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Is Debt Default Good or Bad for Bitcoin?

By: www.ProfitableInvestingTips.com

The US is inching closer and closer to a possible default on its sovereign debt. No one seems to believe that lawmakers in Washington will be dumb enough to let this happen because letting the [debt crisis](#) turn into an actual default would have horrific financial effects in the US and across the world. Serious analysts contend that effects of a US debt default would include crashing the stock market and reducing the nation's credibility as a lender to zero, so it simply cannot happen. Unfortunately, no one expected the Financial Crisis, the Covid Pandemic, or Russia to invade Ukraine either. Here we are going to assume that the US sleepwalks into a default on its debts. Then we ask the question, is debt default good or bad for Bitcoin?

Is Bitcoin the Ultimate Refuge When the Dollar Collapses?

As Bitcoin rose from being worth a fraction of a cent to selling for tens of thousands of dollars per token enthusiasts told us that Bitcoin was the ultimate hedge against inflation and a safe store of value when financial chaos ran rampant across the globe. Then [crypto winter](#) set in and Bitcoin lost 80% of its value over twelve months. During that time it became apparent Bitcoin and crypto in general tracked up and down with the stock market and specifically the Nasdaq as the Federal Reserve raised interest rates and worries about a recession increased. If the US defaults on its debts and the dollar collapses (like falling by half against currencies like the euro or yen) the stock market crash will make the 2008 and Covid crashes look tame and drive prices of everything (denominated in dollars) through the roof. Will Bitcoin then act like the Nasdaq and fall or finally do what enthusiasts have been promising and retain value, thus rising by multiples against the US dollar?

Will the Government Try to Solve the Debt Problem Through Devaluation?

A common tactic of countries that have run out of money is to devalue their currency. Provided that the money they owe is payable in their own currency, it can be possible to cut the national debt by 99% or more by essentially making the old currency worthless and issuing new. Argentina has done this numerous times including once in 1992 when the new peso was now worth ten trillion (10,000,000,000,000) of the old pesos in circulation from 1970. If the US would choose this route, it would throw financial markets into a frenzy. Bitcoin would immediately be worth much more in dollars but probably not have any more purchasing power than it does today.

Will The US Government Print More Money to Cover Its Debts?

Those who want to lecture about the perils of inflation always talk about the German Weimar Republic in the 1920s where they simply printed more and more money (Deutschmarks) to cover expenses. In the end it took a wheelbarrow full of Deutschmarks to buy a loaf of bread. If the US simply printed more money to cover its debts that would drive inflation back up to levels even worse than a year ago and then the Federal Reserve would need to raise interest rates which would defeat the purpose because then US debt would cost the

country more and more every year. Inflation of the US dollar would drive Bitcoin up and higher interest rates would drive it down, like they did in 2022. A grim thought is that while a default might make Bitcoin hugely more valuable in dollars, those dollars might be worthless and Bitcoin may simply retain its purchasing power against a basket of commodities like oil and coffee.

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