



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 28, 2011

The Honorable Jim DeMint  
United States Senate  
Washington, DC 20510

Dear Senator DeMint:

I am writing in response to your letter of May 23, 2011, regarding the statutory debt limit. President Obama is strongly committed to restoring fiscal responsibility, and he has put forward a specific framework and set in motion a process to work with both parties to accomplish this critically important objective. Although agreement has not yet been reached, we have made progress toward that objective, and I welcome the statements by leaders of both parties making clear that the debt limit must be increased in order to protect America's creditworthiness.

The debate over the debt limit can seem esoteric, but a failure to resolve it in the near term would have painful implications for people in every walk of American life. It would have a serious impact on members of the Armed Forces who depend on paychecks to feed and house their families, Social Security recipients who subsist on their monthly benefits, veterans who rely on the government for their retirement and health care needs, and small business owners or employees who provide goods and services to the country.

In your letter, you suggest that the debt limit should not be raised, and instead that federal debt be "capped" at the current limit. You further propose that after the government's borrowing authority is exhausted in August, the United States should for some indefinite period pay only the interest on its debt, while stopping or delaying payment of a broad swath of other commitments the country has made under the law.

I have expressed my concerns about this idea before, but I will restate them to be clear: this "prioritization" proposal advocates a radical and deeply irresponsible departure from the commitment by Presidents of both parties, throughout American history, to honor all of the commitments our Nation has made.

The debt limit applies to *past* decisions of Congress. Increasing the debt limit is necessary to allow the United States to honor obligations *previously* authorized and appropriated by Congress. You explained this well in 2010 when you said:

You don't have much choice if you charge something on your credit card. You have to pay it, and that's effectively what this debt limit is...we've already spent the money. The question is now, do we shut down the government, or do we fund what we've already done?

Increasing the limit does not increase the obligations we have as a Nation; it simply permits the Treasury to fund those obligations Congress has already established. As James A. Baker, III, Secretary of the Treasury under President Reagan, informed Congress in 1987:

I should stress that defaulting on already outstanding, validly incurred obligations has far graver effects than halting operations of the Government when spending authority is allowed to lapse, such as when there is a delay in action on appropriations. A failure to pay what is already due will cause certain and serious harm to our credit, financial markets and our citizens; it is not remotely similar to a lapse in authority to incur new obligations. (Emphasis in original.)

The statutory debt limit is not and never has been, as you argue, a “budget enforcement mechanism” that can be used to implement spending reductions by selectively defaulting on obligations previously approved by Congress. Our Constitution provides that “No Money shall be drawn from the Treasury but in Consequence of Appropriations made by Law.” When Congress determines that certain commitments in the law should be altered or terminated, those decisions must be effectuated through enactment of legislation, not by attempting to coerce the Treasury to renege on existing legal commitments.

Even if the idea of “prioritization” were not so unwise, it would not be a mere exercise in “belt tightening,” as you suggest. The United States is now required to borrow approximately 40 cents for every dollar of expenditures. Your proposal would require cutting roughly 40 percent of all government payments. These deep cuts would be felt by all Americans, and they would risk throwing the economy back into recession.

You are also mistaken when you state that Treasury has “prioritized” payments in the past. This is false. Never has Treasury failed to meet any obligation as a result of a debt limit impasse, nor has Treasury ever “prioritized” payments. Congress has never failed to raise the debt limit when necessary. It is true that there have been failures at times to enact appropriations legislation, and this has caused temporary government shutdowns. Specifically, the 1995-1996 furloughs and suspensions of programs you refer to were caused by appropriations lapses, not a failure to raise the debt limit. But as Secretary Baker explained, there is no comparison in either cause or effect between a shutdown and a failure to increase the debt limit.

At its core, your letter is based on an untested and unacceptably risky assumption: that if the United States were to continue to pay interest on its debt—yet failed to pay legally required obligations to its citizens, servicemen and women, and businesses—there would be no adverse market reaction and no damage to the full faith and credit of the United States. Again, this idea is starkly at odds with the judgment of every previous Administration, regardless of party, that has faced debt limit impasses.

“Prioritization” also fails to account for how payments of *principal* would be made if investors were to lose confidence in U.S. creditworthiness. In August of this year, for example, more than \$500 billion in U.S. Treasury debt will mature. Under normal circumstances, investors who hold

Treasuries purchase new Treasury securities when the debt matures, permitting the United States to pay the principal on this maturing debt. Yet in the scenario you advocate, in which the United States would be defaulting on a broad range of its other obligations, there is no guarantee that investors would continue to re-invest in new Treasury securities. In fact, some market participants have already indicated that they would be disinclined to do so. As one of the major ratings agencies concluded in a recent report, failure to pay non-debt obligations “would signal severe financial distress and potentially imminent debt default,” prompting the U.S. sovereign rating to be placed on “Rating Watch Negative.”

If investors chose not to purchase a sufficient volume of new Treasury securities, the United States would be required to pay the principal on the maturing debt, and not merely the interest, out of available cash. Yet the Treasury would be unable to make these principal payments without the continued confidence of market participants willing to buy new Treasury securities. Your proposal assumes markets would be unconcerned by our failure to pay other obligations. But if this assumption proved incorrect, then the United States would be forced to default on its debt.

I understand that you have a different view of what would happen if the United States were unable, for the first time in its history, to meet its legal obligations. Nevertheless, I hope we can all agree that we should not and must not gamble with the full faith and credit of the United States. The consequences of miscalculation are too grave. The full faith and credit of the United States is too precious an asset to risk. If you are wrong in your prediction, to quote then-Secretary Baker, “Future generations of Americans would have to pay dearly for this grave breach of a 200-year old trust.”

Ultimately, the notion of “prioritizing” payments is futile because the debt limit must be increased regardless of which spending path is adopted. There is no credible budget plan under which a debt limit increase can be avoided. In addition, a failure to enact a timely increase in the limit would have the perverse effect of *increasing* the government’s borrowing costs and worsening our fiscal challenges.

For all of these reasons, the idea of “prioritization” has been rejected by every President and Secretary of the Treasury who have considered it. It is unwise, unworkable, unacceptably risky, and unfair to the American people. There is no alternative to enactment of a timely increase in the debt limit. As President Reagan wrote in 1983:

This country now possesses the strongest credit in the world. The full consequences of a default – or even the serious prospect of default – by the United States are impossible to predict and awesome to contemplate. Denigration of the full faith and credit of the United States would have substantial effects on the domestic financial markets and on the value of the dollar in exchange markets. The Nation can ill afford to allow such a result. The risks, the costs, the disruptions, and the incalculable damage lead me to but one conclusion: the Senate must pass this legislation before the Congress adjourns.

I appreciate your attention to this important issue and I look forward to working with you and other Members of Congress in the weeks ahead.

Sincerely,



Timothy F. Geithner

cc: The Honorable Patrick Toomey  
The Honorable Richard Burr  
The Honorable Tom Coburn  
The Honorable Thad Cochran  
The Honorable Orrin Hatch  
The Honorable Mike Johanns  
The Honorable Ron Johnson  
The Honorable James Inhofe  
The Honorable Mike Lee  
The Honorable Mitch McConnell  
The Honorable Rand Paul  
The Honorable Rob Portman  
The Honorable Jim Risch  
The Honorable John Thune  
The Honorable David Vitter  
The Honorable Roger Wicker