A Default on Our Nation's Debt Would Send America Back Into a Recession

A Default Would Destroy Over Half a Million Jobs.

- **A Default Would Cost the Economy Hundreds of Thousands of Lost Jobs Every Year.** "According to an analysis by the Federal Reserve, a one-percentage point rise in Treasury yields would reduce economic growth by 0.8 percentage points. That number sounds small, but it is not. Economists tell us it would translate into hundreds of thousands of lost jobs every year." [Op-Ed by Tom Donohue in USA Today, 7/13/11]

- **For Every 1 Percent Change in GDP, The U.S. Would Shed 640,000 Jobs.** "For every 1% change in GDP growth, there is an estimated 0.46% change in total employment, according to economist William Seyfried. Using his estimation, the U.S. would shed 640,000 jobs." [Third Way, May 2011]

- **Bernanke: Default Will Cost Jobs.** According to Federal Reserve Chairman Ben Bernanke "the economy may be thrown into reverse and employers would start cutting jobs if Congress fails to raise the nation's legal borrowing authority." [Bloomberg, 7/13/11]

The Treasury Would Have to Pick Winners and Losers in "Prioritizing" Payments.

- **In the Event of a Default, The U.S. Would Have to Defer Paying 44 Percent of Its Obligations.** According to the Bipartisan Policy Center, the U.S. has $306.7 billion in payment obligations due August 2011 and will take in an estimated $172.4 billion in revenue for the month. 44 percent of U.S. government bills would go unpaid if the federal government fails to raise the debt ceiling by the August 2 deadline. [Bipartisan Policy Center, 7/12/11]

- **In the Event of a Default, The Treasury Department Would Have to Decide Who to Pay.** According to Jay Powell of the Bipartisan Policy Center and former Under Secretary of the Treasury for Finance under President George H. W. Bush, "Treasury would exhaust all inflows just by paying six major items: interest, Medicare, Medicaid, Social Security, unemployment insurance and defense vendors. Without cutting from these six, there would be no money for entire departments such as Justice, Labor and Commerce among many others, or for veterans' benefits, IRS refunds, military active duty pay, federal salaries and benefits, special education, Pell Grants for college students or food and rent payments for the poor." [Bipartisan Policy Center, 7/12/11]

The Treasury Would Have to Pay Higher Interest Rates on U.S. Debt To Attract New Investors.

- **If the Debt Ceiling is Not Raised by August 2nd, All Three Ratings Agencies Will Put the U.S. on Watch for a Downgrade, at a Minimum.**

    - **Moody's Investors Service: U.S. Rating Placed Under Review.** "The United States may lose its top-notch credit rating in the next few weeks if lawmakers fail to increase the country's debt ceiling, forcing the government to miss debt payments, Moody's Investors Service warned on Wednesday. Moody's is the first of the big-three rating agencies to place the United States' Aaa rating on review for a possible downgrade, which means it is close to cutting its rating." [Reuters, 7/13/11]

- **Even Without a Downgrade, It is Likely That Rates Would Increase.** According to the Bipartisan Policy Center, it is possible that the U.S. Treasury could lose market access during such an unprecedented event and default. [Bipartisan Policy Center, 7/12/11]

Failure to Raise Debt Limit Would Deepen Our Deficit By $75 Billion Each Year.

- **J.P. Morgan: Default Could Cause a Sustained 50 basis point Increase, Costing Taxpayers an Additional $75 Billion a Year.** According to a letter by J.P. Morgan Managing Director Matthew Zames to Treasury Secretary Geithner, "[a] sustained 50 basis point increase in Treasury rates would eventually cost U.S. taxpayers an additional $75 billion each year." [Letter by J.P. Morgan to Secretary Geither, 4/25/11]