Military Superpower and "Money Printer In Chief ": America Loses AAA Credit Rating….

By Washington's Blog
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We Americans have always thought we were different.

We thought we could launch unnecessary, imperial wars worldwide …

- *While we slashed taxes for the wealthy and big corporations*
- *While we threw trillions at our big banks*

We thought that somehow we could get away with spending like a drunken sailor, while not doing anything to stabilize our economy (which in turn deepened our debt even further).

We were wrong. See this, this, and this.

America Loses AAA Credit Rating

Today, one of the big 3 rating agencies – Standard & Poor's – downgraded America's credit from AAA to AA+ … and put the U.S. on negative outlook for a potential further downgrade in 12 to 18 months.

S&P has been warning this might happen for years.

As Reuters reported in 2008:

> The $85 billion bailout of AIG on Tuesday by the U.S. Federal Reserve "has weakened the fiscal profile of the United States," S&P's John Chambers told Reuters in an interview.
>
> "Lack of a pro-active stance could have resulted in further financial stress and put pressure on the U.S. triple-A rating," Chambers said. "There's no God-given gift of a 'AAA' rating, and the U.S. has to earn it like everyone else."

And as I noted the same year:

> A September 18 article in Bloomberg raised the possibility of a credit downgrade for the U.S.:
>
>> America's credit "profile is now weaker because contingent risks have become actual risks to the U.S. government," said John

> Chambers, managing director of sovereign ratings at Standard & Poor's in New York.

In fact, Standard & Poor's raised a possible downgrade of U.S. credit back in April. An article in Marketwatch explained:

> The performance of government-sponsored enterprises like Fannie Mae could have a direct impact on the national economy and more importantly, the credit standing of the U.S., Standard & Poor's said Monday.
>
> Fannie and Freddie, which enjoy implicit government guarantees, could cause the U.S. to lose its sterling triple-A rating if the government were forced to come to their rescue, the ratings agency said in a report.
>
> "Even though…credit damage from GSEs is unlikely, the greater risk to the U.S. lies with them than with broker-dealers," S&P noted.
>
> The demise of Bear Stearns Cos. – and the Federal Reserve's extraordinary efforts to alleviate strains at broker dealers – has captured the attention of market participants who feared that the financial system would seize up last month.
>
> S&P, however, noted that while this credit crunch has caused financial markets to swoon, it hasn't threatened the standing of the nation's credit quality upon which U.S. Treasurys and the debt priced off this government debt depend.
>
> But should a protracted recession cause Fannie and Freddie to buckle, S&P said, the U.S. rating would be in danger.

Of course, Fannie and Freddie did buckle, and the government was forced to take them over. Indeed, even after the takeover, Fannie just announced a $29 billion dollars loss. In many other ways, the health of the U.S. economy is much worse than it was in April, and the U.S. is spending literally trillions of dollars it doesn't have on corporate bailouts.

A 2005 article in Lew Rockwell called "Should the US Government's Sovereign Credit Rating be Downgraded to Junk?" provides some details of how credit rating agencies assign credit ratings to countries:

> When examined objectively, one could make the case that Uncle Sam's sovereign credit rating should be downgraded ….

The article then analyzes the U.S. economy using 8 traditional credit-rating factors, and concludes that the U.S. has performed abysmally in all 8:

> Having gone through all eight variables, it should be obvious that both Moody's and Standard & Poor's have grossly overrated America's sovereign debt – it doesn't merit the top grade of AAA. In variables such as default history, inflation, external balance, external debt, and economic development, the U.S. should rate significantly lower than does Japan – and should rate worse in

> many variables as compared to a developing country such as Botswana.

So why hasn't America's credit rating been downgraded?

Well, a report by Moody's in September states:

> "In superficially similar circumstances, the ratings of Japan and some Scandinavian countries were downgraded in the 1990s.
>
> ***
>
> For reasons that take their roots into the large size and wealth of the economy and, ultimately, the US military power, the US government faces very little liquidity risk — its debt remains a safe heaven. There is a large market for even a significant increase in debt issuance."

So Japan and Scandinavia have wimpy militaries, so they got downgraded, but the U.S. has lots of bombs, so we don't? In any event, American cannot remain a hyperpower if it is broke.

Any way you look at it, America's credit rating will be downgraded. Its just a question of when.

Other Rating Agencies Also Downgrade U.S. Debt

Another American government-endorsed rating agency – Egan-Jones – downgraded U.S. credit last month.

And large German and Chinese rating agencies have also downgraded U.S. credit.

Moody's Playing Games

While Moody's hasn't yet downgraded U.S. debt, it has gone to extraordinary lengths to play games to keep the AAA label. As I pointed out in 2009:

> Instead of downgrading the sovereign credit ratings of the U.S. and the UK, Moody's is instead playing games.
>
> Remember, Moody's is one of the credit rating agencies which "sold their soul to the devil for revenue", fraudulently inflating the ratings of failing corporations.
>
> Moody's has just created 3 subcategories of AAA sovereign debt, with the highest subcategory – "resistant" – being reserved for Germany, France, Canada and the four Scandinavian countries.
>
> The U.S. and UK are placed a notch down in the "resiliant" category.

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