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**JOE KERNEN, CNBC:**

And joining us now is Libby Cantrill; is Head of U.S. Public Policy at PIMCO. I read a quote earlier from the speaker that says, “when it comes right down to it, the guys that have been holding out, probably will come around.” Is that whistling past a graveyard or a wishful thinking?

**LIBBY CANTRILL, PIMCO:**

Yeah, I think that seems like wishful thinking. You know, it's sort of, Speaker McCarthy has a sort of “Sophie's Choice” in front of him. Either he can pass a bill that can actually pass a Senate and be signed into law, and fund the government and avoid a shutdown. He probably will lose his speakership if he does that, because that means, sort of, by definition, he's working with Democrats, or he can pass a bill that won't pass the Senate, won't be signed into law, shut down the government, maybe retain his speakership. I think that our view is he probably has to pick the latter. So, as a result, we're most likely looking at a government shutdown. I think for the markets and for the economy, the real question is for how long? Because if this just–

**REBECCA QUICK, CNBC:**

What does he get? I mean, if the odds- if the deal is you go ahead and you pass something that you know is not going to get there, you go into a government shutdown, what does he get?

**CANTRILL:**

I mean, good will, I think, with the House Freedom Caucus.

**QUICK:**

With the House Freedom Caucus, but what ultimately looks different? I mean, at some point, you've got to resolve the differences.

**CANTRILL:**

Yeah, and Becky, as you remember, in the debt ceiling agreement, they had already negotiated the spending levels for both fiscal year ‘24 and ‘25. And so, I think everyone thought this was going to be a sort of perfunctory, that they would just fund this at the levels already agreed upon. Passed- that bill passed by 70 percent of the House Republican caucus. But, of course, there was some buyer's remorse among the House Freedom Caucus members, especially around the debt ceiling bill. And as a result, they're sort of forcing this. So, I think it really is more just good will. It's more of a symbolic gesture to his right flank–.

**QUICK:**

No, I mean, eventually, you're going to have to say, “Okay, we're going to compromise somewhere.” Maybe you get the administration to say, “Yes, we'll give you more.” Maybe you get Senate Democrats. But what would you be doing?

**CANTRILL:**

Yeah, I think that one lever is around border security, because that is an issue where President Biden is arguably vulnerable going into next year. And so, you would probably get some provisions there, probably not what the House Republicans have sort of intimated that they want, but probably some negotiation around that. But outside of that, you're right. It probably will just end up where the debt ceiling agreement had–

**KERNEN:**

Who would you have to argue with?

**CANTRILL:**

What do you mean ‘who would you have to argue with’?

**KERNEN:**

You said he is “arguably vulnerable” for that. Who would take the other side of that?

**CANTRILL:**

Oh, well, no, I mean, yeah, this is an area where he is for sure vulnerable. You know, going into the election.

**KERNEN:**

We've had people that have pointed fingers and name names that who's to blame in terms of the far right guys. And they mentioned Matt Gaetz and others. And that it's all about self-aggrandizement or clicks. They actually say clicks. Yeah, that's what they want.

**CANTRILL:**

Fundraising, running for statewide office.

**KERNEN:**

They can fall back on the purest that “The debt is just too high. What do you want me to do?” And that does appeal to some people.

**CANTRILL:**

For sure. I mean, we've been talking to our clients a lot about this. Sort of the politics of austerity, if you will, have returned to Washington with–

**KERNEN:**

Is that wrong?

**CANTRILL:**

No, I mean, no.

**KERNEN:**

Yeah, I mean, we're in trouble, right?

**CANTRILL:**

Obviously, we're, we're huge debt holders. So we are worried about debt sustainability in the long term. Joe, that sort of the irony, though, is that this is nibbling around the edges, focusing just on discretionary spending. Really, if you really want to change the needle, you need to look at Medicare and Social Security, and make some really, you know, we think some common sense tweaks to those programs that would then allow sort of the debt picture to be a lot better. But neither party wants to do that.

**KERNEN:**

It's a third rail.

**CANTRILL:**

Yeah, it is a third rail.

**KERNEN:**

So this is not the hill to die on with this one.

