

What Does the Government Shutdown Mean for New York and New Jersey Businesses?

by Dan Brecher on October 2, 2013

The federal government officially entered a partial shutdown as members of Congress failed to reach an agreement on a budget bill Monday night. Around the country, “closed” signs went up at national monuments, and many federal agencies are working with skeleton crews.

But what does the shutdown mean for New York and New Jersey businesses?

Companies that rely on government contracts or conduct direct business with the federal government will certainly feel the impact. Businesses that provide engineering, logistics, support and technical services to federal agencies are already reporting that delayed contracts and payments will impact their bottom line. The severity of the hit depends on how long the shut down lasts. For now, many have delayed hiring new workers, shifted existing employees’ job assignments, and temporarily scaled back operations.

Practically speaking, the shutdown also impacts the availability of government services. For now, both the U.S. Patent and Trademark Office (USPTO) and the Securities and Exchange Commission (SEC) report that they have enough in their reserves to operate for several weeks. However, an extended closure will mean delayed patent applications and IPO registrations.

As for our courts, the Administrative Office for the U. S. Courts advised Thursday that the federal courts will remain open for at least ten business days from today, and that the Judiciary will reassess the situation on or about October 15th. In the meantime, in the Southern District, Chief Judge Loretta Preska signed an order that categorized that District’s personnel as “essential,” meaning all employees will still come to work. Should the shutdown run past October 15th, employees designated as “essential” would still come to work but would not be paid until Congress approves retroactive compensation. The money covering the next ten days comes from fees and fines. If the courts run out of money, anything “not related case resolution or life and safety” will stop.

The contingency plans for other government agencies (available on the Office of Management and Budget website) are much more grave. The Small Business Administration (SBA), which has been preparing for the shutdown by processing loan applications at a lightning pace, ceased many of its operations on Monday night.

Agencies like the Equal Employment Opportunity Commission (EEOC) will continue to accept new claims, but will halt ongoing proceedings, such as litigation and mediation. The Internal Revenue Service, which will retain only 12 percent of its staff, will continue electronic tax return processing and criminal enforcement, but will put manual return processing and audits on hold.

On a broader scale, the implications of the shutdown are far less certain. While the dollar weakened slightly, the global markets appear to have taken the shutdown in stride, at least for now. However, a protracted shutdown would likely have a much more significant effect both in the United States and abroad. The impact of a three to four week government closure would cost the still fragile economy approximately \$55 billion, according to Moody's Analytics.

A court official during the 1995 Government shutdown observed that the courts have “the internal power” to continue operating, and that “The judiciary is too important. There’s a Constitution. The courts have to remain open.” The same could be said for the minds of certain political ideologues.

If you have any questions about the federal government shutdown or would like to discuss how it may affect your business, please contact me, Dan Brecher, or the Scarinci Hollenbeck attorney with whom you work.