COMPACT FOR AMERICA

The Default Clock Initiative

March 11, 2019

The Debt Default Clock Review Committee responds to the new debt ceiling and the use of “extraordinary measures.”

New warning signs on the risk of federal default!

On March 2, 2019, the suspension period of the debt ceiling law under the Bipartisan Budget Act of 2018 expired. This automatically set a new ceiling at $21,987,705,611,407.70, which was posted by the Treasury Department on March 6, 2019, here. On March 4, 2019, Treasury Secretary Mnuchin sent a letter to Congress stating that his department is starting to make use of “extraordinary measures” because the actual debt is near the new debt ceiling. Extraordinary measures are accounting measures that permit the Treasury to avoid defaulting on the debt, while also remaining under the ceiling.

Anticipating the restoration of the debt ceiling and the use of extraordinary measures, the Review Committee announced at the time of its last update that it would put out a statement if the ceiling was restored and extraordinary measures were being used because these events have a direct bearing on two of the factors used to set the Clock. For a detailed explanation of the announcement by the Review Committee, see Press Release #5 on this website. A summary description of the announcement follows.

Not a proper debt ceiling.

The first of these two directly relevant factors states that the federal government can move the minute hand one minute away from midnight if it restores a dollar-denominated debt ceiling. The expiration of the suspension of the debt ceiling, as described earlier, automatically set a new dollar-denominated debt ceiling. If taken as a conscientious step, this restoration of a dollar-denominated ceiling would have led the Review Committee to move the minute hand one minute away from midnight. The Committee has decided to delay awarding this minute because it does not see the automatic resumption of the ceiling as a conscientious step, and therefore awarding the minute is premature.

Extraordinary measures represent a dangerous precedent for default.

The second directly relevant factor would award the federal government one minute from midnight if Congress moves forward with a bill prohibiting the use of extraordinary measures by the Treasury. This factor currently buys the government no minutes from midnight. Not only are extraordinary measures now permitted under law, they are now being used by the Treasury.

The Review Committee chose to include this factor in the design of the Clock because it sees the use of extraordinary measures as a precedent that could easily lead to default.

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