

The U.S. Will Not Default on Its Debt. Ever.

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When you see a statement like this, which was in the Wall Street Journal's "Yellen Says Treasury Still Expects U.S. Could Default as Soon as June 1" (May 15, 2023):

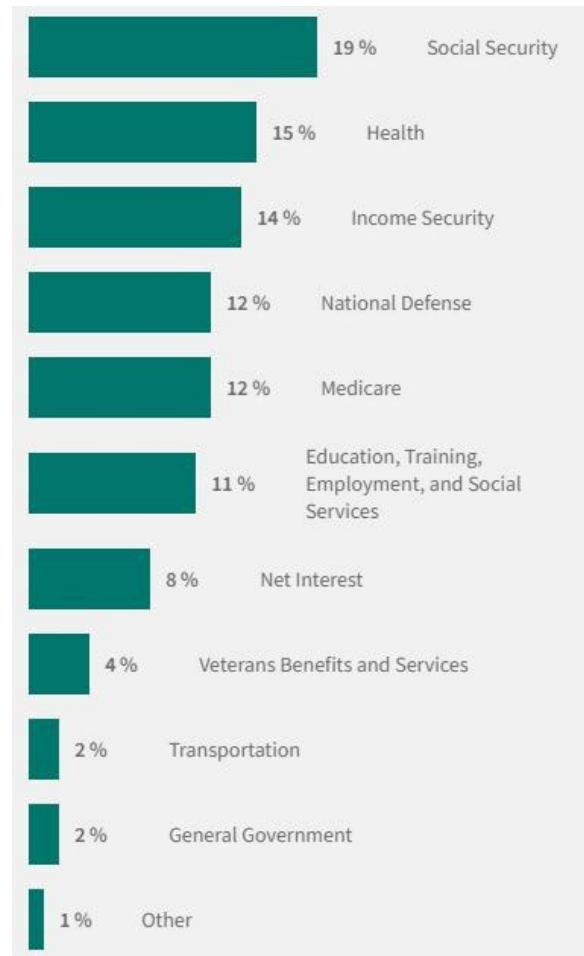
The Treasury chief had previously warned that the U.S. could default on its debt as soon as June 1. ...

...go check out the actual quote. It will surely turn out to be that the actual statement is a warning about the U.S. not being able to "pay its bills". That's because the Treasury Secretary knows there is a gigantic difference between the U.S. being in a position of inability to pay *all* of its bills on time, and consciously skipping payments on just some of those bills, i.e., interest and principal debt repayments.

Hitting the debt ceiling does not cause a default. It puts the Administration in the position of having to pick and choose which bills it's going to pay, and make no mistake, it will be capable of paying nearly all of its bills in full and on time. That has proven to be the case in every one of the 20 or so government shutdowns that has occurred over the last 50 years. Despite dire warnings about default in all of those cases, the respective Administrations came nowhere near even considering defaulting.

To be sure, defaulting on the debt would have to be a conscious decision by the Administration to pay other bills ***instead of*** paying interest or debt principal. You do not default on your mortgage when you are short of cash when payment is due. You default when you make the conscious decision the next day to skip your mortgage payment and instead buy food, clothing, or Taylor Swift tickets.

Unlike your mortgage, which might be a hefty chunk of your monthly budget, interest payments on the debt in fiscal year 2022, for example, were 8% of total Federal expenditures.



"U.S. Government Spending, FY 2022. Top 10 Spending by Category and Agency",
www.fiscaldata.treasury.gov

Many of these spending categories are sacrosanct, "mandatory" entitlements but none of them is more important than the debt. Why? Because deciding to skip payments on the debt would instantaneously devalue the currency, create massive forced sales of U.S. government securities held by institutions globally, and send world financial markets into a debilitating liquidity crisis. The U.S. government would be hard-pressed to raise funds in the future to finance anything, including entitlements. So defaulting on the debt isn't like failing to pay your mortgage as much as it is like failing to buy gas to get to work. No gas, no job. No job, no income. No income, no nothing. You'd have to walk to the Taylor Swift concert.

But failing to pay other bills on time would be politically suicidal, right? Not as suicidal as causing a global financial meltdown. This is a lesser-of-evils decision and defaulting on the debt will ALWAYS be the most evil decision.

It won't happen.