time high. Both sides believe they can pin the blame on the other to gain advantage ahead of the midterms. Whether this calculation translates into a greater tolerance for the economic and political fallout remains to be seen in the weeks ahead.

## New Strategy for Democrats

Democrats rarely initiate shutdowns. Most modern shutdown events were triggered by Republican demands for spending cuts and policy concessions. Even when they do, the standoffs are shorter. For example, in 2018, Democrats led by then Senate Majority Leader Chuck Schumer, refused to vote for the continuing resolution unless the Republicans reinstated protections for DACA recipients (Dreamers), undocumented immigrants brought to the U.S. as children. In that standoff, the Democrats backed down after the Republicans offered a promise of a future floor debate on immigration. Schumer was blamed not only for the shutdown (it was called the Schumer Shutdown) but also earned the ire from within the party for folding to the Republicans. There are other minor examples of Democrats using the threat of a shutdown to extract concessions, but these never ended in a protracted shutdown.

A shutdown driven by Democrats withholding votes would be unusual, and if prolonged, could be unprecedented in modern politics. Their leverage, they believe, lies in the looming expiration of enhanced subsidies under the Affordable Care Act (ACA). The ACA's premium tax credit (PTC) helps Marketplace[1] enrollees lower their monthly health insurance premiums. Currently, roughly 24.3 million people are enrolled in ACA Marketplace plans with approximately 90% benefitting from the enhanced PTC to afford coverage[2].

In 2021, President Biden's American Rescue Plan temporarily enhanced and expanded eligibility for the PTC in response to the COVID-19 pandemic. These enhancements were later extended by the Inflation Reduction Act through the end of 2025. If allowed to expire, many people, especially low- and middle-income brackets will see their premiums increase, or might outright lose coverage. In addition, Democrats seek to roll back provisions of Republicans' signature law, the One Big Beautiful Bill Act (OBBBA), which reduced federal support for Medicaid and related health programs.

Democrats believe that by refusing to supply the votes needed to pass a continuing resolution (CR), they can bring Republicans to the negotiating table to extend the enhanced PTC and reinstate health program funding. If Republicans refuse, Democrats argue, the GOP would bear responsibility for a government shutdown as the party in control of both Congress and the Executive branch.

## Republicans Hold All the Levers

Republicans' calculation on the ACA premium tax credits (PTC) is mixed. On one hand, many in the party's conservative wing see the expiration of enhanced subsidies as consistent with their long-term goal of dismantling Obamacare. On the other hand, Republicans in swing districts recognize that voters are highly sensitive to rising health care costs; they risk backlash if constituents face large premium hikes. That pressure, however, is unlikely to be felt immediately. The enhanced PTC does not expire until the end of December 31, 2025, and most voters will only become acutely aware of the issue when insurers and the government begin sending notices of premium increases late in the year.

This raises the strategic question: can Democrats realistically sustain a shutdown until that point? Leveraging the enhanced PTC now has limited effect, since its expiration is still months away and voters are not yet attuned to the issue. The leverage would become stronger later in the year, once

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[1] The Affordable Care Act (ACA) Marketplace is a federally created exchange where individuals and families can shop for, compare, and purchase health insurance plans. It offers standardized coverage options, income-based subsidies, and Medicaid eligibility screening to expand access to affordable healthcare

[2] Kaiser Family Foundation (KFF): ACA Marketplace enrollment data (link), enhanced subsidy utilization data (link). Notably, ACA Marketplace enrollment has grown particularly rapidly in states that have not adopted Medicaid expansion (non-expansion states) in recent years. Between 2020 and 2024, enrollment in non-expansion states increased by an average of 152%, compared with a 47% increase in expansion states. Many of these non-expansion states are "red states" led by Republican governors and Republican-controlled legislatures, which have rejected Medicaid expansion for political reasons. As a result, a larger share of low- and middle-income residents in these states have turned to the ACA Marketplace rather than Medicaid, driving the overall growth in enrollment.

households begin receiving notices of rising premiums. At that stage, Republicans might agree to a short-term extension of the enhanced PTC — but only after a prolonged and economically damaging government shutdown. In such a scenario, Democrats risk absorbing much of the blame for the disruption, despite Republican control of Congress and the White House.

