Our Generation, Inc.

Minutes of

Default Clock Review Committee Meeting

April 13, 2023

The meeting was called to order at 3:10 PM Eastern Daylight Time on April 13, 2023 and was held by Zoom.

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

Alan Dye, counsel to Our Generation, participated as Secretary of the meeting, while Chip DeMoss served as host.

As Chairman, Mr. Spring declared a quorum and presented the group with a proposed agenda he provided earlier to all Committee members. The participants proceeded with the consideration of the agenda items, as provided.

Mr. Spring reminded the participants that there were five items on agenda:

1. Approval of the minutes to the virtual meeting of the Committee, which took place on July 21, 2022;
2. Discussion of the content of of the pending update of the Debt Default Clock;

3. Approval of the updated version of the Clock, including any adopted modification to the version recommended by Mr. Spring, as shared with all Committee members earlier;
4. Consideration and approval of a motion to grant Mr. Spring the authority to redraft the updated version of Clock, previously approved, along with drafting an accompanying press statement on the update;
5. A motion to adjourn the meeting.

Following the approval of the minutes from the July 21, 2022, virtual meeting, Mr. Spring turned to the second item on the agenda. This was a general discussion of his recommendations for updating the Debt Default Clock. This discussion followed from the drafted text of the update, along with the applicable charts, which were provided to all members of the Review Committee prior to this virtual meeting.

First, Mr. Spring provided a summary description of how the Clock's minute hand could change from four minutes to midnight, which is where it stood at the time of the previous update. He stated that the minute hand, if the Review Committee approved his recommendations, would move to two minutes away from midnight. The causes were based on negative developments with both Factor 2 and Factor 4.

Factor 2 bought one minute from midnight in July of 2022 because there was a dollar-denominated debt ceiling in effect at that time. Now, it would lose that one minute because the U.S. Treasury in using extraordinary measures to evade the law on the permitted level of debt.

Second, Mr. Spring stated that in July 2022 Factor 4 bought one minute from minute because current gross federal government interest costs did not exceed 15 percent of federal revenues. At that time, Factor 4 did not buy two minutes from midnight because gross federal interest costs were projected to exceed 15 percent of federal revenues later in the ten-year budget period. At this time, current gross federal interest costs exceed the threshold and will continue to do so throughout the budget period. Thus, Factor 4 no longer buys the one minute from midnight it bought in July 2022.

Having provided this summary of his recommended outcome for the updated Clock, Mr. Spring told the participants that he would explain his recommended outcomes on a factor-by-factor basis. The discussion of the content of the next update of the Clock, as the second item on the agenda, took place as follows.

Factor 1 would buy two minutes from midnight if federal outlays do not exceed 17.5 percent of gross domestic product and are projected to remain below this threshold during the ten-year budget period. By this standard, Factor 1 bought zero minutes from midnight at the time of the July 2022 update. Mr. Spring told the participants that this remains the case at this time.

Factor 2 was discussed in the earlier summary. Mr. Spring reiterated here that Factor 2 would buy two minutes from midnight if there is a dollar-denominated debt limit in law and the budget projections show that the federal debt will remain below the limit. Mr. Spring expanded on his earlier explanation regarding Factor 2 by acknowledging that there is a dollar-denominated limit in law at the time of this virtual meeting. He also reiterated that in his view the Treasury is evading the limit by resorting to extraordinary measures. He recommended that the Review Committee set aside the current law based on the actions being taken by the Treasury and conclude that Factor 2 now buys zero minutes from midnight, whereas it bought one minute at the time of the July 2022 update. Review Committee member Jim Claire expressed support for this recommendation and the other members did not disagree.

Factor 3 would buy two minutes from midnight if debt held by the public is below 70 percent of gross domestic product and the gross debt is below 100 percent of gross domestic product, and both are project to stay below their respective thresholds during the budget period. Mr. Spring informed the participants that both debt levels are well above their respective thresholds and are projected to remain there. On this basis, Factor 3, under Mr. Spring's recommendation, buys zero minutes from midnight now. This is where it stood at the time of the prior review in July of 2022.

Factor 4 was also described by Mr. Spring in his earlier summary of the current standing of the Clock. Mr. Spring went on to say here that Factor 4 bought one minute from midnight at the time of the July 2022 update because gross federal interest costs were below 15 percent of federal revenues, and crossed over to the wrong side this threshold later during the budget period. Spring then informed the participants that gross federal interest costs now exceed 15 percent of revenues and will remain above this threshold during the budget period. On this basis, he recommended that the Review Committee find that Factor 4 now buys zero minutes from midnight. Review Committee member Jim Claire stated that he agreed with this recommendation and it was adopted by consensus.

Factor 5 bought one minute from midnight at the time of the July 22 Clock update because gross federal interest costs were below 70 percent of the money the Treasury raised through the issuance of new debt at that time and was projected to remain below the 70 percent threshold until later in the budget period. Spring told the participants this is where things stand today. Thus, Spring stated he is recommending that the Review Committee find that Factor 5 continues to buy one minute from midnight. He went on to say, however, that it must be kept in mind that Factor 5 is the most volatile of the factors behind the Clock and that this factor could lose its one minute from midnight with little warning.

Factor 6 bought one minute from midnight at the time of the July 2022 update because, like Factor 5, it was below its threshold of the debt held by the public exceeding 80 percent of the gross debt and would cross over to the wrong side of the threshold only later in the budget period. Mr. Spring informed the participants that this remains the case today and is recommending that Factor 6 continue to buy one minute from midnight at this time.

