Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

Economic Effects of Government Shutdowns

September 22, 2023

If Congress allows appropriations to lapse on October 1, a federal government shutdown would begin. Government shutdowns have direct and indirect impacts on the economy, the severity of which depend largely on the shutdown's length and scope. This Insight discusses the economic effects of shutdowns, including effects on output, employment, and government spending. For information on the impact of a shutdown on government operations, see CRS Report R47693, *Government Shutdowns and Executive Branch Operations: Frequently Asked Questions (FAQ)*, coordinated by Taylor N. Riccard.

Economic Effects

Many factors determine the extent a shutdown affects the economy, including the length of the shutdown, which programs are excepted and continue to operate in part or full, and whether there is a "partial" shutdown (i.e., some agencies receive appropriations). Click on the links for CRS products on the economic effects of the FY2014 and FY2019 shutdowns.

Government Spending and GDP

The goods and services provided by the federal government (excluding government transfers) are a component of economic output, as measured by gross domestic product (GDP), comprising about 7% of GDP. Government shutdowns decrease government spending, so these goods and services cannot be provided, directly decreasing output. The effect can be relatively small, given that shutdowns primarily affect discretionary spending (about 27% of total federal spending), not mandatory spending (i.e., entitlement programs such as Social Security).

The timing of a shutdown matters for its effect on output. Absent any policy changes that may be agreed to at the end of a shutdown, the shutdown itself simply delays—as opposed to cancelling—government spending. If a shutdown is brief, then the subsequent catch-up in government spending could occur in the same quarter that spending was delayed. Since GDP is measured on a quarterly basis, there may be little or no measured effect in this case. If a shutdown began October 1 (the beginning of the quarter), it would leave the rest of the quarter for the shutdown to end and spending to catch up.

According to the Bureau of Economic Analysis (BEA), it cannot quantify many of the impacts of shutdowns on components of GDP. However, it does estimate effects on non-market services provided by

CRS INSIGHT
Prepared for Members and
Committees of Congress

the federal government through federal compensation data. Based on the way GDP is calculated, labor inputs by federal employees are used to derive the value of government goods and services. Because furloughed workers would receive back pay after the shutdown ends, there is no impact on current-dollar federal compensation, used to measure nominal GDP. But the shutdown does reduce hours worked of federal employees, which therefore reduces real (inflation-adjusted) GDP. For the most recent (partial) shutdown from December 22, 2018, through January 25, 2019, BEA estimated the effect to have directly decreased real GDP growth by 0.1 percentage point in the fourth quarter of 2018 and 0.3 percentage point in the first quarter of 2019. Considering the effect of shutdowns on GDP more broadly, the Congressional Budget Office estimated the shutdown to decrease the level of real GDP in the first quarter of 2019 by 0.2%, which was mostly made up in subsequent quarters.

Employment

During a government shutdown, many federal workers are furloughed, apart from "excepted" workers necessary for the limited functions that continue through a shutdown. Additionally, private government contractors and other affected businesses may furlough or lay off workers. Furloughs reduce economic activity—employees that do not work are not contributing to production.

The Bureau of Labor Statistics (BLS) produces employment data. Depending on when a shutdown takes place, BLS surveys that collect employment statistics may or may not be affected. Furloughed government workers are categorized as "unemployed, on temporary layoff" if they were furloughed for the entire reference period of the survey in question. In 2023, the reference week is October 8-14. A shutdown that ended before or during (or started after) that week would have no effect on official labor market data. During the FY2014 shutdown, which occurred during the survey period, there was a large one-month spike of approximately 400,000 federal workers reported as not working.

Indirect Effects

Shutdowns can indirectly affect other components of GDP apart from government spending. Notably, personal consumption expenditures, which typically make up about two-thirds of GDP, may be indirectly decreased if delayed or stopped payments affect consumption decisions. For example, federal workers may decrease their spending as a result of not receiving a paycheck on time. In the past, federal workers were uncertain whether they would receive retroactive pay when the shutdown ended. However, P.L. 116-1 required retroactive pay for federal workers in future shutdowns, which may reduce effects on consumer spending.

Depending on its length, a shutdown could also harm consumer and investor sentiment, reducing private consumption and investment. Other disruptions to permitting, licensing, and verifications could lead to delays in lending and trade activity, for example.

Indirect effects are more difficult to accurately measure and, therefore, are often not included in estimates of economic effects of shutdowns. However, some research suggests that these effects can be significant. For example, a Goldman Sachs survey indicated that two out of five Americans lowered consumption during the FY2014 shutdown.

Estimates for a FY2024 Shutdown

According to research from Goldman Sachs, "A government-wide shutdown would directly reduce growth by around 0.15 percentage point for each week it lasted, or about 0.2 percentage point per week once private sector effects were included, and growth would rise by the same cumulative amount in the quarter following reopening." More generally, several private sector economists expect the economic effects of a potential shutdown to be fairly small, although the current economic context is different than it was in FY2019 or FY2014, causing some uncertainty. In particular, several sources have noted that the publication of certain data, such as employment and inflation statistics, could be delayed, potentially affecting the ability of the private sector or policymakers, including the Federal Reserve, to make informed economic or policy decisions.

Author Information

Lida R. Weinstock
Analyst Macroeconomic Policy

Marc Labonte
Specialist in Macroeconomic Policy

Disclaimer