

The US is in “a Veritable Death Spiral. Time is Running Out!”

News:

A commentary published in the conservative Heritage Foundation on the 11th of August was titled “Default by Another Name: Why U.S. Debt Deserved a Downgrade.”

Comment:

It follows the recent downgrade of the US government’s credit rating from AAA to AA+ by Fitch. The author says that there is no imminent danger of default, “but it should not be ignored.” The US debt has surpassed \$32 trillion, and it is growing at an ever increasing rate. There must be a limit to how much the debt can grow before default becomes inevitable. The commentary noted that “interest payments alone on that much debt costs us about \$1 trillion—more than the entire Defense budget—and spending keeps growing. That is a recipe for insolvency and eventual default.”

Failure to get the debt under control will put the US “right back on the inflation roller coaster with more hidden defaults on U.S. debt.” The result will be “even higher yields, which leads to higher interest payments, which means even faster growing debt, and so on—a veritable death spiral. Time is running out before we reach the point of no return.”

The term ‘hidden default’ refers to the fact that while individuals or companies explicitly default when they cannot pay their debts, governments can “inflate their debt away by devaluing their currency.” The Heritage commentary warns that Biden is doing exactly that with the dollar having been devalued 16% over his presidency to date.

The Federal Reserve has been trying to control inflation since the end of 2021, but inflation is still much higher than the targeted 2%. At the same time the US continues to spend what it does not have and eventually someone will have to pay the price for it.

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