

# Will America lose it's triple-A bond rating?

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If one would like to consult the magic eight ball or be a bettin-man, sorry, bettin-person, the answer would most likely be yes. But are we really at risk and if we are, what would the ramifications of a reduction in our government's, (our country's) debt rating be?

## Are we at risk?

Financial ratings are how the global free market gauges financial safety associated with a debtor and in some instances individual bond issuances of a debtor. Many factors go into calculation of a debt rating, most of which focus on characteristics of an institution issuing bonds.

## Why is the rating important?

The primary factors are of course financials and to a greater degree than most would think, the reputation of the debtor being rated. The debtor needs to embody a financial "street-cred" that says; "Hey, don't worry, buy my bonds, look at my financials, look at my reputation."

With solid financials and credibility verified by a non-bias rating service, an investor can feel safe in then buying these bonds and take comfort that the issuing debtor has is able to, and has a superior history of, interest and principle payment. Some other factors used in the calculation are the debtor's interest payment and principle repayment schedules – how livable are they.

## Where are we now?

The United States Government has, since 1917, held a triple-A rating and represented the global gold standard for credit worthiness among countries and companies alike. But, degradation of the financial fundamentals of our government has unfortunately brought us to the point where our ability to repay our debts (bonds) is now in question. Our ability from a financial standpoint is in such question so drastically that our *best-of-the-best* reputation is also being questioned.

As interest rates edge up even further lower economic growth will follow so as not to heat up the economy and trigger rampant inflation. Throw into the mix that Social Security, Medicare and Medicaid will collapse our economy very soon unless restructured immediately, along with the fact that every unimaginably large sum of money borrowed, in the form of bonds, by our government, technically decreases the likely-hood of repayment to lenders (foreign governments, institutional funds, etc.) and you've got one bad-day for the U.S.

Financial markets were shaken last Friday when Britain was actually warned by Standard & Poor's Ratings Service that the massive debt it incurred in trying to dig itself out of its economic crisis may end in the loss of its triple-A rating. As we are in a similar financial situation as Britain, this move by S&P could signal what's next for us as well.

On Thursday May 10th the U.S. struggled to find buyers for its' bonds, pushing long-term rates up by 15 basis points to 4.26 per cent. The following morning the Dow Jones Industrial Average was down more than 200 points at its intraday low and finished with a 129.91-point decline, off 1.5%, at 8292.13. Mary Ann Hurley, vice-president of fixed-income trading at D.A. Davidson & Co in Seattle told Reuters; "It was a horrible auction" - "It just does not bode well for interest rates. It's ugly, it's very, very ugly."

The International Monetary Fund said that the four biggest issuers are chasing 4 trillion U.S. dollars this year, which raises the question of if there are enough buyers out there. The IMF has also expressed concern that the total volume of bond issues from major countries will crowd out smaller and less credit worthy issuers.

Rep. Frank Wolf, R-Va., said in an interview, "There's an economic hurricane on the radar and it's ready to wipe us out." Wolf also introduced a measure in the last Congress to form a commission to handle the matter but failed to gain support of either President George W. Bush or the then-Treasury Secretary Henry Paulson.

Last Friday Wolf raised the prospect that our country's triple-A bond rating may be jeopardized if Congress doesn't act soon on stabilizing Social Security, Medicare and Medicaid. Wolf worked together with Rep. Jim Cooper, D-Tenn., a Blue Dog Democrat, on the bill.

Associated Press Writer, Tom Raum says that currently; The commission idea is being strongly resisted by House Speaker Nancy Pelosi, D-Calif., and some influential committee leaders who see it as an end run around the normal legislative process.

### **What would it mean to the United States?**

If The United States' bond rating is reduced the result could conceivably be catastrophic to the American people. A decline in value of issued bonds and bonds to be issued would cause; a massive drop in the U.S. dollar, a modest increase in interest rates (speculations range from moderate to hyperinflation), further slowed economic growth, much-higher costs to do business and in cost of living, etc.

### **What's needed and can it happen?**

The answer is obvious, painful, but obvious. Our country needs major spending scale-backs – the likes of which we have not seen in our lifetimes, restructuring of debt-laden problem programs like Social Security, Medicare and Medicaid, and an end of the big-government, socially progressive and entitlement mentalities.

As an optimist and a man of faith, I believe that anything is possible. I believe in the limitless resourcefulness, perseverance, tenacity and innovativeness of America, the people, not the government. With the tools and individual personalities that this great country is made up of, I am certain that there is no obstacle created by our own hand which we cannot overcome.

That being said, the only obstacle to the strict common sense approach is politics. Let us hope that the Obama administration realizes soon that the U.S. financial situation is in far more a dire condition than they may have previously thought, and that the President takes appropriate a-political steps to ensure our great country's place in the global market.

If he does not, America will fade into the politically adjusted history books, just another one hit wonder Like Norman Greenbalm (Spirit In The Sky) or Thomas Dolby (She Blinded Me With Science).

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