**Debt Ceiling and Who Sets it**

**Introduction.**

The federal debt ceiling was reinstated on January 2nd, 2023, after being suspended by the Fiscal Responsibility Act. It was set at the $36.1 trillion outstanding debt amount at that time. Treasury Secretary Yellen informed Congress in a letter in December 2024 that debt subject to the ceiling would temporarily drop after the cap was reinstated. But this would soon change; between January 14 and January 23, the debt limit would be reached (Committee for a Responsible Federal Budget, 2025).

Therefore, a debt ceiling is a cap that Congress places on the amount of debt that the Treasury can utilize to fulfill its legal responsibilities. Legislators have nevertheless frequently engaged in acrimonious discussions about the statutory debt ceiling's steady climb and impending default, which has led to rifts.

**Why is a debt ceiling important in a fiscal policy?**

A debt ceiling is a fantastic negotiation tool in the setting of fiscal policies. A good example is the debt ceiling statute, which was enacted nearly a century ago. However, it did not play a significant role in U.S. fiscal policy until the spring and summer of 2011, when Republicans in the House of Representatives used the threat that the government would be forced to default on its existing obligations to pressure President Obama to reduce future federal spending (Buchanan, N. H., & Dorf, M. C. 2013).

A debt ceiling can influence budget allocations set by the treasury and, therefore, control economic changes in a country. It also allows the government to fund its existing obligations. A good example is the health sector, which includes Medicare.

It gives Congress the power to control government spending. It prompts discussions and decisions regarding budgetary policy, encouraging transparency and accountability in government spending and taxation choices (Krishnakumar, 2005).

A debt ceiling can be used to drive economic growth and stability. Converse to general opinion, rigid debt ceiling policies can lead to economic downturns, and the best approach would be to set up flexible fiscal frameworks that can be adjusted depending on changing economic conditions.

**Difference between Budget Authorization and Debt Ceiling**

To understand government fiscal policing, we must examine the correlation between budget allocation and a debt ceiling. Legislative approval for governmental agencies to spend funds to meet existing obligations is what is referred to as budget authorization, whereas the debt ceiling is a cap set by Congress to control the amount of debt the government can acquire to meet its obligations.

A good example is the Balanced Budget Act of 1997, which raised the debt limit, which indirectly relates to budget authorization by determining how much the government can spend without exceeding its borrowing capacity (Winters, 2001). This allowed the government to access more funds that were used for developmental projects and facilitated public service.

Therefore, budget authorization and debt ceiling are different things, but one leads to another.

**Obligations covered by Debt Ceiling**

Obligations covered by debt ceilings have numerous implications and can affect a country's creditworthiness. The following federal expenditures are commitments the government needs to meet: social security, interest payments on existing debts, and facilitation of public services such as infrastructure and other government services.

**The Rationale of a Debt Ceiling**

The rationality of a debt ceiling revolves around economic stability and fiscal discipline, which forces leaders to be politically accountable for resource utilization.

The optimal debt ceiling, as suggested by recent models, balances the costs of debt against economic growth, ensuring that borrowing remains sustainable (Cadenillas & Huamán-Aguilar, 2016).

The statutory debt ceiling in the United States is complex, influenced by political dynamics, economic policies, and legislative processes. A classic example is when the federal government approached its debt limit in 2011. President Barack Obama and the Republican-controlled House of Representatives engaged in a lengthy debate over lifting the debt ceiling. The House attempted to balance the debt limit rise with cuts to federal programs and services. The discussions produced the Budget Control Act (BCA) of 2011, which avoided a default, significantly reduced spending, and established a framework for future budget cuts (Progressive Caucus Center, 2023).

Some consequences of exceeding debt limits include market reactions such as volatility in Treasury bills, as demonstrated in 2011 and 2013 and the turndown of short-term securities. Prolonged uncertainty surrounding the debt ceiling can erode investor confidence, leading to higher borrowing costs for the government and potentially affecting the broader economy (Ozdagli & Peek, 2013). Therefore, setting debt limits is an area that deserves great planning and execution.

**Who sets Debt Ceiling?**

Congress has the authority to set limits on federal borrowing. This legislative process usually requires bipartisan support. Surprisingly, the President is also involved in the process of setting the debt ceiling. A good example is when Congress last addressed the debt ceiling in June 2023 as part of a [legislative package](https://www.cbsnews.com/news/whats-in-2023-debt-ceiling-deal-bill-to-avoid-default/) negotiated by President Biden and then-House Speaker Kevin McCarthy. That deal suspended the debt ceiling through Jan. 1, 2025, ensuring any fight over it would take place after the 2024 elections (CBS News, 2024).

The management process of the debt ceiling can prove to be a daunting task, as evidenced by Congress's actions. [Since 1960](https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/debt-limit), Congress has raised or suspended the debt ceiling 78 times - 49 times during a Republican presidential administration and 29 times under a Democrat (The Journalist Resource, 2021). This goes to show that it is a collaborative process for both the legislature and the President to ensure optimal levels of debt are set.

**Alternatives to the Current System**

Policymakers say that debt affects economic stability and fiscal responsibility; it is perceived as a constraint that obscures government financial realities. Some experts argue that the debt ceiling is illegal, citing the 14th Amendment and the Congressional Budget and Impoundment Control Act of 1974, which effectively established the federal budget as a ceiling and floor for spending (Hockett, 2023). Its elimination can improve fiscal policy efficacy; in terms of politics, it may produce a more cooperative political environment focused on economic progress rather than electoral advantages.

**Conclusion**

In essence, the debt ceiling is a critical component of US fiscal policy. Its major role is to ensure that the government can repay its debts, including interest on existing loans and the delivery of public services. Although the president is involved in the debt ceiling enactment, Congress has more say. There are numerous benefits to having a debt ceiling. However, political disagreements and inflexible techniques can increase financial costs and generate market instability. Finally, its effectiveness is dependent on sound financial and strategic management.

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