



The Default Clock Initiative

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The Debt Default Clock now stands at just three minutes from midnight.

Federal government remains on the path to default!

Today, the Debt Default Clock Review Committee is releasing its fourth update of the Debt Default Clock. The Debt Default Clock estimates how much relative time remains before the federal government's fiscal policies lead to a fiscal crisis and eventually causes the Treasury to fail to make a timely interest payment, thereby forcing the federal government into default. Such an event will impose severe financial hardships on the American people. The Review Committee has concluded that the Debt Default Clock now stands at just three minutes to midnight, which is one minute closer to midnight than at the time of its prior review in February of 2019. It sees the federal government as continuing down the path to default.

The Review Committee uses twelve of the most relevant factors making up the federal government's fiscal position to set the Clock's minute hand. In general, the Review Committee, based on new data, saw changes from the prior review in three of these twelve factors (Factors 7, 9 and 10). One factor, Factor 10, has relinquished one minute from midnight that was awarded at the time of the prior review. Second, the Review Committee chose to discount a factor, Factor 7, which it did not discount in February of 2019. Finally, the Review Committee chose to make active a factor, Factor 9, which it had previously discounted. Under the rules governing the Clock, the Review Committee is permitted to discount up to two of the twelve factors at any one time.

Weaker economic growth, stabilizing foreign-held debt and a less optimistic assessment of the growth in federal revenue

The Review Committee saw a deterioration in the course of the last seven months regarding Factor 10. This factor will award one minute from midnight if the real rate of economic growth, as measured by gross domestic product (GDP) is at or above three percent at any point in the ten-year budget period. Factor 10 will award two minutes away from midnight if the real rate of GDP growth is projected to be at or above three percent throughout the ten-year budget period. The real rate of economic growth has not matched the projections made in February of 2019. In February, the Review Committee awarded one minute away from midnight under this factor because the real rate of economic growth was assessed to be above 3 percent. It no longer buys that minute from midnight because the real rate of economic growth is now assessed to have been below 3 percent and is to remain below this level throughout the projected ten-year budget period.

Factor 7 is assessed to be stabilizing. Factor 7 monitors the level of federal debt held by foreigners relative to the overall debt held by the public. It is the Review Committee's view that excessive foreign-held debt, meaning foreign-held debt at or exceeding 50 percent of all federal debt held by the public, poses a unique risk to the federal government for both financial and political reasons. Based on historical Treasury Department data on the dollar value of both the foreign-held debt and the debt held by the public, the Review Committee assesses that foreign-held debt will no longer exceed 50 percent of all the debt held by the public at any time during the projected ten-year budget period. In February, based on earlier data, the Review Committee determined that foreign-held debt would exceed 50 percent of the debt held by the public in 2027. While the dollar level of foreign held debt, based on Treasury Department data, is expected to continue to grow in dollar

terms, it is not likely to keep up with the rate of growth in the broader public debt. Accordingly, the Review Committee chose to exercise its permitted discretion under the Clock to discount this factor at this time. At the practical level, this step is in keeping with the Clock's design that midnight is reached when the federal government is failing in ten of the twelve factors and not all twelve.

Regarding the third factor the Review Committee chose to alter in this review is the factor related to the level of federal revenues relative to GDP. This is Factor 9. It awards one minute away from midnight if federal revenues are at or exceed 17.5 percent of GDP at some point in the ten-year budget period. It awards two minutes away from midnight if federal revenues are projected to be above 17.5 percent of GDP throughout the budget period. Earlier, the Review Committee was optimistic that federal revenue growth would be adequate to meet the 17.5 percent of GDP threshold later in the budget period. It is less optimistic today because of the slower rate of economic growth described earlier. Thus, it chose to switch Factor 9 from the category of discounted factors to the active category. This has the effect of awarding one minute away from midnight now, where it was set aside earlier.

Describing the Clock

A full description of the Default Clock instrument, including the most recent data used and graphs depicting the current calculations for the 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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