The debt ceiling

Literature, Russian Literature

Should Debt Ceiling be raised without Other Conditions Attached? The national debt ceiling is a limit set by Congress to control the amount of money the US government may borrow at any giving time. Without the debt ceiling, the budget deficit may push the national debt to wanting levels. This is because any elected government would always increase spending to make the electorates, as well as, those who funded their campaigns happy. Over the last one decade, the US government has increased the debt ceiling at around ten times. The last time the debt ceiling was raised was in last year, august, reaching $16. 69 trillion. This happened since the government did not want a repeat of 2001 fiscal crisis, which was because of the Congress refusing to raise the debt ceiling. However, raising the debt ceiling has driven the national debt to wanting levels; $14. 3 trillions.

In my opinion the debt ceiling should be raise, but as a short-term measure. This is because failure to raise the ceiling would have consequences. The first consequence is that the government may be unable to pay its workforce their salaries. This may lead to unrest in the country. Secondly, the government may default on what it owes other creditors, for examples, holders of government securities. These are monies in terms of bonds' principal and interest. This would result to the US government having a bad credit rating. Government securities' risk would go up causing the rate of interest attached to them going up. As a result, the cost of capital in the entire economy would go up thus increasing the cost of doing business. This in turn would lead to economic growth slowing down (Allen, 2012).

Thirdly, foreign investors might lose faith to the US government thus refusing to lend to it. They may also sell their US government's securities. This, in turn, may lead to the dollar losing value against the world currencies. All these may compound the situation and return the economy back to recession (Allen, 2012).

Additionally, other conditions should accompany the raising of the debt ceiling. These should be long-term measures. First, the government should cut spending on unproductive activities such as wars and defense. These are some of the government expenses, which do not add value to the economy. Cutting spending on these activities would reduce the budget deficit, which would enable the government to lower the debt ceiling in future. Finally, the government should increase taxes on corporate and the rich to reasonable rates that should not hurt the economy. This too would help in reducing the budget deficit.

Reference

Allen, F. (2012). Is US Government Debt Different. Philadelphia: FIC Press.