

The Day the United States Defaulted on Treasury Bills

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Abstract

Because of severe technical difficulties, the U.S. government was unable to repay investors in Treasury bills (T-bills) in late April through early May, 1979. This incident led to a 60 basis point increase in T-bill rates at the initial occurrence of the default. Unlike other information effects of that era, such as Henry Kaufman's predictions or Paul Volcker's "Saturday night special," this increase in rates was not offset by a subsequent decrease in rates after the Treasury cured the default. The default apparently warned investors that Treasury issues were not completely riskless, which translates into a \$12 billion annual increase in federal interest payments as a result of the 60 basis point permanent increase in interest rates.

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