



Written by [Thomas R. Eddlem](#) on January 16, 2012

S&P Signals Coming European Debt Crash

"We have lowered the long-term ratings on Cyprus, Italy, Portugal, and Spain by two notches," S&P noted in a [press release](#), and also "lowered the long-term ratings on Austria, France, Malta, Slovakia, and Slovenia, by one notch." The change for Portugal brings the nation's debt to junk bond status at [BB](#); a rating of at least BBB- is needed for investment-grade debt.

S&P [wrote](#) that the lowered ratings on sovereign debt were because of "fiscal profligacy" and poor government plans to curb that profligacy. "The policy initiatives that have been taken by European policymakers in recent weeks may be insufficient to fully address ongoing systemic stresses in the eurozone," Standard & Poor's said, stressing that "the agreement is predicated on only a partial recognition of the source of the crisis: that the current financial turmoil stems primarily from fiscal profligacy at the periphery of the eurozone."



The bankruptcies of nations on the periphery of the eurozone — such as Greece and possibly Spain and Portugal — have impacted stronger nations in part because of the bailout mechanism, the European Financial Stability Facility (EFSF). The EFSF is selling new bonds for write-downs of debt in Greece, and new debt in Ireland, Spain, and Portugal using credit provided by the more credit-worthy nations, such as the United Kingdom, Germany — and until recently — France and Austria. By leveraging their own economies with the less responsible nations, some of the stronger nations have seen their credit-worthiness decline as well. In essence, the eurozone's working economic debt philosophy has been [Karl Marx's](#) "from each according to his ability, to each according to his need."

The debt bubble is not limited to Europe; it's a global crisis. S&P [lowered the U.S. government's credit rating](#) from AAA to AA+ in August of last year because of excessive borrowing and a poor plan to end the borrowing. The S&P rating change at that time included a "negative outlook," which means that S&P believes there's a good chance the U.S. government would have its credit rating lowered again in the next two years. S&P also reduced the credit rating of Japan, which has an astonishing [220 percent debt-to-GDP ratio](#) and rising, to [AA-](#) in November of last year. By way of contrast, the U.S. debt-to-GDP ratio is just over 100 percent and Greece defaulted after it passed the 160 percent marker.

The S&P conclusions are clearly merited, but were nevertheless based upon a flawed [Keynesian](#) economic school analysis of the European economic crisis. Standard & Poor's [praised](#) the European Central Bank and its bailout organ, the European Financial Stability Facility, which has been enabling the same fiscal profligacy that S&P is condemning:



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On the other hand, we believe that eurozone monetary authorities have been instrumental in averting a collapse of market confidence. We see that the European Central Bank has successfully eased collateral requirements, allowing an ever expanding pool of assets to be used as collateral for its funding operations, and has lowered the fixed rate to 1% on its main refinancing operation, an all-time low. Most importantly in our view, it has engaged in unprecedented repurchase operations for financial institutions, greatly relieving the near-term funding pressures for banks.

Free-market economists of the [Austrian school](#) have long compared the short-term easing of sovereign borrowing as leading to a long-term crash. The euro-debt crisis was predicted by Austrian school economist [Johan Norberg](#), a Swedish national affiliated with the Cato Institute. In the award-winning 2010 film available on the web, [Overdose: The Next Financial Crisis](#), Norberg and his fellow Austrian school economists accurately predicted that the world is headed for a massive sovereign debt crisis brought on because central banks have artificially lowered interest rates.

Speculation about another gold bull market has already excited some investors, according to Bloomberg News. "Gold traders are the most bullish in two months after mainland China imported the most metal ever from Hong Kong and investors bought U.S. bullion coins at the fastest pace in more than two years," Bloomberg [reported](#) January 13. Gold has already [tripled in price since 2006](#), so only fears that sovereign nations would try to inflate their way out of the debt crisis further are likely to spike gold prices much higher.

Standard & Poor's is one of three main U.S. credit ratings companies, along with Moody's and Fitch. The credit rating for the United States and France remain at the highest levels for the other two credit ratings companies.



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