



02.09.23 | INSIGHTS

Thoughts on the Federal Debt Ceiling

Jeff Schaefer - Certified Financial Planner™ | President & Founder

“You can always count on Americans to do the right thing after they have tried everything else.” □ Winston Churchill

In January, the Federal Government reached the limit of its legal borrowing capacity. Having borrowed a cumulative \$31.4 **trillion** dollars, there will be no additional borrowing unless and until Congress acts. As much as we would like to see Federal deficit spending reined in, failing to raise the debt ceiling isn't the way to do it. We expect lots of vitriol and noise from politicians and pundits around this topic as both sides of the aisle seek to score political points. At the end of the day, however, we are confident that Congress will increase the debt ceiling.

Since 1960, Congress has increased the debt ceiling 78 times. It has happened with Republicans and Democrats in control of Congress. It has happened under Republic presidents and Democrat presidents. Until it happens for the 79th time, the Federal government will take “extraordinary” measures to keep the government functioning. Most of these are arcane accounting maneuvers and internal funds transfers. Ultimately, they involve the government spending down cash on hand. The precise date at which cash on hand would be exhausted can only be projected in advance because the Treasury doesn't know exactly what will be collected in tax revenue in the coming months. Current thinking is that these “extraordinary” measures will be exhausted by June.

If cash on hand is exhausted by June, a government shutdown would likely follow. Since most government spending is automatic (think Social Security payments), a government shutdown falls disproportionately on areas like the TSA or the courts. History has shown that whether due to debt ceiling concerns or budget showdowns, tolerance on the part of voters for these disruptions is minimal. Our best guess is that we see an 11th hour deal in May or June to increase the debt ceiling since default, meaning the inability to make timely payments of interest and principal on outstanding debt, is simply not an option. The longer the process drags on, however, the more damaging it is. Uncertainty is always the enemy of investors and economic progress. As we grapple with inflation pressures and recession fears, adding uncertainty in the form of the debt ceiling helps no one. In 2011, a similar battle actually resulted in US debt being downgraded by the major rating agencies. While it isn't clear that US borrowing costs went up as result of the downgrade, it was an embarrassing distraction.

Related Team Members

Jeff Schaefer

Becky Aardal

Lowell Hansen

Kirsten Hollander

Andrea Searle

Henry Schaefer

Dawn Johnson

We are hopeful that we will not see a repeat of the 2011 experience. Our view is that while vigilant monitoring is in order, it would be premature and unwise to make substantive changes to your holdings. Like January's lousy weather, this too shall pass.

[READ FULL ARTICLE](#)