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Would US default be so bad? [1]

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The fact that the American government is up and running again is very bad news. Not for the obvious reason that the American government is bloated, self-serving, unproductive, and completely incapable of spending the nation's money efficiently. But for the fact that the budget deal simply postpones problems that should be squared up to.

The fact is that, with a $17 trillion debt ceiling, the American government is really deep in debt. Britain's £1.2 trillion debt [3] looks positively virtuous (which it isn't). But is Congress slicing up its credit card, reining back on its spending and cutting out luxuries, like everyone else has to do when we get into trouble? Not a bit of it. The American government is still living far beyond its means.

The deal hasn't even bought much time. It will keep the government running only until 15 January, and there will have to be more discussion (or horse-trading) on the debt ceiling from 7 February. It doesn't 'solve' anything.

If 'America' (notice how so many commentators say 'America' when they really mean its government) is determined to carry on spending as it does, then it will have to carry on adding to its debt. The only other option is to print the money it needs ? in other words, more quantitative easing. And that, of course, is very good for markets ? because the new money comes in through the financial institutions, and quite a bit of it tends to stick in the asset markets, inflating the prices of stocks, businesses, houses and the rest. So investors see the benefit even if the rest of us don't.

That might explain why the markets are so sanguine about something that is, in fact, a complete denial of financial prudence within the American government. The trouble is, as we discovered in 2008, you can put off the day of reckoning for quite a time, but eventually your imprudence catches up with you. You can carry on a bit longer by putting everything you can on the credit card, but eventually something messy is going to happen. Nobody knows when that might be. Perhaps a default in the New Year might not be such a disaster, but would make Congress realise that the books have to balance. For long-term American investors, that might actually be cheering news.

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