GlobalResearch
Center for Research on Globalization

The U.S. Has Repeatedly Defaulted: It's a Myth that the U.S. Has Never Defaulted On Its Debt

By Washington's Blog
Global Research, October 14, 2013
Washington's Blog

Region: USA
Theme: Global Economy

Some people argue that countries can't default. But that's false.

It is widely stated that the U.S. government has never defaulted. However, that is *also* a myth.

Catherine Rampbell reports in the New York Times:

> The United States has actually defaulted on its debt obligations before.
>
> The first time was in 1790, the only episode Professor Reinhart unearthed in which the United States defaulted on its external debt obligations. It also defaulted on its domestic debt obligations then, too.
>
> Then in 1933, in the midst of the Great Depression, the United States had another domestic debt default related to the repayment of gold-based obligations.

(Update.)

Donald Marron points out at Forbes:

> The United States defaulted on some Treasury bills in 1979 (ht: Jason Zweig). And it paid a steep price for stiffing bondholders.
>
> Terry Zivney and Richard Marcus describe the default in The Financial Review…:
>
> > Investors in T-bills maturing April 26, 1979 were told that the U.S. Treasury could not make its payments on maturing securities to individual investors. The Treasury was also late in redeeming T-bills which become due on May 3 and May 10, 1979. The Treasury blamed this delay on an unprecedented volume of participation by small investors, on failure of Congress to act in a timely fashion on the debt ceiling legislation in April, and on an unanticipated failure of word processing equipment used to prepare check schedules.
>
> The United States thus defaulted because Treasury's back office was on the fritz in the wake of a debt limit showdown.

> This default was temporary. Treasury did pay these T-bills after a short delay. But it balked at paying additional interest to cover the period of delay. According to Zivney and Marcus, it required both legal arm twisting and new legislation before Treasury made all investors whole for that additional interest.

Many consider Nixon's decision to refusal to redeem dollars for gold to constitute a partial default. For example, University of Massachusetts at Amherst economics professor Gerald Epstein notes:

> Forty years ago this month, on August 15, 1971, President Nixon "closed the gold window", refusing to let foreign central banks redeem their dollars for gold, facilitating the devaluation of the U.S dollar which had been fixed relative to gold for almost thirty years. While not strictly a default on a US debt obligation, by closing the gold window the US government abrogated a financial commitment it had made to the rest of the world at the Bretton Woods Conference in 1944 that set up the post-war monetary system. At Bretton Woods, the United States had promised to redeem any and all U.S. dollars held by foreigners – later limited to just foreign central banks — for $35 dollars an ounce. This promise explains why the Bretton Woods monetary system was called a "gold exchange standard" and why many believed the US dollar to be "as good as gold". When Nixon refused to let foreign central banks turn in their dollars for gold, and encouraged the devaluation of the dollar which reduced the value of foreign central bank holdings of dollars, the Nixon administration effectively "defaulted" on the United States' long-standing obligations ending once and for all the Bretton Woods System.

James Grant says in the Washington Post:

> The U.S. government defaulted after the Revolutionary War, and it defaulted at intervals thereafter. Moreover, on the authority of the chairman of the Federal Reserve Board, the government means to keep right on shirking, dodging or trimming, if not legally defaulting.
>
> Default means to not pay as promised, and politics may interrupt the timely service of the government's debts.
>
> ***
>
> Things were very different when America owed the kind of dollars that couldn't just be whistled into existence. By 1790, the new republic was in arrears on $11,710,000 in foreign debt. These were obligations payable in gold and silver. Alexander Hamilton, the first secretary of the Treasury, duly paid them. In doing so, he cured a default.
>
> ***
>
> But in the whirlwind of the "first hundred days" of the New Deal, the dollar came in for redefinition. The country needed a cheaper and more abundant currency, FDR said. By and by, the dollar's value was reduced to 1/35 of an ounce of gold.
>
> By any fair definition, this was another default. Creditors both domestic and foreign had lent dollars weighing just what the Founders had said they should weigh. They expected to be repaid in identical money.

> Language to this effect — a "gold clause" — was standard in debt contracts of the time, including instruments binding the Treasury. But Congress resolved to abrogate those contracts, and in 1935 the Supreme Court upheld Congress.
>
> The "American default," as this piece of domestic stimulus was known in foreign parts , provoked condemnation in the City of London. "One of the most egregious defaults in history," judged the London Financial News. "For repudiation of the gold clause is nothing less than that. The plea that recent developments have created abnormal circumstances is wholly irrelevant. It was precisely against such circumstances that the gold clause was designed to safeguard bondholders."
>
> The lighter Roosevelt dollar did service until 1971, when President Richard M. Nixon lightened it again. In fact, Nixon allowed it to float. No longer was the value of the greenback defined in law as a particular weight of gold or silver. It became what it looked like: a piece of paper.

John Chamberlain argues at the Mises Institute that the U.S. defaulted on its:

- Continental Currency in 1779
- Domestic debt between 1782 through 1790
- Greenbacks in 1862
- Liberty Bonds in 1934

States Have Defaulted Also

States have also defaulted. The Wall Street Journal notes:

> Land values soared. States splurged on new programs. Then it all went bust, bringing down banks and state governments with them. This wasn't America [today], it was America in 1841, when a now-forgotten depression pushed eight states and a desolate territory called Florida into the unthinkable: They defaulted on debts.

And Catherine Rampbell explains:

> There were two episodes when a spate of American states defaulted on their debts, in 1841-42 (nine states) and 1873-84 (10 states). The havoc wreaked by these state-level defaults is part of the reason that so many states now have constitutional balanced-budget requirements.

China Alleges that the U.S. Has Already Defaulted By Weakening the Dollar

James Grant argues:

> If today's political impasse leads to another default, it will be a kind of technicality. Sooner or later, the Obama Treasury will resume writing checks. The question is what those checks will buy.
>
> ***
>
> This is the unsustainable conceit of the world's superpower-cum-super debtor. By deed, if not audible word, we Americans say: "The greenback is the world's great monetary brand. You have no choice but to use it. Like it or lump it." But the historical record of paper currencies is clear: Governments always over-issue it. The people finally do lump it."

(Indeed, the average life expectancy for a fiat currency is less than 40 years.)

And our creditor – China – has said that America has already defaulted by printing too many dollars. For example:

> A Chinese ratings house has accused the United States of defaulting on its massive debt, state media said Friday, a day after Beijing urged Washington to put its fiscal house in order.
>
> "In our opinion, the United States has already been defaulting," Guan Jianzhong, president of Dagong Global Credit Rating Co. Ltd., the only Chinese agency that gives sovereign ratings, was quoted by the Global Times saying.
>
> Washington had already defaulted on its loans by allowing the dollar to weaken against other currencies – eroding the wealth of creditors including China, Guan said.

That might be Chinese propaganda. But the point remains that the U.S. might not be able to print money forever without facing consequences from its creditors.

[Comment on Global Research Articles on our Facebook page]

[Become a Member of Global Research]

Articles by: Washington's Blog