The Steep Costs of a Republican Default Crisis

Republicans have created a default crisis that will undermine confidence in America's commitment to pay its bills and drive up costs for American families—from mortgages, car loans, student loans, and small business loans to the costs of many consumer goods. The debt ceiling is not a bargaining chip, and Republican plans to prioritize some payments over others amount to, in the words of Treasury Secretary Janet Yellen: "default by another name." What's more, this brinkmanship jeopardizes the stability of U.S. and global financial markets at a time of increased global uncertainty. Congress must act to cover existing obligations before the steep costs to the American people worsen.

Democrats passed the Inflation Reduction Act last year to bring down costs for families and reduce the deficit by almost $240 billion. Not a single Republican voted in support of the bill. Now Republicans want to use the debt ceiling to force irresponsible cuts to crucial funding and put vital programs at risk, while pushing to let the rich cheat on their taxes. The costs to the American people could not be higher.

Raising the debt limit is essential for the U.S. to keep its promises to veterans, military personnel, and seniors

Lifting the debt limit is necessary for the U.S. government to keep its word to America's 18 million veterans and over 65 million people on Social Security. The *debt limit* is the total amount of money the federal government is allowed to borrow to pay its bills. Congress makes commitments to pay for programs like Social Security, Medicare, Medicaid, veterans' benefits, and the military, which together make up the vast majority of federal spending. The government collects tax revenue to pay for these programs and must borrow money if there is a shortfall. If Congress does not lift the debt limit, the government may not have enough money to pay its bills, putting Medicare payments to health care providers, benefits for America's 18 million veterans, and payments to the 65 million people on Social Security at risk of disruption.

Congress will have to lift the debt limit this year to avoid defaulting on the national debt. The U.S. reached the debt limit on January 19, 2023, and the Treasury Department can avoid breaching the debt ceiling until early June. However, if the U.S. breaches the debt ceiling, it may not be able to meet its commitments, including paying interest on Treasury bonds—sending the U.S. into default. Because Treasury bonds are considered a safe asset that retirees, corporations, banks, and foreign governments rely on, sending the national debt into default would cause economic catastrophe and cause interest rates to spike.

Raising the debt limit in a timely manner is about meeting existing obligations and is the only option to avoid economic chaos. The effects of failing to raise the debt limit would likely be felt economy wide: From drastically increased costs for mortgages, credit card payments, and other borrowing, to disrupted payments for Social Security recipients, veterans, service members, and hospitals, to far-reaching effects in the financial system. As the 2011 debt ceiling crisis showed, even narrowly avoiding a default cost the country billions of dollars.

Republicans' default crisis will push up costs for families and small businesses

Debt-limit threats increase costs for families and small businesses. While breaching the debt limit would be catastrophic, the threat of breaching the debt ceiling alone can have serious economic consequences. As 2011 and 2013 Republican debt-limit brinkmanship showed, reckless talk about letting the U.S. breach the debt limit has a real impact on the economy, working families, and small businesses. These threats create uncertainty that the U.S. government will pay its bills, pushing up interest rates and undermining confidence worldwide in the U.S. economy.

- **The average worker close to retirement could take a $20,000 hit to their retirement savings.** According to the non-partisan think tank Third Way, the debt limit crisis of 2011 led to a significant decline in the stock market and the impact would be even more dire if the U.S. defaulted on the national debt. They find that a typical worker nearing retirement could lose about $20,000 from their 401(k) if debt-limit brinkmanship causes the S&P 500 to drop by 22%.

- **Small business loans could go up $44 a month, costing about $2,500 more over the course of the loan.** If, as happened in 2011 with mortgage loans, small business loans see an interest rate increase of 70 basis points due to debt-limit brinkmanship, an entrepreneur taking out a new startup loan with fixed interest would see a significant increase to their loan. About 20,000 businesses took out new loans each quarter in 2022. Similarly, an established small business owner with a variable rate loan will see their monthly payments rise by $53 per month. About 46,000 businesses had outstanding variable interest loans in the third quarter of 2022.

- **Debt-limit threats could weaken the dollar and push up prices for consumers.** The U.S. benefits from having the dollar as the world's reserve currency, but debt-limit threats could severely undermine confidence in the dollar and its position it the world economy. A global sell-off of U.S. Treasuries would weaken the dollar and increase the cost of imported consumer goods like smart phones and TVs.

- **A typical new homeowner could see their monthly mortgage payment go up more than $150 thanks to Republicans' debt-limit threats, costing them an extra $54,300 over the life of their loan.** In 2011, debt-limit brinkmanship pushed up interest rates on mortgages by up to 70 basis points. For a family buying the median home listed in the U.S. with a typical down payment and mortgage rate, a similar increase in their interest rate would have a huge impact over the 30-year term of the mortgage. In addition, a typical family among the 1.2 million households with variable rate mortgages could see their monthly payment go up $100 thanks to Republicans taking the U.S. to the edge of the debt limit.