**CANTRILL:**

Well, this, you know, this does to your point. It does raise money. It does get clicks. And again, for a part of the electorate, this is really appealing. I mean, regardless of the fact that it only, you know, does nibble around the edges, doesn't really change the fiscal picture. It still does something. And I think for some voters, that's really good.

**KERNEN:**

But theoretically, you could get clicks. You could hurt the party itself so that you lose seats next time. So you can still be, then you're a loud minority. And you can still complain and say, “I would, I would do this if I was in, if we had the, I would do this, I would do that. Boy, I really want…”, but you, you're not governing. So it's, yeah, well, because they connect, they don't connect the dots.

**QUICK:**

Scott Gottlieb points out. And by the way, he's coming up at 7:30. He could talk more about this in about 20 minutes. But he just points out the difference between this and the shutdown that happened in the Trump administration when Scott was there; the blowback was on the President himself. So there were efforts by the agencies to try and mitigate the impact. But this is different. This is a shutdown where the administration actually benefits because it's probably going to get blamed more on the Republicans. So this could be a little more disruptive.

**CANTRILL:**

So, I think there are two things. One is that the polling shows that, yeah, Republicans disproportionately would shoulder the burden, but still Democrats don't look great either, right? This is, I mean, just in terms of disillusionment with Washington and the ability to govern. I think both sides are impugned in this. The second thing that I think is really important, though, to distinguish between this potential shutdown and the 2019 shutdown was that it was just a partial shutdown. That was only part of the government. This would be all of discretionary spending. Basically, the entire government outside of Social Security and Medicare, which the bottom line for that is the data. So there's an economic impact, but then there are also potential economic impacts. But also, the Fed would not have access to payrolls data, CPI data, JOLTS data.

**QUICK:**

Tell us what this looks like to an individual consumer. What's it going to mean for somebody who maybe doesn't work in the government, but government workers are going to be hosed, they'll eventually get paid back, but most of them don’t have hefty bank accounts where they can afford to pay for everything?

**CANTRILL:**

Exactly, yeah. Yeah, so if you're going through airports, a lot of these workers are going to be deemed essential, but they're not going to be getting paid. So TSA, for instance, they will have to still be showing up at the airports and still be providing security and not get paid. And that was air traffic controllers in TSA, where actually the sort of the forcing point in the 2019 shutdown.

**QUICK:**

It’s ridiculous.

**CANTRILL:**

I mean, Becky, I'm just the messenger here.

**KERNEN:**

What is more disturbing to the credit- to the ratings agencies? If we shut down, or if we go to 35 trillion, I think neither.

**CANTRILL:**

Well, I think neither is sustainable. I just think this is the question, though, does a shutdown really achieve your, you know, the ultimate fiscal goal?

**KERNEN:**

There's going to be this, I mean, let’s start with Fitch. This could spread.

**CANTRILL:**

Yeah, well, so the irony, of course, is that Fitch downgraded the US in August for this, for partly for this very recent reason, because of this dysfunction.

**KERNEN:**

But if we don't stop it, then they do it for the other reasons.

**CANTRILL:**

-and this polarization, no, absolutely, and they definitely, and obviously, they also pointed to debt decisions.

**QUICK:**

And everybody in the government said, “oh, you're wrong for downgrading based on this.” Like, well, it’s proving them right.

**CANTRILL:**

I mean, it's like evidence. I think that just taking a step back, there is, I mean, this is going to be a surprise, but there is a bipartisan coalition who agrees that the debt is unsustainable, that we're on an unsustainable trajectory, but that it needs to, there would be a solution that needs to be bipartisan.

**QUICK:**

And by the way, we had them on, on Friday with Josh Gottheimer from the Problem Solvers Committee. But they also agree that there needs to be something done at the border. Yeah, so it's kind of like, yes, all of the common sense sort of things that everybody agrees with.

**CANTRILL:**

Yeah, all of the above, yeah. Yeah, no, that's absolutely right. So I think, I mean, the bottom, I think, to the markets, though, is that this could be another sort of whammy, sort of another headwind to the economy, when you're looking at student loan repayments, when you're looking at sort of all these other headwinds, you're going to be, you know, heading on the consumer, this could be just yet another obstacle.

**KERNEN:**

They might like that anyway. And they don't have to raise again. Libby, thank you.

**CANTRILL:**

Thanks.