



Insight

What Are the Costs of a Government Shutdown?

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Executive Summary

- The absence of legislation to keep many federal government agencies and programs funded for fiscal year 2026 has triggered a government shutdown, which can have significant and wide-ranging economic and budgetary costs.
- On the economic front, a shutdown can affect everything from gross domestic product growth to small business revenues.
- On the budgetary front, a shutdown can necessitate large sums of back pay to furloughed workers as well as lost fee collections and penalty interest payments.

Introduction

Fiscal year 2026 has begun, and there is no legislation in place to keep many federal government agencies and programs funded. Lawmakers' failure to complete work on the 12 full-year appropriations bills or enact another continuing resolution by October 1 has triggered a government shutdown. Until new funding legislation is signed into law, all federal agencies must stop carrying out all nonessential discretionary functions.

A government shutdown can have significant and wide-ranging budgetary and economic costs that extend far beyond political debates in Washington. The costs can be grouped into two key categories – economic and budgetary – which are discussed below.

Economic Costs

The economic impact of a government shutdown can be far-reaching, affecting everything from gross domestic product (GDP) growth to small businesses revenues. During a shutdown, many government programs and agencies are forced to cease operations, which

slows the flow of money throughout the economy.

A major economic cost is the loss of income for federal employees and government contractors. During a shutdown, hundreds of thousands of federal employees are furloughed without pay. The Congressional Budget Office (CBO) [estimates](#) the current shutdown has furloughed about 750,000 federal employees. This disrupts essential public services such as food and safety inspections, passport processing, and national park operations. While some workers, including air traffic controllers, the armed forces, and federal prison guards, are required to continue working without pay, the uncertainty surrounding the duration of the shutdown and the loss of income can create financial strain on federal employees.

A shutdown may force furloughed workers to cut back on their spending to manage their budgets while they aren't being paid. As a result, local businesses – especially those located near federal offices or dependent on federal employees for business – may experience reduced sales. This can create a ripple effect across local economies, especially in areas with a high concentration of federal workers such as Washington, D.C. and parts of Maryland and Virginia.

At the national level, a government shutdown can slow GDP growth if it goes on for more than a few days. CBO [estimated](#) that the 35-day shutdown in 2018-2019 reduced GDP by a total of \$11 billion, including \$3 billion that will never be recovered. CBO also noted that longer shutdowns can negatively affect private-sector investment and hiring decisions, since businesses cannot obtain federal permits and certifications or access federal loans. This could delay projects in the housing, infrastructure, and manufacturing sectors.

Financial markets may also react negatively to a shutdown, especially if it signals deeper political dysfunction. Investors may view prolonged inaction as a sign of instability, which can weaken market confidence and affect U.S. credit ratings. Consumer confidence can drop as well, especially if media coverage highlights unpaid workers, closed national parks, and disrupted services.

Budgetary Costs

Paradoxically, a government shutdown costs more than keeping the government open. Restarting operations after a shutdown requires administrative work, overtime pay, and contract renegotiations. Furloughed employees are given back pay after the shutdown ends, meaning the government pays them for time they didn't work.

An oft-cited cost estimate of a government shutdown is a [2013 report](#) from the Office of Management and Budget (OMB). The largest budgetary cost OMB identified was \$2.5 billion of back pay that was paid to 850,000 furloughed employees after the government reopened.

OMB also found about \$11 million of penalty interest payments and lost fee collections. Similarly, a [2019 Senate report](#) found that the shutdowns in 2013, 2018, and 2019 cost taxpayers \$4 billion, including \$3.7 billion of back pay to furloughed employees and \$338 million of costs for extra administrative work, lost revenue, and late fees.

The uncertainty of the current shutdown makes it difficult to estimate what the actual budgetary cost will be. CBO estimates the furlough of roughly 750,000 government employees will cost the government \$400 million per day of lost compensation.

Conclusion

A government shutdown disrupts many federal programs and agencies by forcing a discontinuation of all nonessential discretionary functions. The longer a shutdown lasts, the more likely it may act as a drag on the overall economy by stalling growth, harming businesses, and undermining financial stability. It can also impose costs on the federal budget that would otherwise not exist had the government remained open.