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 sixth 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 February of 2020.

Clearly, the impact of the covid-19 pandemic and the response to it has had an enormous impact on the fiscal posture of the federal government. During the time between February and October 2020, federal spending has exploded. The result has been an enormous increase in the deficit and debt for the fiscal year that ended on September 30th (FY 2020). On the other hand, aggressive actions by the Federal Reserve to expand its holdings of Treasury securities and keep interest rates very low have staved off the onset of a near-term fiscal crisis. Even with these actions by the Federal Reserve, the Review Committee still 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 new data collected for this review resulted in changes from the prior review in several 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 February of 2020 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 two trends.

Trend #1: The fiscal position of the federal government was weak before the onset of the covid-19 pandemic

The first trend stems from how weak the federal government's fiscal position was in February. There are seven factors out of ten that that buy no minutes from midnight, which is where they were in February. These are: Factor #1 on outlays as a share of gross domestic product (GDP); Factor #2 on having a dollar-denominated debt ceiling in place; Factor#3 on the debt to GDP ratio; Factor #6 on the debt held by the public as share of the gross debt; Factor #8 on the structure of the debt; Factor #10 on the annual rate of real economic growth; Factor #11 on prohibiting the use of "extraordinary measures"; and Factor #12 on phasing out programmatic mandatory spending. Further, five of these seven (Factors #1, #3, #8, #10 and #12) are projected to deteriorate further during the ten-year budget period (through 2030). The remaining two (Factors #2, and #11) did not deteriorate further, but neither are there projected improvements. This means that for the five that are showing continued deterioration cannot move the minute hand closer to midnight because they already failed to buy any time away. As a result, the impact will be severe because the paths for moving back to purchasing even one minute away from midnight for each factor, let alone two minutes, is becoming practically impossible.

Trend #2: Projected gross federal interest costs are less than in earlier projections

The second trend is that the Federal Reserve's actions since last fall have lessened significantly the projected gross interest costs over the budget period from the projections in February, despite large increases in the gross debt over the same time. Two of the 12 factors (Factors #4 and #5) are tied to these projected interest costs. As a result, Factor #4 on the ratio of gross interest costs to revenue now buys one minute from midnight, where in February it bought zero minutes from midnight. Factor #5 on the level of gross interest costs to the assumption of net new debt, which bought one minute from midnight in February, is now discounted by the Review Committee because it has determined that the Federal Reserve's actions have created an anomaly in this factor. The design of the Clock permits the Review Committee to apply this discount. The reason the Review Committee remains concerned about this trend with gross interest costs is that it believes that the large increases in the projected debt will necessarily result in large increases in interest costs over time.

The level of foreign-held federal debt continues to stabilize

The one continuing 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 not exceed 50 percent of all the debt held by the public at any time during the projected ten-year budget period. As permitted by the design of the Clock, the Review Committee is continuing to discount Factor #7.

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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