

# Income Changes and Consumption: Evidence from the 2013 Federal Government Shutdown

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## **Abstract**

We use the 2013 federal government shutdown and rich data set from an online personal finance website to study the effects of changes in income on changes in consumption. The 2013 shutdown led to a large and unanticipated income shock for federal government workers, with a negligible effect on permanent income. We compare federal government workers to state government workers who were unaffected by the shutdown. Evidence from the media and online prediction markets indicates that the shutdown was not anticipated. We observe excess sensitivity of changes in consumption patterns to changes in income, violating the permanent income hypothesis. Data on household savings points to evidence of credit constraints, but the effect cannot explain the entire consumption drop. We use variation in whether federal government workers were made to work without pay during the shutdown to separate the effects of credit constraints from the effects of home production and increased leisure.

We find that much of the consumption drop is driven by change in time allocation. We also find categorical spending evidence consistent with home production and increase leisure.