Our Generation, Inc.

Minutes of

Default Clock Review Committee Meeting

JULY 21, 2022

The meeting was called to order at 11:17 am Eastern Daylight Time on July 21, 2022 and was held by Zoom.

Participating were committee members Baker Spring, Jim Claire, Kevin McKechnie, Chip DeMoss and Kevin Miller. Absent were Dan Perrin and Dean Clancy.

Alan Dye, counsel to Our Generation, was present as Secretary of the meeting.

As Chairman, Mr. Spring declared a quorum and presented the group with a proposed agenda. After a motion and a second, the agenda was approved.

Mr. Spring presented the committee with minutes of the meeting held on February 25, 2021. After a motion and second, the minutes were unanimously approved and are attached.

Mr. Spring suggested that there were four elements to his agenda:

1. Approval of the Agenda.
2. Approval of the Minutes.

3. Review of the draft amendment to the Default Clock.
4. Adjournment.

Mr. Spring went on to indicate that, to his surprise, the minute hand has moved one minute further away from midnight, primarily because of what is likely to be a temporary improvement in tax revenue resulting from last year's strong stock market and from the adoption by the Congress of a dollar denominated debt ceiling (approximately $31.4 trillion dollars).

Mr. Spring expects that the increased revenue resulting from the investors' sale of stocks and recognition of capital gains will be only temporary, particularly considering the state of today's markets, and that within a year or so the Congress will be bumping up against the new dollar-denominated debt ceiling and will again seek suspension of the ceiling.

As a result of these changes, Mr. Spring is going to recommend that the clock move from three minutes till midnight to four minutes from midnight.

Despite these positive changes, almost everything else is negative. Interest costs are increasing, but have not yet increased sufficiently to result in loss of a minute. It is anticipated that as the interest rates continue to rise and the cost of servicing the US debt rises with them, that Factor 4 will be reversed.

Jim Claire commented that the problem with looking at revenues is that they are generally backward looking. With the stock market falling and GDP slowing, the ratio of tax revenues to

GDP is almost certain to deteriorate sufficiently to cause Factor 4 to buy zero minutes from midnight, compared to the one minute it buys currently..

Mr. Spring also commented that he anticipates that under Factor 2 the federal government will run up against the existing debt ceiling by early next year, which may cause the administration to talk about suspending or repealing outright the debt ceiling. The suspension or repeal of the debt ceiling will cause the loss of the one minute from midnight under Factor 2 that it gained by the enactment of a dollar-denominated debt ceiling law in December of 2021.

Mr. Claire interjected that one good fact is that modern monetary theory (MMT) seems to be dead. The significant slow-down in the Japanese economy, which has relied heavily upon modern monetary theory, along with the movement of the euro almost to parity with the dollar, proves MMT to be inaccurate and will presumably cause its adherents to abandon or at least not to promote it.

Mr. Spring returned to the revenue question. He is relying upon the CBO estimates which generally come out about every six months, but latest released was delayed. The last estimate came out in May, probably based upon May 1 numbers. Those numbers are already showing some age and will almost certainly reverse. Mr. Claire suggested that in the Committee’s narrative when announcing the changes in the Clock, the Committee should point out that four minutes from midnight is probably overly optimistic because of the deterioration in so many factors. Mr. Spring agreed with Mr. Claire but suggests it would be better for the Committee to wait until the data are actually available before changing the Clock. He believes that Factors 4 and 5, which now each buy one minute from midnight, are heading for zero within the next year. He believes that Factor 5 is the most volatile of the factors and he plans to keep a close eye on it for the next several months.

Factor 6 is the percentage of the gross to the debt held by the public and this too is going the wrong way, but still buys the one minute from midnight it did at the time of last review. It may take a year or so to deteriorate to the point where it causes a problem and goes to zero, but is headed in that direction. As debt held by federal trust funds shrinks, the percentage of debt held by the public increases.

Mr. Spring then turned his attention to Factor 7 on percentage of marketable federal debt held by foreign investors. The general trend over the last several years has been that foreign-held marketable has been shrinking as a share of all marketable debt. Thus, Factor 7 would continue to buy two minutes from midnight, but should also continue to be discounted because it remains a less significant contributor in terms bring on a federal fiscal crisis In fact, the decline in amount of foreign-held debt could accelerate. This is because some of the public debt is owned by Russia and China, and both of those countries have been selling US debt in recent days. China has apparently sold $100 billion dollars in US debt in the last quarter.

