

Money for nothing: Government shutdown costs \$12.5 million per hour



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The government shutdown, furloughing hundreds of thousands of federal workers, could take its toll on the economy the longer it lasts. According to one estimate, it's costing taxpayers \$300 million a day, to start.

Here's the price tag for the [first government shutdown in 17 years](#): about \$1.6 billion a week, \$300 million a day, or \$12.5 million an hour.

That estimate, from economic consulting firm IHS Global Insight, covers just the cost in work and services the government is unable to perform as it furloughs 800,000 federal workers. According to IHS, pay for federal employees is considered part of the Gross Domestic Product, which is the total value of all goods and services produced in the nation each year. So no pay for the workers means no contribution to U.S. economic output.

The furloughed workers likely will get back pay when they return to work, as they did the last time Washington shut down. But for now, they are not performing the government's work, except for essential personnel.

"Although \$300 million per day sounds like a big number, it is only a couple of thousandths of a percent of the total GDP," of about \$16 trillion, said Paul Edelstein, director of financial economics at IHS.

Whether that will have an impact on the U.S. economy in the longer term, is less clear. [President Barack Obama said in a statement from the White House Rose Garden Tuesday](#) that the longer the shutdown goes on, the more dire the consequences will be for the economy.

And some experts agree. "The economy is already weakened by continued high unemployment, as well as underemployment, which both impact consumers' spending power," said John Challenger, chief executive officer of global outplacement consultancy Challenger, Gray & Christmas, Inc.

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"Now, the government is basically shooting the economy in the foot, hobbling millions of other consumers," he said. "And the timing couldn't be worse, as we are just weeks away from the all-important holiday season, when retailers and other businesses benefit from increased spending."

According to IHS, during the 1995-96 government shutdown, roughly 36 percent of the 2.2 million federal civilian non-postal workers were furloughed. If that same proportion was applied to the current 2.15 million workers, about 774,000 would be furloughed.

Assuming an average annual salary per employee of \$110,000, this would result in a loss of \$1.6 billion in GDP for one week, or roughly \$300 million per day based on a five-day work week. Such a loss would also reduce the fourth-quarter economic growth rate by 0.16 of a percentage point.

GDP would still grow by around 2 percent in the fourth quarter, so a short-term shutdown would not materially affect economic growth, IHS said in a research note.

Ethan Harris, co-head of global economic research for Bank of America Merrill Lynch, also said the impact on GDP would depend on how long the shutdown lasts.

"A couple-day shutdown would likely have zero net impact upon growth; a two-week shutdown could shave 0.5 percentage points, while a one-month shutdown could lop 2 percent from fourth-quarter growth," Harris said in a message to clients.

Paul Ashworth, chief U.S economist for Capital Economics in Toronto, noted the 1995-96 shutdown caused federal spending to contract, and subtracted around 1 percent from overall GDP growth. "But those two shutdowns came right at the end of the quarter, whereas this one is starting on the first day of a new quarter.

"When the shutdown ends, federal employees will receive their back pay and, as a result, some of the activity and spending that doesn't take place at the start of the fourth quarter will still take place before the end of the year," Ashworth explained.

Edelstein said the main impact of a shutdown is salaries of furloughed federal workers, since the government does not benefit from their work. Also, if the workers are not being paid, they have less money to spend on consumer items that contribute to the growth of the economy. However, the impact would not be so significant on consumer spending if the workers get back pay, as they did in the last government shut down 17 years ago.

Comparing the current situation to the three-week shutdown at the end of 1995 and the beginning of 1996, Edelstein said GDP was clearly affected then. Fourth-quarter 1995 growth fell to 2.9 percent

from 3.5 percent in the previous quarter. First-quarter 1996 growth was 2.7 percent but then jumped to 7.2 percent in the second quarter.

The shutdown was also reflected in government spending at the time, he said. Although spending was on a downward trend anyway, it fell 11.6 percent in the 1995 fourth quarter coinciding with the shutdown. It then increased to 3.4 percent in the first quarter of 1996.

The Pew Research Center, citing figures from the Office of Management and Budget said the 26 days of shutdown in 1995-96 cost over \$1.4 billion, or \$2.1 billion in today's dollars.

The difference with this shutdown, however, is that it's coming when the economy is barely getting to its feet after the worst recession since the Great Depression. Economic growth has been anemic, and the unemployment rate remains stubbornly high, at 7.3 percent at the latest reading in August.

"Unfortunately, this is not the mid-1990s, when the economy was in a much stronger position heading into the shutdown," said Challenger. Unemployment was at 5.6 percent and job creation was averaging 190,000 new jobs per month over the five months leading up to the furloughs. Following the shutdown, job creation bounced to an average of 257,000 per month for the remainder of 1996.

"That is unlikely to happen this time, as the government continues to seek spending cuts even if a budget is agreed upon," he said.

The government will also lose out on revenue and fees from national parks and institutions that are closed by the shutdown, but Edelstein said that would have little impact on the economy.

"There are not many people visiting parks now, kids are in school. And the Smithsonian is free!" he said.