- **A family buying a new car could pay over $800 more if interest rates spike as a result of Republican debt-limit brinkmanship.** If interest rates for car loans also increased 70 basis points thanks to debt-limit brinkmanship, as they did with mortgage rates during the 2011 debt limit crisis, the average monthly payment for a new car loan would go up $13—about $800 to $875 over the life of the loan. A family buying a typical used car would see their monthly payments increase by $9 per month, or $625 over the life of the loan.

- **Americans with private student loans could see their monthly payments rise by $23, costing them nearly $4,200 in total.** About 3.4 million Americans have private student loans, borrowing an average of almost $55,000 with an average interest rate of 9.01%. If debt-limit brinkmanship causes this interest rate to rise by 70 basis points, as happened to mortgage interest rates in 2011, a typical borrower with a 15-year loan will see the cost of their education increase by 4%.

- **Families with credit card debt could see their monthly payments rise, making it harder for them to become debt-free.** Over half of active credit card users, or about 150 million Americans, have credit card debt—with an average credit card balance of about $6,600. If, as happened in 2011 with mortgage loans, credit card interest rates increase by 70 basis points due to debt-limit brinkmanship, a typical family with credit card debt will see their monthly payments rise by $4, or $46 per year, if they're able to pay off their interest in full every month. However, many families are unable to make the full interest payment, which would cause the increased cost to compound. For example, a family making the average monthly payment of $173 would pay $290 more over the course of the loan, while the 12% of families making the minimum payment would see their debt continue to grow at a higher rate.

Debt-Limit Brinkmanship Could Push Mortgage Costs Higher in Every State			
State	Median Listed Home Price	Increase in Monthly Payment	Lifetime Cost of Higher Payments
Alabama	$313,495	$118	$42,544
Alaska	$397,000	$150	$53,876
Arizona	$459,500	$173	$62,358
Arkansas	$280,000	$106	$37,998
California	$675,000	$254	$91,603
Colorado	$577,000	$218	$78,303
Connecticut	$468,050	$176	$63,518
Delaware	$457,400	$172	$62,073
District of Columbia	$632,450	$238	$85,828
Florida	$450,000	$170	$61,068
Georgia	$378,500	$143	$51,365
Hawaii	$855,000	$322	$116,030
Idaho	$517,000	$195	$70,161
Illinois	$273,500	$103	$37,116
Indiana	$264,001	$100	$35,827
Iowa	$289,950	$109	$39,348
Kansas	$282,450	$106	$38,331
Kentucky	$279,900	$106	$37,985
Louisiana	$279,450	$105	$37,923
Maine	$380,200	$143	$51,596
Maryland	$389,900	$147	$52,912
Massachusetts	$665,450	$251	$90,307
Michigan	$240,000	$90	$32,570
Minnesota	$372,450	$140	$50,544
Mississippi	$270,000	$102	$36,641
Missouri	$277,450	$105	$37,652
Montana	$612,824	$231	$83,165
Nebraska	$347,600	$131	$47,172
Nevada	$449,900	$170	$61,055
New Hampshire	$527,000	$199	$71,518
New Jersey	$464,950	$175	$63,097
New Mexico	$361,125	$136	$49,007
New York	$597,000	$225	$81,017
North Carolina	$395,000	$149	$53,604
North Dakota	$309,900	$117	$42,056
Ohio	$219,450	$83	$29,781
Oklahoma	$294,962	$111	$40,029
Oregon	$537,000	$202	$72,875
Pennsylvania	$269,900	$102	$36,627
Rhode Island	$459,500	$173	$62,358
South Carolina	$349,000	$132	$47,362
South Dakota	$359,450	$136	$48,780
Tennessee	$409,950	$155	$55,633
Texas	$365,000	$138	$49,533
Utah	$574,950	$217	$78,025
Vermont	$400,750	$151	$54,385
Virginia	$400,000	$151	$54,283
Washington	$599,450	$226	$81,350
West Virginia	$209,950	$79	$28,492
Wisconsin	$362,400	$137	$49,180
Wyoming	$420,000	$158	$56,997
United States	**$400,000**	**$151**	**$54,283**

Sources: Realtor.com residential listings database, Mortgage Bankers Association's Weekly Mortgage Applications Survey

Note: Values are rounded to the nearest dollar, and calculations use 6.71% as the baseline mortgage rate. Elevated mortgage rates reflect a 0.7% increase to the baseline, as seen in 2011. Data are the most recent available and refer to January 2023 for the median listed home price by state and the week ending in March 10, 2023, for the national average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances and an 80% loan-to-value ratio.

Defaulting on the national debt would cause economic catastrophe and imperil millions of jobs

Defaulting on federal debt would cause an economic catastrophe. Moody's Analytics economist Mark Zandi predicts that a default on U.S. debt obligations would trigger a global market panic on the scale of the 2008 financial crisis, which could result in a loss of more than 7 million jobs, an unemployment rate of over 8%, the elimination of $10 trillion in household wealth, and a decline in real GDP of more than 4%. In addition, defaulting on the national debt could severely undermine confidence in Treasury bonds and permanently weaken the position of the U.S. dollar in the global financial system, pushing up interest rates.

A debt-limit breach could disrupt expected payments to the military, veterans, and seniors. Once the United States reaches the debt limit, the Treasury could only be able to pay debts using existing funds and revenue as it comes in. The majority of federal spending pays for the military, Social Security, and health programs such as Medicare and Medicaid. Incoming tax revenue may not be sufficient to fund ongoing payments to support the military, veterans, and seniors, maintain other government programs, and service existing debt. Over 65 million Americans could have their Social Security and Medicare benefits disrupted, while 18 million veterans could lose access to benefits they have earned. The Social Security Administration disburses about $100 billion each month to beneficiaries across the U.S., and payments could be in jeopardy if Congress does not lift the debt limit.

Debt-Limit Brinkmanship Could Disrupt Benefit Payments That Millions of Americans Rely On				
State	**Medicare Recipients at Risk**	**Social Security Recipients at Risk**	**Total in Monthly Social Security Payments at Risk**	**Veterans at Risk**
Alabama	1,083,000	1,164,000	$1,706,991,000	351,000
Alaska	112,000	110,000	$162,824,000	70,000
Arizona	1,426,000	1,449,000	$2,298,348,000	499,000
Arkansas	660,000	709,000	$1,005,891,000	204,000
California	6,631,000	6,166,000	$9,340,498,000	1,535,000
Colorado	985,000	925,000	$1,467,937,000	374,000
Connecticut	718,000	700,000	$1,193,327,000	159,000
Delaware	229,000	229,000	$387,905,000	69,000
District of Columbia	95,000	83,000	$124,676,000	28,000
Florida	4,910,000	4,910,000	$7,577,221,000	1,451,000
Georgia	1,850,000	1,919,000	$2,869,160,000	678,000
Hawaii	295,000	287,000	$449,099,000	107,000
Idaho	372,000	378,000	$574,812,000	126,000
Illinois	2,323,000	2,272,000	$3,564,381,000	569,000
Indiana	1,322,000	1,389,000	$2,189,729,000	388,000
Iowa	659,000	669,000	$1,039,410,000	183,000
Kansas	566,000	573,000	$910,400,000	186,000
Kentucky	961,000	1,010,000	$1,438,656,000	272,000
Louisiana	906,000	925,000	$1,287,133,000	267,000
Maine	364,000	359,000	$521,038,000	108,000
Maryland	1,096,000	1,038,000	$1,710,224,000	356,000
Massachusetts	1,400,000	1,295,000	$2,061,173,000	286,000
Michigan	2,166,000	2,253,000	$3,611,694,000	531,000
Minnesota	1,096,000	1,083,000	$1,756,202,000	294,000
Mississippi	622,000	682,000	$951,295,000	182,000
Missouri	1,283,000	1,329,000	$1,990,464,000	399,000
Montana	250,000	249,000	$368,099,000	86,000
Nebraska	368,000	360,000	$559,398,000	120,000
Nevada	573,000	572,000	$872,772,000	217,000
New Hampshire	326,000	322,000	$534,012,000	96,000
New Jersey	1,688,000	1,653,000	$2,823,697,000	311,000
New Mexico	447,000	455,000	$655,876,000	144,000
New York	3,766,000	3,681,000	$5,804,433,000	689,000
North Carolina	2,123,000	2,203,000	$3,388,657,000	687,000
North Dakota	141,000	141,000	$211,034,000	51,000
Ohio	2,442,000	2,409,000	$3,596,930,000	695,000
Oklahoma	774,000	814,000	$1,204,224,000	282,000
Oregon	916,000	910,000	$1,420,319,000	272,000
Pennsylvania	2,847,000	2,878,000	$4,573,216,000	719,000
Rhode Island	233,000	231,000	$362,689,000	58,000
South Carolina	1,163,000	1,216,000	$1,886,729,000	388,000
South Dakota	190,000	189,000	$283,326,000	63,000
Tennessee	1,425,000	1,503,000	$2,257,993,000	444,000
Texas	4,505,000	4,476,000	$6,664,498,000	1,543,000
Utah	439,000	439,000	$693,526,000	129,000
Vermont	159,000	158,000	$245,387,000	40,000
Virginia	1,608,000	1,598,000	$2,538,995,000	691,000
Washington	1,460,000	1,413,000	$2,303,623,000	533,000
West Virginia	444,000	476,000	$692,161,000	128,000
Wisconsin	1,256,000	1,289,000	$2,046,456,000	332,000
Wyoming	121,000	121,000	$192,021,000	45,000
U.S. Total	**65,104,000**	**65,228,000**	**$99,804,910,000**	**18,592,000**

Sources: Centers for Medicare & Medicaid Services, Social Security Administration, U.S. Department of Veterans Affairs
Note: Values are rounded to the nearest thousand. Data is the most recent available and refers to September 2022 for Medicare, December 2021 for Social Security and September 2022 for veterans.