

ECONOMIC COSTS OF THE SHUTDOWN

Political Stalemate



*what does **REMI** say? sm*

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Economic Drag



Kevin Hassett, CEA
Chairman (Photo: White
House)

- 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

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



Local Impacts



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- 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

Past Shutdown Impacts



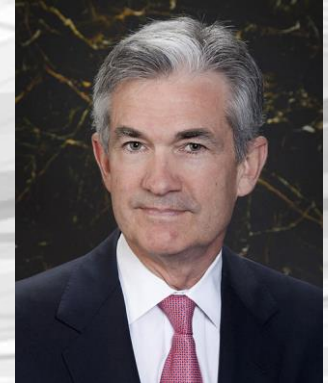
- Two shutdowns that occurred in late 1995 and early 1996 cost \$1.4 billion (Office of Management and Budget estimate)
 - ▣ About three-quarters of cost was back pay for workers
- Roy T. Meyers, Professor of Political Science, University of Maryland, asked whether OMB estimate was low:
 - ▣ Does not 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?



Chairman Powell (Photo: Federal Reserve)

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)
 - $800,000 \times \$5,000/\text{month} = 4 \text{ billion/month}$
 - 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)
- $380,000 \times 5,000/\text{month} = 5.7 \text{ billion/quarter}$

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

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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