Written by **Bob Adelmann** on April 19, 2011

Standard & Poors: Clock is Ticking on U.S. Debt

Within minutes of Monday morning's announcement by the credit-rating agency Standard & Poor's that "we have revised our outlook on the long-term rating [for US government debt] to negative from stable," the Dow Jones Industrial Average dropped 200 points.

In its announcement, the agency tried to soften the blow: "The economy of the U.S. is flexible and highly-diversified, the country's effective monetary policies have supported output growth while containing inflationary pressures, and a consistent global preference for the U.S. dollar over other currencies gives the country unique external liquidity."

Nevertheless: "Because the U.S. has … what we consider to be very large budget deficits and rising … indebtedness, and the path to addressing these is not clear to us, we have revised our outlook." Standard & Poor's also stated: "We believe there is a material risk that U. S. policymakers might not reach an agreement on how to address medium- and long-term budgetary challenges by 2013; if an agreement is not reached…this would…render the U.S. fiscal profile meaningfully weaker than [its peers]."

In simple terms, *S&P* is giving Washington two years to get its act together or it will lose its cherished AAA rating and its continued ability to borrow at historically low rates. And what that means is that interest on the escalating national debt will bury Washington in an avalanche of debt service costs, putting the entire budget spiraling out of control.

Commentators were quick to note the seriousness of the potential downgrade. For example, Alan Ruskin of Deutsche Bank exclaimed, "This is a real shot across the bow for US politicians of all stripes, highlighting the necessity of coming together before the next Presidential election. Not surprisingly, bonds…sold off sharply on the news…a rating downgrade is not an empty threat, and may just usher the political establishment into necessary compromise. "

Even before Monday's announcement, Steve Rosenbush noted in the *Institutional Investor* that the Goldilocks fairy tale for government borrowing is about to come to an end: The only reason the U.S. has been able to keep its coveted AAA rating as long as it has is because it has been able to find investors willing to loan money to the federal government at low rates. Those days are now about to become history:

> As investors become more skeptical of the U.S.'s ability to meet its fiscal obligations, the ability of the Treasury to borrow at such low rates will come to an abrupt end. That could lead to a sudden and catastrophic increase in U.S. borrowing rates, slowing the economy and limiting the government's ability to spend. Control of the U.S. economy could shift from the government and the people to their creditors, mirroring the loss of fiscal sovereignty that has accompanied the

> bailouts of Greece, Ireland and Portugal.

Washington clearly hasn't found the will to do anything more about cutting government spending than dither, diddle and obfuscate. The recent battle which allegedly cut government spending by a miniscule $38 billion now turns out to have cut real government spending by far less. John Rutledge, a money manager and former Reagan administration official, noted "The spending problem is a very big deal in the U. S., Europe and Japan. Nobody has come close to dealing with it, which will require big cuts in middle class entitlement spending. For the U. S., I don't think we have the political will to fix the problem. "

Frustrated fiscal conservatives agree with Rutledge. Explaining his "no" vote on the Continuing Resolution hammered together by the House and the Senate last week, Rep. Mike Pence (R-Ind.) said, "This nation is facing a fiscal crisis of unprecedented proportions. I opposed the Continuing Resolution…because, in the face of our fiscal crisis, this budget deal is not good enough. " Senator Marco Rubio (R-Fla.) was more succinct: "I just couldn't vote for this budget deal which is a typical Washington deal. " He added:

> Our debt here is going to double in the next ten years. We have to start solving it now. We can't wait any longer. We're running out of time. And this deal just doesn't do it. In fact, it's full of a bunch of typical Washington, D.C. gimmicks. I'm just not going to be a part of that.

Even the budget proposals offered by each side of the aisle would, if either were enacted in their entirety, expand the national debt to $20 trillion from its current $14 trillion. According to Moneynews.com, total debt under President Obama's plan would reach $20.8 trillion in 2016, while Rep. Paul Ryan's plan "would need a debt ceiling of at least $19.5 trillion. "

In the absence of any likelihood of politicians growing a backbone, then, bondholders will be the ones reining in out-of-control government spending. They will refuse to allow the purchasing power of their holdings to be frittered away through inflation, and will aggressively seek to offset such risks by charging significant risk premiums. The irresistible force is about to meet the immovable object.

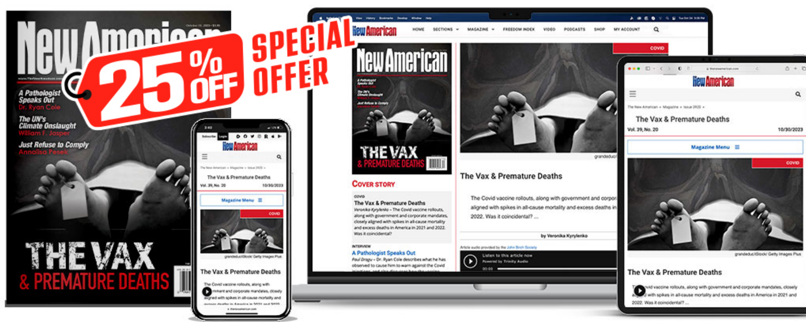
Photo: Standard & Poor's Headquarters, at 55 Water Street in New York.

Subscribe to the New American

Get exclusive digital access to the most informative,
non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



Subscribe

What's Included?

24 Issues Per Year
Optional Print Edition
Digital Edition Access
Exclusive Subscriber Content
Audio provided for all articles
Unlimited access to past issues
Coming Soon! Ad FREE
60-Day money back guarantee!
Cancel anytime.