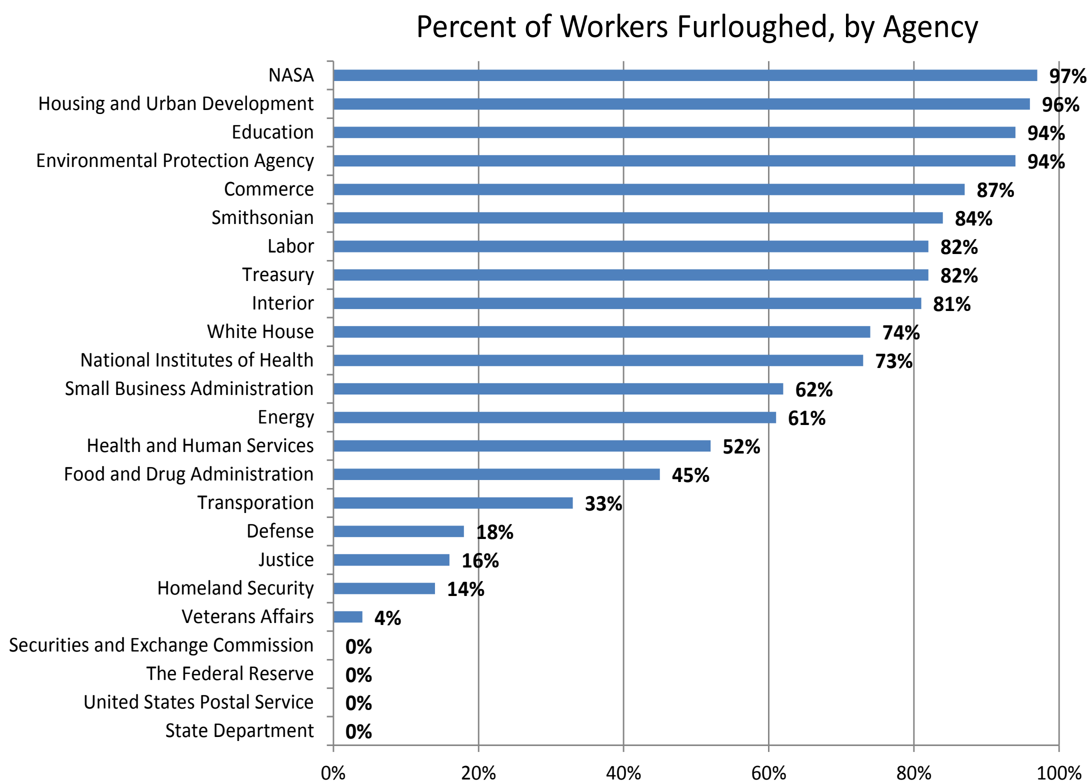
Special Report:

The Government Shutdown

By Greg Grootendorst and James Clary

On October 1st, the Federal Government partially shutdown, resulting in the furlough of an estimated 800,000 federal employees. According to the Anti-Deficiency Act of 1884, the Executive Branch is not allowed to undertake actions that create financial obligations for which it has not received federal funding. Congress's inability to pass a spending bill for the current fiscal year has therefore required parts of the federal government to suspend operations. Some federal employees are exempt from the shutdown, including employees not specifically or fully funded through appropriations (eg. Postal Service, Federal Reserve), employees who are needed to administer mandatory programs (most notably Social Security), and those who are essential to public safety (eg. FBI). In addition, Congress and the President have acted to ensure continued military pay.



Sources: Washington Post & HRPDC

While many might not immediately feel the impact of a federal shutdown, there are a host of social and economic consequences that occur and will increase over time. The accruing costs can be significant, as is evidenced by the last federal shutdown that began in December of 1995, lasting 21 days and costing the nation an estimated $55 billion. Hampton Roads has one of the highest concentrations of federal employees in the nation and, therefore, is especially impacted by the federal shutdown. There are approximately 51,300 federal civilian employees in the region with an estimated 25,800 who are subject to furloughs. Each day of unpaid furlough for these employees is equivalent to the annual employment of 100 persons and reduces the region's income by approximately $6.3 million a day. The reduction in regional income is exacerbated as pay cuts reduce consumption and expenditures elsewhere in the regional economy, with individuals cutting back on discretionary expenditures to offset smaller or non-existent paychecks.

A different and potentially worse self-induced crisis faces the nation on October 17th when the U.S. Treasury will reach the nation's debt ceiling. If Congress does not raise the debt ceiling, the U.S. would be unable to pay its debt obligations and therefore default on its Treasury Bonds. Default by the U.S. Treasury is unprecedented, making it unclear as to the potential damage that would result in the economy and worldwide financial markets.

Sources: BEA, HRMFFA, HRPDC

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