In July of 2022, Factor 7 was discounted by the Review Committee because excessive holdings of federal debt instruments by foreigners was not a significant contributor to the risk of federal default. Spring explained that while foreign holdings of Treasury instruments have continued to trend up in dollar terms, they have not kept pace with the more rapid increase in all debt held by the public. Thus, Spring stated that he is recommending that Factor 7 continue to be discounted now for the same reason. Review Committee member Mr. Claire stated that he is concerned that the dollar is at risk of losing its value relative to other major currencies, which is likely to shrink foreign holdings of Treasury securities as a share of all debt held by the public to an even greater extent. Mr. Spring concluded the discussion of Factor 7 by reminding the participants the rules governing the Clock permit the Review Committee to discount up to two of the twelve factors at any one time.

Factor 8 bought zero minutes from midnight in July 2022 because the structure of the federal debt is much too heavily weighted in favor of fixed-rate bills, notes and bonds that mature in fewer than five years, along with adjustable-rate instruments. Spring stated that this imbalance remains in place and that he is recommending that Factor continue to buy zero minutes from midnight at this time. Review Committee member Kevin Miller stated that he is quite concerned about the imbalance and its impact in terms of raising the rollover costs of the federal debt.

Like Factor 7, Factor 9 was discounted by the Review Committee at the time of the July 2022 update. Under Factor 9, two minutes away from midnight are bought if federal revenues are at or above 17.5 percent of gross domestic product. This was the case in July 2022. Therefore, the Review Committee chose to discount this factor at that time because a lack of federal revenues, by historical standards, was not a material contributor to the risk of federal default. Mr. Spring informed the participants that in his view this remains the case today and is recommending that the Review Committee continue to discount Factor 9. However, he also stated for the record that in a single year during the ten-year budget period, which is 2025, it is possible that revenues would fall a small fraction of a percentage point below 17.5 percent. This depends on how the Congressional Budget Office rounds the numbers in its data. He went on to say that on average revenues remain above 17.5 percent of gross domestic product during the budget period. Finally, Spring reminded the participants that here the Review Committee would be using the discount permitted by the rules governing the Clock. None of the Review Committee members expressed opposition to categorizing Rule 9 as being discounted now.

Factor 10 bought zero minutes from midnight in the July 2022 update because it was found that U.S. economic growth, as measured in real (inflation-adjusted) gross domestic product did not meet 3 percent. At that time, it was a close call about awarding Factor 10 one minute away from midnight because of the rebound from the negative real growth rates prevailing at the height of the pandemic. Mr. Spring informed the participants that current data show that real U.S. economic growth rates are projected to be well below the projections in July 2022. Thus, he is recommending that the Review Committee should continue to find that Factor 10 buys zero minutes from midnight, with higher confidence than in July 2022.

Factor 11, unlike any of the other factors, is purely qualitative. It would buy two minutes from midnight if a law is in effect prohibiting the use of extraordinary measures, regardless of the form they may take. It would buy one minute from midnight if either house of Congress has passed such a bill. Mr. Spring noted that in the earlier discussion of Factor 2 on the debt limit, the Treasury is currently using extraordinary measures. He went on to state that no legislative action to prohibit this use of extraordinary measures has been taken by either house of Congress. Thus, Mr. Spring recommended that the Review Committee find that Factor 11 buys zero minutes from midnight on the Debt Default, which is where it stood at the time of the previous update.

Factor 12 of the Debt Default Clock addresses the matter of so-called mandatory spending. This is spending that is effectively on autopilot. This factor would buy one minute from midnight if Congress enacted legislation that reduced mandatory spending to what it was in 2018. This was a little over $2.5 trillion. In the last fiscal year, 2022, mandatory spending was $4.1 trillion. Factor 12 would buy two minutes from midnight if mandatory spending is phased out altogether by the end of the budget period, thus making all federal spending subject to annual appropriations and review. Mr. Spring told the participants that mandatory spending is projected to remain well above $2.5 trillion throughout the budget period, with it reaching over $6.1 trillion in 2033. Accordingly, Mr. Spring recommended to the Review Committee members that they find that Factor 12 buys zero minutes from midnight at this time. This is where it stood at the time of the previous update.

This concluded the discussion of all the factors standing behind the Debt Default Clock.

Mr. Spring then turned to the next item on the agenda. This was to take up a motion to approve Mr. Spring's recommendations on updating the Debt Default Clock. As Chairman, he requested a motion to approve the update recommended during the discussion. Review Committee member Mr. Claire made such a motion. Mr. Spring then asked if there was a second. Review Committee member Mr. Clancy seconded the motion. Mr. Spring asked for yeas and nays and declared that yeas had it. He also declared for the record that no Review Committee member voted in the negative.

The next item on the agenda was for the Review Committee members to approve a motion that gives Mr. Spring the authority to draft the updated version of the Clock, previously approved, along with drafting an accompanying press statement on the update. Mr. Spring asked if there was a motion supporting the authorization in both its aspects. Review Committee member Mr. Clancy made such a motion. Mr. Spring asked if there was second to the motion. Review Committee member Mr. Kevin Miller seconded the motion. Mr. Spring then asked for the yeas and nays and declared that the yeas had it. Further, he declared that for the record no Review Committee member voted in opposition.

There being no further business, the meeting was adjourned at 3:55 PM EDT.

Respectfully submitted,

____

Alan P. Dye

Attachments: