



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

February 3, 2011

The Honorable Patrick J. Toomey
United States Senate
Washington, DC 20510

Dear Senator Toomey:

Thank you for your letter regarding your proposal to “prioritize” debt service payments above other obligations of the United States for purposes of the statutory debt limit. As I indicated when I telephoned on January 21, I appreciate your public statements indicating your support for protecting the full faith and credit of the United States.

As I also explained, however, the Treasury Department has reviewed your legislation and determined that it is unworkable and would not achieve your stated objective of protecting U.S. creditworthiness. In fact, the legislation would be quite harmful if enacted. A simple analogy may help illustrate the problem. A homeowner could decide to “prioritize” and continue paying monthly mortgage payments, while opting to cease paying other obligations, such as car payments, insurance premiums, student loan and credit card payments, utilities, and so forth. Although the mortgage would be paid, the damage to that homeowner’s creditworthiness would be severe.

Similarly, while your legislation seeks to ensure that debt service payments would continue to be made after the debt limit is reached, it does not protect from non-payment the other obligations of the United States, such as military and civilian salaries, tax refunds, contractual payments to individuals and businesses for services and goods, and many others. If payment of these obligations were abruptly stopped, the world would recognize it as a first-ever failure by the United States to meet its commitments.

We understand that you define default narrowly in this context to apply only to debt service payments, but the term is equally applicable to the broad failure contemplated in your legislation to meet other important U.S. obligations. That is how it would be regarded by global markets, which would react in a variety of negative ways described in my January 6, 2011 letter to Congress.

Your letter also asserts that “Treasury has had to manage the nation’s finances on four separate occasions when the debt ceiling was reached . . . [i]n each of these instances, the Treasury prioritized certain payments – including debt service.” This is factually incorrect. At no point during any previous debt limit impasse has the Treasury Department failed to meet any payment obligation, nor has Treasury ever “prioritized” payments. Treasury has employed certain well-known extraordinary measures (detailed in my January 6 letter) to avoid exceeding the debt limit, but has never acted, as your legislation proposes, to honor some payment obligations but default on others.

For the foregoing reasons, the Treasury Department has always held the view – regardless of which party has held the White House or either House of Congress – that the only way to prevent default and protect America’s creditworthiness is through the enactment of a timely increase in the debt limit.

Again, while Treasury cannot support your legislation, I know it is well intentioned and I would be pleased to discuss this issue with you further in support of our shared objective of ensuring that the full faith and credit of the United States is never called into question.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy F. Geithner". The signature is fluid and cursive, with a long horizontal stroke at the end.

Timothy F. Geithner