



The Default Clock Initiative

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The Debt Default Clock remains at just three minutes from midnight.

Federal government is continuing down the path to default!

Today, the Debt Default Clock Review Committee is releasing its fifth 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 where it stood at the time of its prior review in October 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 each of these twelve factors, but not in ways that caused the minute hand to move. It would be wrong, however, to interpret the minute hand's remaining where it stood in October of 2019 in a way that it means there has been no deterioration in the fiscal position of the federal government during the intervening months. The reason such an interpretation would be wrong follows from how weak the federal government's fiscal position was last October. Then, as now, there were eight factors out of the eleven that were counted that bought no minutes from midnight. Five of these eight (Factors #1, #3, #4, #10 and #12) are projected to deteriorate further during the ten-year budget period (through 2030). The remaining three (Factors #2, #8 and #11) did not deteriorate further, but neither are there projected improvements. This means that for the five that are showing continued deterioration there cannot be a movement of the minute hand closer to midnight because they already fail to buy any time away. Nevertheless, the impact will be severe because the paths for moving back to purchasing even one minute away from midnight for each, let alone two minutes, will be more arduous.

Stabilization of the amount of money the federal government owes to foreigners means it is a falling share of federal debt held by the public

The one piece of bright news is Factor #7. 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. While this is consistent with the finding of the Review Committee regarding Factor #7 at the time of the October 2019 review, the news gets better. This is because the dollar level of foreign held debt, based on Treasury Department data, is expected to grow rather slowly in dollar terms, which means it will not 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, as it did in October 2019. 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, not all twelve.

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 at <https://debtdefaultclock.us/debt-default-clock/>.

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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