



Implications of Government Shutdown

Updated 01 October 2025

The Federal Government began a shutdown at 12:01 Wednesday morning, with significant impacts on government services (including economic data). Key issues dividing Congress prompting the shutdown include healthcare subsidies under the Affordable Care Act and Medicaid spending as well as procedural issues regarding spending appropriated by Congress.

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- With 60 votes needed for passage, the Senate rejected the House's proposed continuing resolution 55-45 after also voting down a separate proposal 47-53. The House is not scheduled to convene again until October 7.
- Some functions, including Social Security, Medicare, defense, law enforcement, and immigration enforcement will continue, but other functions – including the Bureau of Labor Statistics' release of economic data and some cybersecurity functions – will be suspended during the shutdown.
- About 750,000 Federal workers will be furloughed. Unlike in past shutdowns, the Administration could use the shutdown to make significant changes in Federal operations, including large-scale reductions of Federal workers.
- The Economy, Strategy & Finance Center of The Conference Board has released a [podcast](#) examining the economic implications of a shutdown.

Federal Government Begins Shutdown

On Friday, September 19, the House passed the Republican [CR](#) extending current government funding levels through November 21 by a [vote](#) of 217-212. The bill immediately went to the Senate, where it failed that same day by a [vote](#) of 44-48. The Senate also rejected a Democratic [CR](#) by a [vote](#) of 47-45 that would have extended government funding through October 31, permanently extended the ACA premium tax credits scheduled to expire at the end of 2025, and repealed the health care provisions of H.R. 1, also known as the One Big Beautiful Bill Act (OBBBA). Congress then went on its scheduled [recess](#) for the week of September 22, with the Senate returning on Monday, September 29. The Speaker of the House adjourned the House through at least October 1; it is currently scheduled to reconvene on October 7.

To attempt a negotiated deal to keep the government open, the President [met](#) with senior Congressional leadership (Speaker Mike Johnson (R-LA), Senate Majority Leader John Thune (R-SD), Senate Minority Leader Chuck Schumer (D-NY), and House Minority Leader Hakeem Jeffries (D-NY) on September 29. After the meeting, Senator Schumer [said](#), “We have very large differences on health care and on their ability to undo whatever budget we agree to through rescissions and impoundment.” Senator Schumer [floated](#) a seven-to-ten-day CR as a way to prevent a government shutdown, though Senate Majority Whip John Barrasso (R-WY) [said](#) that only the House CR proposal will be put on the Senate floor.

Ahead of the meeting, Senator Thune [confirmed](#) that the Senate would vote on the House-passed CR on September 30, just hours ahead of the midnight deadline to prevent a shutdown. Both Republicans and Democrats dug in to their positions, with Senator Thune [remarking](#) that “fundamentally, nothing has changed,” House Republican leadership [urging](#) a unified front, and Democrats [continuing](#) to support Senator Schumer’s negotiating strategy.

On the evening of September 30, the Senate voted down two different proposals, the Democratic proposal including a short extension and focusing on healthcare, 47-53, and the House’s CR, 55-45 (60 votes were needed for passage), forcing the shutdown.

The first principal difference between the parties is health care: Democrats have [proposed](#) extending subsidies on premiums for policies under the Affordable Care Act which expire at the end of 2025 without which premiums could rise significantly. After the meeting, Senator Schumer [commented](#) that there was “a real division” between the President and Republican leadership on the issue. While some Republicans have [suggested](#) they are willing to negotiate on the issue, they would do so only separately from a CR; it could be difficult for Republicans to pass a CR in the House that includes the subsidies.

Economic Implications and Impact on Federal Workers

The Economy, Strategy & Finance Center of The Conference Board has released a [podcast](#) examining the economic implications of a shutdown. Past shutdowns have had an impact of between 0.1% and 0.3% on quarterly GDP.

In past shutdowns, normal government operations have essentially resumed unchanged and temporarily-furloughed Federal employees (though not contractors) have received back pay in full. For this shutdown, the Administration is considering using the lapse in funding to make significant changes in Federal operations.

Last week, the Office of Management and Budget (OMB) released a [memo directing](#) all Federal agencies to consider Reduction in Force (RIF) notices for all employees in programs, projects, or activities whose discretionary funding lapses on October 1, have no other alternative funding source (such as the OBBBA), and are not consistent with the President's priorities. Once Congress enacts FY2026 appropriations following a shutdown, the memo [states](#) that agencies "should revise their RIFs as needed to retain the minimal number of employees necessary to carry out statutory functions." Essentially, this would involve resuming operations with a smaller number of employees, which could also have an impact on unemployment and GDP.

On Tuesday morning, the President indicated the Administration is planning to move ahead with the policy, [saying](#) "[w]e may do a lot" [on RIFs]. And that's only because of the Democrats," seeking to put pressure on Democrats to accept the House CR to avoid the firings.

That stance, though, runs squarely into the Democrats' second principal concern: their insistence that the Administration agree to spend the money that Congress appropriates rather than withholding it through rescissions packages, the recent "pocket rescission" on foreign aid, or efforts to reprogram funding. Democrats see this as reaffirming Congress' "power of the purse"; they also fear approving a deal on government funding only to have the spending parameters changed unilaterally.

Programs likely to [continue](#) under a government shutdown include Social Security, Medicare, veterans benefits, military operations, law enforcement, Immigration and Customs Enforcement, Customs and Border Protection and air traffic control. FDA Commissioner Marty Makary [told](#) staff in a video on Sunday that he was "able to secure an exemption [from the RIF] because we are in the business of public safety."

Beyond this, estimates of workers furloughed (though not yet subject to RIF) [range](#) from 87% at the Education Department to 62% at the State Department to only 2% for core functions (including the IRS), at Treasury for a total of about [750,000](#) furloughed workers according to the Congressional Budget Office. The budgetary impact of back pay (up to \$400,000,000 per day) depends on how many workers would be brought back after furlough rather than subject to RIF. Only about 5% of workers at the Department of Homeland Security will be [furloughed](#) (but 65% of the Cybersecurity and Infrastructure Agency) As in past shutdowns, public releases of economic data are affected: the Bureau of Labor Statistics has "suspend[ed] all operations" and [stated](#) that "economic data that are scheduled to be released during the lapse will not be released."

Possible Solutions?

A potential off-ramp could be a deal on extending the ACA premium tax credits, perhaps

for one year. As the lead Democratic sponsor in the Senate of a bill to make these tax credits permanent, Senator Jeanne Shaheen (D-NH) has [inquired](#) with her Republican colleagues regarding the possibility of some sort of extension, with Senators Susan Collins (R-ME) and Lisa Murkowski (R-AK) open to these conversations.

Given the need to have 60 votes in the Senate for a bill unless the Republican leadership uses the reconciliation process (which can only be used once in every fiscal year) to pass a funding extension, a group of GOP Senators is also reportedly [working](#) behind the scenes on a bill to extend the ACA tax credits with policy changes to secure the support of conservatives in Congress, such as income caps and a prohibition on using the tax credits for insurance plans that cover abortions. Despite these glimmers of a potential compromise, none of these efforts yet have the support of Congressional leadership from either party. However, the situation remains fluid – and finding a solution will require both a will and a way. The “will” factor is likely more important right now and may depend on how the shutdown impacts the public directly.

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