Debt Default Clock Review Committee
Debtdefaultclock.us
May 26, 2023

Dear Representative:

We write to you in our capacity as a member of the Debt Default Clock Review Committee, with a pressing update concerning the nation's debt situation.

Recently the Debt Default Clock has been revised from four minutes to midnight, to a critical two minutes. The metaphor of midnight, in our parlance, represents the ominous scenario wherein the United States government fails to fulfill a debt obligation.

You can access a comprehensive outline of the update, including the associated discussion points, at our official website. For the sake of transparency and accountability, we ensure that the minutes from each Review Committee meeting are documented and available to the public.

Our deliberations led to a troubling conclusion. Even with the potential enactment of a law to elevate or suspend the debt limit ahead of the depletion of extraordinary measures, the federal government continues to tread dangerously close to the precipice of default.

There exist numerous potential paths that could lead the federal government into default, the most probable of which involves escalating interest costs reaching a threshold of political unacceptability. According to the Chairman Arrington of the House Budget Committee: "Over the next decade, according to the nonpartisan Congressional Budget Office, our annual deficits will double, our interest payments will triple, and for every dollar we borrow, 50 cents will go just to paying interest on this debt." Such costs could exert significant fiscal pressure on vital programs like Medicare and Social Security. To maintain current benefit levels, Congress might be compelled to demand a 'haircut' from investors in Treasury securities during a crisis, essentially a form of default. Any such decision is highly likely to provoke adverse reactions from these investors.

Another concerning development is the burgeoning Credit Default Swaps (CDS) market on Treasury securities. It's expanding both in dollar volume and spread, implying that investors are more inclined to sacrifice potential returns on Treasury securities to secure their investments against a potential U.S. government default. This trend is indicated by the increased availability and cost of these CDS U.S. government debt default products, which were formerly scarce and inexpensive due to the perceived negligible risk of a U.S. government debt default.

The Debt Default Clock will continue to tick, and now, the financial securities market is making products available at increasing prices, to mitigate that rising risk. We urge you to convey the severity of this situation to your colleagues in the ongoing discourse about the debt limit.

Sincerely,

Daniel Perrin
Committee Member,
Debt Default Clock Review Committee

Baker Spring
Chairman,
Debt Default Clock Review Committee

Alan Dye
Secretary and Committee Member,
Debt Default Clock Review Committee

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Committee Member,
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Kevin Miller
Committee Member,
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The views expressed in this letter do not necessarily reflect the views of any organization besides the Debt Default Clock Review Committee.