Will the U.S. Default On Its Debt … Even If It Raises the Debt Ceiling?

By Washington's Blog
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Many in Washington are warning that – unless a compromise to raise the debt ceiling is reached – the U.S will default on its debt.

Moody's has put the U.S. on a credit review for a possible downgrade due to the failure to reach a debt ceiling agreement.

Standard and Poor's said earlier this month that it would likely consider the Greek bailout plan to be a default. And see this.

But the American situation is different – both because we are the world's largest economy and because raising the debt ceiling is different from the Greek plan.

Right?

Hopefully. But as Zero Hedge notes:

> China Daily has just reported that according to the notorious … Dagong rating agency, "The US' sovereign credit rating is likely to be downgraded regardless of whether the US Congress reaches an agreement on raising its statutory debt limit. "If the debt limit is raised and the public debt continues to grow, it will further damage the US' debt-paying ability, which is a key factor in Dagong's evaluation, and we will consider lowering its ratings accordingly," said Guan Jianzhong, chairman and CEO of Dagong. "If the raised limit fails to pass and the US faces default, the rating will be immediately and substantially downgraded," he said. According to Guan, the downgrading is really just "a matter of time and extent".
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> From China Daily:
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> > Dagong's rating was downgraded from AA on Nov 9 after the US government announced a second round of quantitative easing (QE2).
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> "Raising the limit is just a legislative measure to allow the government to borrow more money, but it does not change the fact that the US lacks

> momentum for economic growth," Guan said, adding that if the inflation and unemployment rates remain unchanged, the US government might turn to QE3.
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> **The fundamental problem is that the US' ability to generate wealth is far from compensating its increasing debt, and "paying debts by borrowing more is not a solution," he said.**
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> "**Neither the $2 trillion QE nor raising the debt limit is an effective measure. And the sovereign debt crisis will continue**," Guan said, explaining that the US government spent huge amounts on consumption and social security, and had limited resources left for economic development

In fact, Dagong said last month that the U.S. had already defaulted.

Granted, Dagong is a Chinese rating agency which has a Chinese bias (just like Moody's, S&P and Fitch have a U.S. bias … and they take bribes for higher ratings) and – as Zero Hedge notes in the above-linked article – Chinese and American rating agencies are in a war right now.

But a large German rating agency has also downgraded U.S. debt.

And S & P put the U.S. on a downgrade watch in April.

And as CNBC notes today:

> A U.S. default isn't a matter of "if" but "when," David Murrin, chief investment officer at [UK-based] Emergent Asset Management, told CNBC.
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> "It's inevitable that the U.S. will default—it's essentially an empire which is overextended and in decline—and that its financial system will go with it," he said.
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> The question is: Does the U.S. default when it is forced to by the outside world, probably the Chinese, or does it take the option to default on its own terms in such a way that it may have a strategic advantage, Murrin said.

And, yes, the Federal Reserve could go bust as well.

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