JOINT ECONOMIC COMMITTEE
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UNITED STATES CONGRESS
September 2015

The Economic Costs of a Government Shutdown

The economy continues to recover from the Great Recession. Businesses have added 13.1 million jobs over a record 66 consecutive months of private-sector job growth. Unemployment has been slashed nearly in half to 5.1 percent from its peak of 10.0 percent. And consumer confidence in 2015 is higher than it's been at any point since the recession began. While there is more work to be done, substantial progress has been made.

However, a set of critical deadlines this fall could risk a return to the sort of fiscal policy uncertainty that cost the economy nearly 1 million jobs from late 2009 to 2013.

> *"We have a good recovery in place that's really making progress and to see Congress take actions that would endanger that progress, I think that would be more than unfortunate."*
> ***- Federal Reserve Chair Janet Yellen, September 17, 2015***

First, Congress must act to fund the government before October 1 to avoid another shutdown and prevent the negative impact it could have on gross domestic product (GDP), jobs and millions of Americans who depend on federal programs.

Second, if Congress fails to avert a shutdown, it could call into question its ability to avoid the serious economic consequences of not raising the debt ceiling in a timely manner. Highway funding and numerous tax provisions also hang in the balance this fall. The confluence of these key deadlines at a time when there is already increased uncertainty stemming from economic developments abroad adds to the potential for harm.

A government shutdown hurts the economy in numerous ways.

- **Directly lowers GDP growth.** There is a broad consensus that shutting down the government could have a negative impact on GDP. In the last shutdown, lost output resulting from a reduction in work by federal employees lowered real GDP growth by about 0.3 percentage point on an annualized basis in the fourth quarter of 2013, according to the Bureau of Economic Analysis (BEA), a nonpartisan government agency. BEA noted that the full effects of a shutdown cannot be precisely quantified because of data limitations.

  Numerous independent economic forecasters, including those at Standard and Poor's, Goldman Sachs and Moody's, also estimated that the 2013 shutdown had a negative impact on growth—of up to about 0.6 percentage point (or $24 billion). This amounts to about $1.5 billion lost for each day of the 16-day shutdown. These estimates may understate the full cost of the shutdown to GDP because they generally do not account for all the indirect impacts of the shutdown. Such indirect impacts could include reductions in consumer and business confidence, and disruptions to markets for small business and mortgage loans.

- **Negatively impacts jobs.** At the height of the 2013 shutdown, about 850,000 federal workers per day were furloughed, for a total of 6.6 million lost workdays. While the furloughed federal workers ultimately received back pay—estimated at about $2.0 billion for work not performed—for many people working paycheck to paycheck, even a short delay in receiving a paycheck can cause them to pull back on spending or lead to financial trouble. In addition, a couple hundred thousand private-sector workers employed at government contractors were unable to work. These employees did not necessarily receive back pay for time not worked. Federal contractors are worried that another shutdown could be a "nightmare" for them.

In addition to these direct effects on federal workers and contractors, the shutdown likely cost jobs in the broader economy. According to the Council of Economic Advisers, about 120,000 fewer private-sector jobs were created the first two weeks of October 2013 than would have been created without a shutdown.

- **Reduces consumer and business confidence.** Consumer spending accounts for more than two-thirds of the U.S. economy. As a result, anything that reduces confidence and holds back consumer spending can significantly limit economic growth. During the 2013 shutdown, consumer confidence fell sharply to a ten-month low, as measured by the University of Michigan's Index of Consumer Sentiment. In addition, an index that measures policy uncertainty spiked. As Moody's Analytics' Chief Economist Mark Zandi wrote at the time: "Uncertainty is corrosive to growth. Businesses grow more reluctant to invest and hire, […] financial institutions grow cautious about lending, and households are more restrained in spending."

  Declining business optimism can lead to slower job growth. A recent survey of CEOs conducted by the group Business Roundtable found that more business leaders plan to cut staff and investment now than did earlier this year, in part because of concerns about the federal budget. During the last shutdown, small business optimism fell to a seven-month low, and the Chief Economist of the National Federation of Independent Business said: "Since the Washington paralysis could hardly be good news, it would be expected that the optimism measures would deteriorate, and they did."

  > *"CEOs need to be assured the government is not going to be shut down because policymakers can't agree on spending priorities."*
  > ***- Randall Stephenson,***
  > ***Chairman of Business Roundtable,***
  > ***September 15, 2015***

- **Deprives businesses and policymakers of timely data needed to make critical decisions.** A shutdown can prevent government statistical agencies from releasing economic data that are important for businesses trying to decide whether to invest, expand or hire. For example, the 2013 shutdown forced the Bureau of Labor Statistics to delay release of its highly anticipated monthly jobs report. This year, market observers seeking to predict when the Fed will raise interest rates are carefully watching every release of economic data. In the event of a government shutdown, the Fed itself could be forced to go into its October Federal Open Market Committee meeting without timely data on the state of the labor market.

- **Harms Americans who count on federal programs.** An extended shutdown would hurt millions of Americans who depend on federal programs. This could include nearly 46 million people who depend on the Supplemental Nutrition Assistance Program to put food on the table, medical patients seeking to participate in clinical trials at the National Institutes of Health and veterans who could face delays in processing claims for medical and educational benefits. It could also affect markets for small business loans through the Small Business Administration and mortgage loans through the Federal Housing Administration. An extended federal government shutdown could also squeeze state and local budgets, since they rely on federal grants for about one-quarter of their annual spending.

- **Casts doubt on Congress' ability to limit economic damage in the future.** Failure to keep the government operating would also raise doubts that policymakers will be able to resolve other critical issues this fall in a responsible, timely manner. Most notably, a failure to raise the debt ceiling—or even a serious threat that it will not be raised in time—could deal a major blow to the economy and significantly raise government financing costs. Investors would likely demand a premium to hold U.S. debt, which has traditionally been viewed as virtually risk free. Past brinksmanship over the debt ceiling led to an increase in government borrowing costs of $1.3 billion in 2011 and $38 to $70 million in 2013. In addition, as a result of the prolonged debate over raising the debt ceiling in 2011, S&P downgraded the United States' credit rating for the first time in history.