Without the urgency of the PTC expiry, Republicans, for their part, appear not only willing to tolerate a shutdown but, in some quarters, even eager to provoke one. While the Antideficiency Act[3] requires most agencies to cease operations without appropriations, the administration retains discretion in defining “essential” activities. This gives the Trump administration an opportunity to emphasize its agenda by continuing favored programs while letting others lapse.

The administration is also framing the shutdown as a chance to weaken what they describe as an overgrown federal bureaucracy, a key objective laid out in their policy blueprint, Project 2025. On 9/24, the White House Office of Management and Budget circulated a memo instructing federal agencies to prepare “reduction-in-force” (RIF) plans[4] for mass layoffs during a possible government shutdown.

## Democratic Dilemma

Another factor is the prevailing “instinct” within the Democratic Party. Traditionally, Democrats, unlike Republicans, are reluctant to let the public endure significant hardship for the sake of political leverage. Republicans, by contrast, have often demonstrated a greater willingness to accept short-term pain, including public frustration and political backlash, when they believe the policy objective is worth the cost. In this case, Democrats could adopt a similar approach and argue that the disruption caused by a shutdown is justified if it prevents millions from losing health coverage. Yet such a maximalist strategy has typically been more consistent with Republican instincts, not Democratic ones. As a result, many observers expect Democrats to compromise within weeks rather than prolong a shutdown that inflicts widespread pain.

There is also the question of party unity ahead of the 2025 midterm elections. The perception that Democratic leaders, particularly Schumer and House Minority Leader Hakeem Jeffries, cannot check Trump’s agenda could further erode unity. Already, progressives are positioning themselves as alternatives to the establishment. In the New York City mayoral election, state assemblyman Zohran Mamdani, a self-described socialist, is leading the race. In Minneapolis, state senator Omar Fateh is challenging the local party establishment for the mayoral seat. Progressive candidates are also emerging in other municipal races across the country, from Seattle to Albuquerque. A shutdown crisis that highlights Democratic disarray could accelerate this insurgent trend, deepening divisions within the party ahead of the 2026 primary season.

Yet, aware of these vulnerabilities, Democrats are still threatening to use the shutdown as leverage. Their reasoning is that without pushing now, they may lose all bargaining power later. This makes them more willing than in the past to endure the political costs of a prolonged standoff. But even if they succeed in extracting concessions, there is no guarantee the Trump administration will honor them. The White House has already tested the boundaries of budget law by employing rescissions (the

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[3] If the government shuts down, agencies must suspend most operations under the Antideficiency Act. The White House Office of Management and Budget (OMB) oversees shutdown planning and has significant discretion in determining which functions are designated as “essential” and therefore continue. In practice, this gives the Trump administration considerable influence over which agencies remain operational, though that authority is constrained by statutory requirements.

[4] Undated OMB memo obtained by Politico (link).

process of canceling funds after Congress has appropriated them). Under the Rescissions Act of 2025, it clawed back $9 billion, and it is now pursuing an additional $4.9 billion in foreign aid cuts through a legally dubious "pocket rescission."[5] Knowing this, Democrats press on anyway, wagering that tolerating far more pain this time is their only path to securing concessions, a gamble that could stretch the shutdown well beyond the usual few weeks.

The Democratic calculation extends beyond the shutdown itself. If the crisis drags into 2026, the cumulative effects of higher health care costs from the expiration of enhanced subsidies, combined with persistent stagflation under the Trump administration, could imperil Republicans at the ballot box. Democrats may shoulder the immediate blame for forcing a shutdown, but they see a plausible path to coming out ahead in the 2026 midterms if voters ultimately judge Republicans responsible for both the economy and health care. It is a high-risk strategy — betting short-term pain against the possibility of long-term political gain.

What kind of Democratic Party emerges from this episode, will be well worth watching.


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[5] The term "pocket rescission" refers to a tactic that formally follows the procedures of the 1974 Impoundment Control Act (ICA) but in effect allows the cancellation of funds without congressional approval. Under the ICA, the President may transmit a special message to Congress proposing a rescission and withhold the funds for up to 45 days of continuous session while Congress considers the request. However, by sending the rescission proposal less than 45 days before the end of the fiscal year, the administration ensures that the funds will lapse before the 45-day review period expires, regardless of whether Congress approves the rescission. This strategic timing effectively circumvents Congress's power of the purse, resulting in a de facto cancellation of funds, and is legally questionable as it may contradict the intent of the ICA.