U.S. Debt Ceiling Crisis

Why in news?

The US government could default on its borrowings, an unprecedented situation that could potentially hit economies worldwide, if Congress doesn't raise the nation's debt ceiling.

What is Debit ceiling?

- The debt ceiling, or debt limit, is the total amount the US government is allowed to borrow to finance its expenditure, such as paying salaries and welfare allowances.
- The debt limit was introduced in 1917, when the US entered World War I.
- The debt ceiling was introduced in order to make it easier for the executive to operate without having to turn to Congress every time it wanted to spend.
- The debt ceiling allows the government to borrow as required as long as it kept under the debt limit approved by Congress.
- The debt ceiling has been raised 78 times (49 times under Republicans and 29 times under Democrats) since 1960, with the most recent raising was in 2021.

What is the issue?

- Constitutionally, Congress controls the government's purse strings.
- Currently the limit of debt ceiling is at $31.4 trillion.
- The Republicans, who have a majority in the House, are refusing to raise it unless the Democrat-run government agrees to their demands, which include a significant cut in spending.
- If the debt ceiling is not raised, the government will be unable to pay its bills and will default on its debt.

What are the demands of Republicans?

- The Republicans are ideologically fiscal conservatives, while Democrats believe the government should spend more on social welfare schemes.
- To agree to raise the debt ceiling, the Republicans have demanded that spending be kept at 2022 levels in the next financial year, and subsequent increases capped at 1% for some years.
- The Democrats say the spending should be kept at 2023 levels.

What happens if the government defaults?

- The US government has never defaulted, and hence there is no exact answer, however, the consequences could be catastrophic.

- The government would no longer have the money to function, and would have to decide who gets salaries, and how much.
- The dollar would weaken, the stock markets would collapse, and millions might lose their jobs.
- Also, the US's credit rating would be downgraded, making future borrowing more expensive.
- The crisis in the US will have wider repercussions.

Has anything similar happened earlier and is there a way out?

- The crisis is similar to what happened in 2011 when Barack Obama was President but the House of Representatives was controlled by Republicans.
- Back then, the crisis ended just hours before the deadline, only after the Obama administration agreed to spending cuts worth more than $ 900 billion.
- Technically, the US President can sidestep Congress by invoking the 14th Amendment, whose Section Four states that the "validity of the public debt of the United States … shall not be questioned."
- But if Biden were to use this option, it could trigger lawsuits, and he has seemed to prefer the Congressional route.

What is the way forward?

- The debt ceiling is a terrible way to try to impose fiscal responsibility.
- However, the US government needs to find ways to reduce the deficit and the national debt.
- The two parties in the congress should arrive at an agreement at the earliest.

References

1. The Indian Express | Debt Ceiling Crisis
2. The Hindu | US Debt Ceiling

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