

DEBT CEILING DEBATE OCCUPIES CENTER STAGE

Compiled from news sources

If the past is any indicator, most would say the legislative rancor over whether or not to raise the Federal debt ceiling peaks this week and is settled eventually in time to keep the government operating.

What is the debt ceiling? Simply put, it is the statutory maximum of money the Treasury is allowed to borrow. We believe the usual political posturing will subside and the debt ceiling will eventually be raised to meet Treasury Secretary Janet Yellen's Oct. 18 "extended" deadline to avoid default.

This past June, Yellen warned that not raising the debt ceiling would have "catastrophic economic consequences."¹ Just recently, she reiterated in a letter to House Speaker Nancy Pelosi that "A delay that calls into question the federal government's ability to meet all its obligations would likely cause irreparable damage to the U.S. economy."²

And Yellen would be correct to advise Congress to tread softly. One only has to recall an unsettling brush with a past fiscal cliff episode about 10 years ago.

In 2011, some areas of the government were temporarily shut down (e.g., retirement system payments), and the government's bond rating was reduced by Standard & Poor's from Triple A to Double A+ in the first-ever downgrade to U.S. sovereign debt, a tangible impact from the failure to raise the debt ceiling back then. That, in itself, raised real future borrowing costs, which were in the billions even back in 2011.

Of course, raising or suspending the debt ceiling does not authorize new federal spending, but rather allows the Treasury to honor debts already incurred during the Trump and Biden administrations. Even if the Biden administration had passed no new spending initiatives in 2021, lawmakers would still have to raise or suspend the ceiling.

Some compare this to a credit card bill of expenses already incurred that is coming due. Or a restaurant dinner you've already consumed and the waiter just brought you the check.

This Congressional game of chicken will play itself out noisily in the press, but ultimately we believe a settlement will eventually be reached to avoid a "self-inflicted wound" like a government default.



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¹ CNN, 6/24/21

² CNBC, 9/8/21

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