



Insight

# Evaluating the Costs of a Government Shutdown

GORDON GRAY | JANUARY 3, 2019

As elected officials return to work in Washington, thousands of employees from the eight federal departments and other agencies for which appropriations have not been enacted will be staying home. The lapse in funding for these agencies has precipitated the third extended funding lapse and ensuing “shutdown” in this decade. It is unclear what benefit a government shutdown produces, as history suggests it is an ineffective negotiating ploy.

Evaluating the other side of that proposition – the cost of a shutdown – is also challenging and subject to uncertainty, but more easily measured. In general, government shutdowns impose costs through three channels: federal budgetary costs, forgone services, and, last and most amorphous, economic disruption. These channels are to some extent interdependent and at times overlapping, but they represent the avenues by which the shutdown imposes real costs on the federal fisc and the economy in general.

## Federal Budgetary Costs

Likely the most oft-cited cost estimate of a shutdown is a [2013 study](#) from the Office of Management and Budget (OMB). The report essentially assembled some of the knowable data, such as the cost of federal payrolls for furloughed workers, along with additional examples of instances where the federal government failed to collect revenue, devoted federal resources to shutdown-related rather than mission-oriented tasks, or otherwise incurred costs that would not have occurred but for the shutdown. The single-largest federal budgetary cost identified by the OMB was the payrolls for furloughed workers – \$2 billion or \$2.5 billion inclusive of benefits. Beyond this figure, estimates of additional budgetary costs fall off by an order of magnitude. The upshot is that the budgetary costs of a shutdown are non-zero, but tiny relative to overall budgetary flows. Regardless of the magnitude, the budgetary costs produce no value and are impossible to justify from the standpoint of sound fiscal practice.

## Forgone Services

To calculate the cost of forgone government services, presumably one must know the value of that service to begin with. Applying that standard across the federal government to cover services disrupted by the current (or past) shutdown is difficult, and OMB did not attempt systematically to calculate that figure. We again know, however, that value is greater than zero (on net), and to the extent it is forgone there is a cost. Among the more conspicuous examples is the closure of national parks and monuments (indeed, this author tried to visit the Statue of Liberty in 1995 but couldn’t because of that shutdown!). With respect to this form of cost, OMB and contemporary news accounts provide numerous examples and anecdotes of these disruptions. Federal statute, specifically the Antideficiency Act, provides certain legal exceptions to government shutdowns that are designed to ensure that shutdowns do not jeopardize life and property, mitigating the most concerning potential disruptions.

## **Costs to the Economy**

Most broadly, and even more difficult to quantify, is the cost to the economy. The 2013 OMB study provided an estimate that the 2013 shutdown pared back one quarter's GDP growth by 0.2-0.6 percentage points, amounting to \$2 billion to \$6 billion in forgone GDP. Driven by assumed disruption in federal expenditures and generated by an economic model, this indirect estimate likely captures the economic cost, but it does not reflect an empirical study of the 2013 shutdown. We must rely again on illustrative examples (missed payments, permitting failures, etc.) to understand the myriad ways in which the shutdown slows down economic growth. Left out of this discussion is the degree to which shutdowns harm the overall investment climate in the United States. Again, it is likely not large, but also non-zero.

## **Conclusion**

One of the challenges that any policymaker championing a government shutdown will face (other than inevitable failure, if history is any guide) is articulating what benefit the shutdown produces compared to its costs. The costs of a government shutdown are somewhat more obvious, at least through some channels, than the benefits. And while those costs are subject to considerable uncertainty and are not so vast as to endanger the Republic, they are real – and paying something for nothing is never a particularly compelling argument.