ECONOMIC COSTS OF THE SHUTDOWN
Many analysts expect the impasse to shave growth off U.S. economy, though exact estimates vary

- White House Council of Economic Advisers:
  - For every week the shutdown lasts, quarterly economic growth will be reduced by 0.13 percentage points (1.56 for 12-wks)

- Mark Zandi, Moody Chief Economist
  - If shutdown lasts to end of first quarter, the economy could lose 0.5 percent

- Bloomberg survey of 30 analysts:
  - The economic growth would be cut by .25 percent if shutdown extends into February, according to median survey response

Sources: New York Times, Forbes, CNBC, Bloomberg
Indirect Consequences

- Limited staff at federal agencies translates into reduced services for businesses, households
  - Government employees work without pay to process tax returns, ensure security at airports
  - SBA stopped originating new loans
  - SEC: Issued order on January 16th staying all pending administrative proceedings
    - With limited staff, agency says it can respond to emergency situations
  - Farmers have been unable to receive aid payments intended to alleviate pain caused by trade conflicts
    - USDA temporarily reopened a portion of Farm Service Agency (FSA) offices to handle existing farm loans and tax documents

Sources: USDA, SEC Washington Post, Reuters
Local Impacts

- Federal employees are going without pay, struggling to cover bills and cutting back on spending
  - About 250,000 federal employees and contractors are impacted by shutdown live in D.C. region
  - Washington D.C.’s Metro: $400,000 a day lost due to reduced ridership and parking revenue

- Super Bowl impact?
  - Shutdown disrupting planning for the anticipated increase in air traffic arriving at Atlanta; shortage of TSA agents already affecting city’s international airport
  - Homeland security agencies involved in coordinating security for game also impacted by shutdown

Sources: Washington Post, NBC News

Photo: Shutterstock
Past Shutdown Impacts

- Two shutdowns that occurred in late 1995 and early 1996 cost $1.4 billion (Office of Management and Budget estimate)
  - About three-quarters of cost was back pay for workers
- Roy T. Meyers, Professor of Political Science, University of Maryland, asked whether OMB estimate was low:
  - Does not capture potential costs from delayed IRS revenue collections
  - Delays in citizens enrolling for benefits
- OMB estimated $2 billion in payroll costs from 2013 shutdown, and up to $6 billion in lost economic output

Sources: Congressional Research Services, Prof. Meyers, Washington Post, Pew Research
policy reactions

- Trump signed a bill guaranteeing employees will receive back pay once the shutdown is over
  - The measure doesn’t cover federal contractors (Source: The Week)

- What does the Federal Reserve do?
  - Will Chairman Jerome Powell increase rates at a slower pace, to offset shutdown’s negative implications?
Model Assumptions

- Federal Workers: Deferred Consumption Effect
  - 420,000 Federal employees work without pay
  - 380,000 Federal employees are furloughed
  - All Federal workers get back pay

- Assumptions:
  - 3 month shutdown (pessimistic)
  - 800,000 x $5,000/month = 4 billion/month
  - 20% Consumption deferred (0.8 billion/month)
  - Consumption Reduced Across All Categories
  - 1/6 of effect in D.C. metro area
Furloughed Employees: Lost Productivity

- 380,000 workers furloughed; loss in productivity for the services they provide
- Assume that the productivity is equal to compensation; only direct effect (no multiplier)
- $380,000 \times 5,000/\text{month} = 5.7 \text{ billion/month}$
Contractors

- 7.5 billion/month (245/day from Bloomberg estimate)
- Assumed 10% decrease in lower Federal spending
- Assumed 1/6 to DC MSA
## Summary – Quarterly Shutdown

### Quarterly Effects

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<thead>
<tr>
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<th>U.S. Total</th>
<th>D.C. Region</th>
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<tbody>
<tr>
<td>Federal Workers</td>
<td>-$4.475 billion GDP (-0.084%)</td>
<td>-0.3075 billion GDP (-0.220%)</td>
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<tr>
<td>Contractors</td>
<td>-$3.9245 billion GDP (-0.073%)</td>
<td>-0.394 billion GDP (-0.282%)</td>
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<tr>
<td>Loss in productivity</td>
<td>-17.1 billion GDP (-0.32%)</td>
<td>-2.850 billion GDP (-2.04%)</td>
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<td>(Federal workers)</td>
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<tr>
<td>Deferred consumption</td>
<td>-8.39 billion GDP (-0.157%)</td>
<td>-3.496 billion GDP (-0.502%)</td>
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<tr>
<td>total</td>
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<tr>
<td>Grand Total</td>
<td>-25.49 (-0.477%)</td>
<td>-6.346 billion (-2.542%)</td>
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Conclusions

- Consumption effect relatively small
- Loss of Government services—difficult to measure, but more significant
- Risk of longer term shutdown—e.g. a 20% drop in air transportation would cost U.S. 120,000 jobs and 16 billion (annual) GDP