**Debt Ceiling and Who Sets it**

**Introduction.**

After being suspended by the Fiscal Responsibility Act in 2023, the federal debt ceiling was restored on January 2 and set to the outstanding debt level at that time: $36.1 trillion. In December 2024, Treasury Secretary Yellen sent a letter to congress reporting that debt subject to the limit would temporarily decrease after the limit was restored. However, this would soon reverse; the debt limit would be hit between January 14 and January 23 (Committee for a Responsible Federal Budget, 2025).

A debt ceiling therefore is a limit Congress sets on the debt the treasury can use to meet its legal obligations. Even so, bitter debates among legislatures have often arisen regarding the steadily increasing statutory debt ceiling and looming default, causing rifts among lawmakers.

**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 limit on debt in the United States is complex and is affected by political dynamics, fiscal policies, and legislative processes. A good example is when the federal government approached the debt limit in 2011. President Barack Obama and the Republican-controlled House of Representatives entered a long battle over raising the debt ceiling. [The House sought to pair](https://www.vox.com/policy-and-politics/2023/2/1/23581229/debt-ceiling-crisis-2011) the debt limit increase with cuts to federal programs and services. The negotiations resulted in the [Budget Control Act (BCA) of 2011](https://www.congress.gov/bill/112th-congress/senate-bill/365/text), which avoided a default, dramatically cut spending, and set up a mechanism for future spending 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 argue that debt undermines economic stability and fiscal responsibility; it is viewed as a limit that doesn't show government financing realities. Legally speaking, the debt ceiling is considered unconstitutional by some scholars, citing the 14th Amendment and the Congressional Budget and Impoundment Control Act of 1974, which effectively establishes the federal budget as a ceiling and floor for spending (Hockett, 2023). Its elimination can enhance fiscal policy effectiveness; as for political consideration, eliminating it could create a more cooperative political environment focusing on economic growth rather than political gains. Well

**Conclusion**

In summary, the debt ceiling is a key element of the U.S. fiscal policy. Its primary responsibility is to guarantee that the government can pay its debts, including interest on outstanding loans and the provision of public services. Although the president is involved in the debt ceiling's enactment, Congress has a bigger say. There are many advantages to having a debt ceiling. However, political disagreements and rigid methods can raise financial expenses and cause market volatility. In the end, it can be effective only by prudent financial and strategic management.

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