COMPACT FOR AMERICA

The Default Clock Initiative

FOR IMMEDIATE RELEASE
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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 February 21, 2019, the Debt Default Clock Review Committee, which is a part of the Compact for America Educational Foundation, completed its third update of Debt Default Clock. Based on new data, the Committee put the minute hand of the Clock at four minutes from midnight. Midnight marks the beginning of a cycle of fiscal crisis for the federal government, followed by insolvency and default. Default is marked by a failure of federal government to make a timely interest payment on a debt obligation. 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 subject to limit 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. Overall, there are twelve such factors.

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. It also sees the use of extraordinary measures, which is directly related to the second factor, as explained later, as skirting the new ceiling.

On the other hand, the Review Committee has not concluded that the new debt ceiling will never qualify for the awarding of the minute from midnight. It only views taking this step now as premature. It will monitor how the debt ceiling issue is addressed in the coming weeks and months and will make a determination based on any new developments. Tentatively, the Review Committee sees its next full update of all twelve factors under the Clock as taking place in the fall of this year.

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. Default is defined under the Clock as a failure by the federal government to make a timely interest payment on a Treasury security. In this regard, it is essential to understand what is meant by extraordinary measures. In essence, they are accounting steps that delay or avoid otherwise required payments applicable against the debt ceiling to specified funds within the federal government. Appropriately, the Treasury Department issued a release that updates earlier descriptions of extraordinary measures on March 5, 2019. This release is available here.

Two excerpts from the Treasury's description of extraordinary measures make it clear what dangerous precedents are being set by their use. The first is the suspension of daily reinvestments of Treasury securities held by a particular fund of the Federal Employees Retirement System. In its description, the Treasury acknowledges that this fund is "made whole" at the time extraordinary measures are no longer required because the debt ceiling has either been raised or suspended. Therefore, the Treasury is admitting that during the use of this measure, it is failing to make timely payments to this fund. The second example is the suspension of daily reinvestment of Treasury securities held by is called the Exchange Stabilization Fund (ESF). In this case, the Treasury description states, "After a debt limit impasse, the interest lost by the ESF is not restored: there is no existing authority to reimburse the ESF for lost interest during the period that the dollar-balance is not invested." The Treasury here is not only acknowledging that it is failing to make timely interest payments, it is saying it does not make them at all. By any measure, these steps are inconsistent with the standard of upholding "the full faith and credit" of the United States government.

The danger of the precedents being set by the use of extraordinary measures is that they will used to by the Treasury to persuade itself that similar measures can be applied to Treasury securities held by the public. By the standard set in the Debt Default Clock, the application of extraordinary measures to Treasury securities held by the public will be default.

Therefore, the Review Committee recommends that the federal government remove these precedents by enacting a measure that outlaws the use of extraordinary measures in the future. It pledges that if such a bill advances in Congress that it will award the federal government one minute away from midnight on the Clock. Likewise, it will award the government two minutes away from midnight if such a bill is enacted into law.

Describing the Clock

A full description of the Default Clock instrument, including the most recent data used and graphs depicting the current calculations for all twelve factors, is available here.

Members of the Review Committee are available to discuss this update. Please contact Baker Spring at (703) 812-8178 or baker.spring@compactforamerica.org to arrange for an interview.

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