Because things are deteriorating so quickly, it may be necessary to hold an ad hoc meeting of the Committee if negative pressures accelerate. He believes the need for such a meeting will likely result from Congress moving to suspend or repeal the debt ceiling law under Factor 2 and Factor 5 will moving to zero minutes from midnight because its volatility could lead to gross interest cost taking up a very large of the funds raised through issuance of new debt.

Mr. Spring summarized the status of each factor.

Factor 1 relates to federal outlays and is in the worst condition of all the factors. It yields zero minutes to midnight.

Factor 2 is the adoption of a dollar denominated debt ceiling, which occurred December of 2021 and moves the clock on minute away from midnight.

Factor 3 on shares of gross domestic product taken by both the gross debt and the debt held by the public is the second worst factor and there is no change. It still buys zero minutes to midnight.

Factor 4 is the interest cost as a percentage of federal revenues, which buys one minute from midnight now but is headed in the wrong direction. Mr. Spring believes that by 2024 it is likely that that factor will yield zero minutes from midnight.

Factor 5 is the scariest scenario because it is so volatile. It is possible that the vast majority of the funds raised by the issuance of new debt will go to meeting the interest costs of the pre-existing debt. In this case, the federal government would enter into a classic debt death spiral as interest costs become unbearably high in the view of investors. This could result in a failed auction of Treasury Securities, which the Committee believes will be "game over" in terms of federal default

Mr. Miller commented that the markets already seem to be building this in. Mr. Spring reiterated that he believes the main reason that MMT is dead is that it was previously believed by its adherents to be able to handle inflation, which has now proven not to be the case.

Factor 6 on the share of the debt held by the public as a share of the gross while still buying the one minute from midnight allocated to it in the previous Clock update, continues to move in the wrong direction. Mr. Spring said he currently projects that Factor 6 will no longer buy the one minute around 2025, but the loss could come earlier.

Factor 7. Foreign ownership of debt is going down, partly because of Chinese and Russian sales of U.S. debt.

Factor 8 relates to structural economic health, where there has been modest improvement, but the factor still buys zero minutes from midnight.

Mr. Miller broke in at this point to suggest that everyone immediately go on the Treasury Direct website and buy the maximum amount of I Savings Bonds available. Each individual is allowed to buy $10,000 per year in such bonds and the bonds this year pay 9.62%. He believes it to be the best investment available in the world.

Factor 9. Treasury Revenues would have bought two minutes from midnight, primarily because of the increase in capital gains tax payments. While this update discounted Factor 9, this could change because the increase in capital gains tax payments is clearly temporary and will probably buy zero minutes from midnight as soon as a couple of years.

Factor 10. The economy, though strong in some sectors, is still well below the 3% target in terms of annual real growth now when measured as an annualized rate based on the size of the economy in 2019, prior to the onset of the pandemic. There was a sharp improvement in 2021, but that is primarily because the economy was only recovering from pandemic-related downturn in 2020. For that reason, Mr. Spring believes that the current economic improvement cannot be sustained and that it deserves zero minutes from midnight.

Factor 11. This factor would provide a minute from midnight if Congress were to enact a law prohibiting emergency measures by the Executive. This is highly unlikely and therefore buys zero minutes from midnight.

Factor 12 would be positive if Congress were to reduce mandatory spending. This, however, appears extremely unlikely. Thus this factor remains at zero minutes from midnight.

In the aggregate, six of the factors (2, 4, 5, 6, 7 and 9) are at least temporarily positive with the remainder in negative territory. Two of the now-positive factors, namely 7 and 9, are discounted in this update, which is in accordance with the rules governing the Clock. However, it is possible that the Review Committee will rescind the discount for Factor 9 in a future meeting because federal revenue levels will have started growing at a slower rate than currently projected. The four remaining positive factors, however, are moving the wrong direction and may soon become negative.

Mr. Claire commented that we need to make sure to point out the negative movement, and Mr. Spring agreed. Mr. Spring believes that we could either see a default or unlimited printing of money by 2024 or 2025.

Mr. Spring asked the group to approve the changes proposed and after a motion and second the changes were all approved as Mr. Spring has presented them.

There being no further business, the meeting was adjourned at 12:02 PM EDT.

Respectfully submitted,

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Alan P. Dye

Attachments: