FIELD: LITERATURE

WHAT IS THE DEBT CEILING?

The debt ceiling refers to the legal limit on the total amount of federal debt the government can accrue.

According to US, it also means the limit imposed by the Congress in 1917 that sets the maximum amount of outstanding debt the US can incur.

WHY WAS THE DEBT CEILING CREATED?

The first debt limit was established to give the Treasury autonomy over borrowing by allowing it to issue debt up to the ceiling without congressional approval making it easier to finance mobilization efforts in world war 1.

WHO IS RESPONSIBLE TO SET THE DEBT CEILING

The congress and other policy makes are responsible for raising or suspending the debt ceiling.

Although policy makers have often enacted “clean” debt ceiling increases. Congress has also coupled increases with other legislative priorities.

WHY DOES DEBT CEILING MATTER?

Debt ceilings are imposed to ensure that countries employ public debt sustainably. Debt sustainability is about the country’s current and expected future income to cover costs.

A breach of the debt ceiling signals the possibility that the country’s debt could be excessive and unsustainable.

IMPORTANCE OF DEBT CEILING

- It ensures the amount of goods and services available to future generations are substantial.
- The government is able to fund its programmes.
- The government is able to stimulate economic activity by lowering taxes or providing welfare support to its citizens.
- It prevents transfer of wealth from the poor who must pay increased taxes for debt repayment, to the rich who lend money to the government to earn interest from it.
- It prevents loss in sovereignty due to debt default as creditors demand austerity measures as part of any debt reconstructing deal.

WHAT DOES IT MEAN TO RAISE THE DEBT CEILING?

This means increasing the amount of money the federal government can borrow to meet its financial obligation which enables a larger national debt.

WHAT DOES IT MEAN TO SUSPEND THE DEBT CEILING?

This refers to removing the set limit for a set period of time.

Any change to the debt ceiling requires majority approval by both chambers of congress. It's a complex issue that requires careful considerations and negotiation.

WHERE DO COUNTRIES BORROW FROM?

when the national debt is below the debt ceiling, the government borrows money from marketable securities like treasury bonds, notes and bills.

WHAT HAPPENS WHEN A COUNTRY DEFAULTS ON ITS DEBTS?

This causes a domino effect causing irreparable harm to the economy, its citizens and global financial stability.

A default or uncertainty surrounding a default could lead investors to sell treasury bonds, potentially weakening the country's currency.

A country dealing with debt ceiling crisis needs to draw some lessons from undesirable cases.

REFERENCES

The Conversation 2011

Time magazine 2016

Article by US news 2021

World economic forum 2022