SENATOR ELIZABETH WARREN
REMARKS ON THE SENATE FLOOR
AS PREPARED FOR DELIVERY
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Mr. President, the United States Treasury says that in exactly eight days it will not have enough money to pay all of the government's bills.

We're not in this position because the Secretary of the Treasury or the President spent more than they were supposed to. The Constitution allows them to spend only what Congress tells them to spend, and that's what they've done. We're not in this position because investors refuse to buy our bonds - investors are lining up around the block to buy those. We're in this position for one reason, and one reason only: because Congress told the government to spend more money than we have – and Congress told the Treasury to run up our debt to pay for it – but now Congress is threatening to run out on the bill.

If that strikes you as bizarre, you're not alone. The United States is the only democracy in the world where the legislature debates whether it should pay the bills it has already incurred. The United States is the only democracy that regularly considers whether or not to run out on its bills, that is, to voluntarily default on its debt.

Congress exercises direct control over the amount the federal government spends and the amount the federal government brings in through taxes and fees. Our national debt is simply a function of those two things – the money coming in and the money going out – and so it is Congress that exercises direct control over the amount of debt we have. If Congress is unhappy with the size of the debt, it should change how much it spends or how much it taxes. There's really no other option. The idea that we can somehow renege on our debts without paying a huge price is a fantasy—and a very dangerous one.

Consider what happened in 2011, the last time the government came up to the edge of a voluntary default. Even the possibility that the government would not make good on its debts spooked investors and pushed up interest rates. According to the Bipartisan Policy Center, the interest rate increase from the last time the U.S. even talked about default will cost the government $19 billion over ten years. That's $19 billion dollars that could have brought back funding for Head Start, or Meals on Wheels, or our nation's military. That's $19 billion that could have eased the interest rates on student loans or been invested in medical research. That's $19 billion that could have been used to pay down the debt. Instead, that's $19 billion that we just flushed down the drain. Does anyone care about wasteful government? Well, there it is.

The last time the government came to the edge of a voluntary default, consumers and businesses got spooked too. The S&P index dropped by 17 percent. $800 billion dollars in retirement assets vanished. Mortgage rates went up nearly three-quarters of a point, costing every new homeowner real money. The net result was less consumer spending, fewer business investments, lower home ownership rates, and slower job growth.

That's what happened the last time Congress came to the edge of a voluntary default. What happens if we actually default? If that happens, there is widespread concern among economists of every political persuasion that we would plunge into another recession.

Government debt might seem like an abstract and complicated thing, but in fact it's pretty simple. The government owes money to two main groups of people. It owes payments on U.S. bonds, which are mostly owned by foreign governments. And it owes money to the American people for things like Social Security payments and Medicare reimbursements for hospitals and physicians. It owes paychecks to the military and retirement checks to veterans.

If the Treasury does not have enough money to make all of its payments, then it will likely try to minimize the damage to America's credit rating—and that means making payments on the bonds held by foreign investors, leaving others to absorb the pain of not getting paid. Who will that be? Seniors who rely on Social Security to live? Hospitals that rely on Medicare to operate? Our servicemembers who rely on paychecks to help their families back home? Federal contractors, large and small, who support millions of jobs nationwide? The Treasury makes 80 million payments each month, and many of them will be delayed. As more time passes, unpaid bills will pile up.

From there, it gets worse.

The federal government's inability to pay its bills could set off a chain reaction of defaults, sending the financial system into turmoil. Millions of people who rely on federal payments might not have the money they need to keep current on their student loans, or their mortgages, or their small business loans. That could cause interest rates to spike, leading to a wave of further defaults.

All the while, the financial markets would be faced with the very real possibility that the United States would not have enough money to make payments on its bonds. American Treasury bonds are considered safe investments, so safe that they are used as collateral in millions of financial transactions across the world. If the US does not have enough money to pay its bills, parties to these transactions will demand more collateral or different forms of collateral. That has a domino effect throughout the economy. The end result could be the kind of freeze in the credit market that we saw after Lehman Brothers collapsed in 2008 – the freeze that triggered the financial crisis.

The idea that we can renege on our debts and not pay a huge price is a dangerous fantasy. I have heard some extremists in Congress argue that even if the United States runs out of money to pay all of its bills, it won't be so bad because the Treasury will be able to keep current on its bond payments, avoiding a technical default.

That's a heck of a best-case scenario: making bond payments to foreign governments – mostly China and Japan – while holding up Social Security payments, hospital payments, and military payments here at home. It is a terrible idea. People count on those payments to live. But it is also a terrible idea that wouldn't work. Just ask top Wall Street executives, including the CEO of Goldman Sachs, who have said publicly and unequivocally that prioritizing bond payments would still create "insurmountable uncertainty for investors," causing a spike in interest rates that would immediately increase monthly payments on student loans mortgages, and other personal debt, and would cripple job growth. Like it or not, the threat of default will cause this country lots of pain.

I want to make this absolutely clear: if we run out of money to pay our bills, the world will view that as the first default in the history of the United States. Wall Street and the global financial markets will view that as the first default in the history of the United States.

This fight is about financial responsibility. Financially responsible people don't charge thousands on their credit cards and then tear up the bill when it arrives. Financially responsible nations don't either. When we put our name on the line saying that a debt is backed up by the full faith and credit of the United States, we follow through. We protect our good name, we protect our good credit.

For many things that we do in Congress, we can make a mistake, and then back up and fix it. A default on our national debt is not one of those things. If we default and pay late, the damage could be irreversible. The first time we flirted with default was the first time in history that America's credit rating has fallen. If we actually default, some economists estimate that we will add $75 billion a year to the debt in additional interest payments—three-quarters of a trillion dollars over ten years. There are a lot of good things to do with that money. Flushing it down the drain is not one of those.

If we default on our debt, we could bring on a worldwide recession—a recession that would pummel hard-working middle class people, people who lost homes and jobs and retirement savings and who are barely getting back on their feet. Maybe we could escape a recession, maybe, but we are playing with the lives of every American. And that is not what the American people sent us here to do. This is no time to act out dangerous fantasies.

We must raise the debt ceiling. We must raise it now. A bedrock financial principle of this government is to tell the world that the United States always pays its debts—in full and on time.

Thank you, Mr. President.