

The US Debt Ceiling Crisis, A Phoney War

A country never has to default in debt it issues in its own currency. The exception to this is the Euro zone where the ability to print Euros lies with the ECB and not the national banks. Tough.

A country can choose to default in debt it issues in its own currency. That's a different matter.

If the US never has to default in debt it issues in USD, why then the drama and debate surrounding the debt ceiling, surely a purely academic and legal point rather than a practical one? There are several possible explanations. Here is one.

The US is trying to engineer a much weaker USD against the RMB and the major currencies. The rounds of QE did a good job but not good enough and it is now in the purview of the politicians to debase the currency further under the guise of a phoney war.

Without the cover of debt default the US might be branded a currency manipulator by the Chinese, or the Europeans risking a damaging trade war. By feigning injury, the US hopes it can beggar its neighbours and get away with it. They won't. So damaged is the world economy that no quarter will be given.

Anyway, nice try.