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Debt ceiling 2021: The sequel

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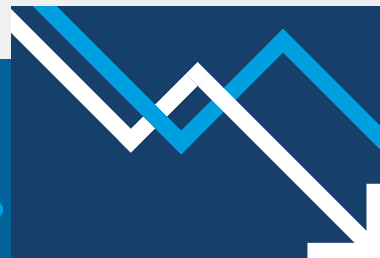
The debt ceiling is the total amount of money the United States government is authorized to borrow to pay for budgeted items like Social Security and Medicare benefits, military salaries and tax refunds.

Raising the debt ceiling does not increase spending, it provides the government with the authority to make payments on obligations that have already been incurred — paying for things on which Congress has already spent or decided to spend.

The debt ceiling has been raised many times before. Since 1940, Congress has agreed to raise the debt ceiling more than 100 times. Although investors generally understand the brinksmanship involved in the process, they still don't like the uncertainty.



In 2011, Congress waited until the very last minute to increase the debt ceiling. The crisis led Standard & Poor's to issue its first-ever downgrade of U.S. government debt, sparking weeks of volatility, wreaking havoc on markets.

There are other financial consequences if the debt ceiling is not raised. The cost of collateral across the entire financial system could increase, including the borrowing costs for credit cards, cars and mortgages.

Bottom line: Although the debt ceiling is likely to be raised or suspended, if Congress fails to act and the U.S. government defaults on its debt, investors may see a financial sector shock and market volatility.

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