## They Say: “Deficit Spending Will Cause A Credit Downgrade”—1st Line

### No risk of a credit downgrade—it’s not in the banks’ self-interest.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“What explains a Moody's change?,” *The Guardian*, March 23rd, Available Online at http://www.guardian.co.uk/commentisfree/cifamerica/2010/ mar/23/us-debt-rating, Accessed 03-25-2010)

There is one way in which the public can better recognise what Moody's motivations may be. All banks, including giants like Citigroup and Goldman Sachs, hold huge amounts of US government debt. They are also reliant on the US government for all sorts of reasons, including potential bailouts. If the US government were to default on its debts, then it would almost certainly wipe out every major bank in the country. There is no plausible scenario in which the US government defaults on its debts and the banks will still be able to make good on their debt payments.

This means that if Moody's were to downgrade the government's debt, to be consistent it must also downgrade the debt of Citigroup, Goldman Sachs and the other big banks. If Moody's downgrades the government's debt, without downgrading the debt of the big banks – or even threatens to downgrade the government's debt without also threatening to downgrade the debt of the big banks – then it seems more likely that it could be acting in pursuit of Wall Street's political agenda than presenting its best assessment of the creditworthiness of the US government.

## They Say: “Deficit Spending Will Cause A Credit Downgrade”—2nd Line

### Extend that there’s no risk of a credit downgrade.

All banks hold huge amounts of U.S. debt and are reliant on the government—this makes government credit an existential necessity for *literally* every bank in the country, so they will not allow it to be downgraded. Our *Baker* evidence explains that fears of a downgrade by Moody's are just political scare tactics—you should not consider this argument when determining U.S. macroeconomic policy.

### And—current investor behavior proves our argument—don’t believe the hype.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Budget Deficit Scare Story and the Great Recession,” Center for Economic and Policy Research, February, Available Online at http://www.cepr.net/documents/publications/deficit-2010-02.pdf, Accessed 04-26-2010, p. 7)

The main argument made against additional stimulus at this point is that it would jeopardize the standing of the U.S. government in financial markets. This assertion seems to contradict the current behavior of financial markets, where long-term Treasury debt continues to be held at very low yields. If financial markets questioned the ability of the U.S. government to honor its debt, they should already be demanding a premium on longer-term issues, like 10-year or 30-year Treasury bonds. As it stands, these bonds continue to trade at interest rates that are near post-World War II lows. In other words, the investors who are actually betting on the financial health of the U.S. government don’t seem to share the fears of the policy analysts and economists complaining about the deficit.

### And—reject the deficit terrorism of the ratings agencies—sovereign U.S. debt can only be rationally rated Triple-A.

Wray 10 — L. Randall Wray, Professor of Economics at the University of Missouri-Kansas City, Research Director with the Center for Full Employment and Price Stability, and Senior Research Scholar at The Levy Economics Institute, with Yeva Nersisyan, Ph.D. Candidate in Economics and Math and Statistics at the University of Missouri–Kansas City, 2010 (“Neoliberal Deficit Hysteria Strikes Again,” *New Economic Perspectives*, March 22nd, Available Online at http://neweconomicperspectives.blogspot.com/2010/03/neoliberal-deficit-hysteria-strikes.html, Accessed 03-25-2010)

The ratings agencies are another matter altogether. These blessed every kind of Wall Street excess with triple A ratings. They never saw a NINJA loan they did not love. Yet, they are engaged in an ugly form of deficit terrorism, attacking one country after another, downgrading debt, raising interest rates and causing budget deficits to rise, which then pushes up credit default swap prices and triggers further downgrades. Ratings agencies serve no public purpose. They are thoroughly incompetent, and probably irredeemably fraudulent. They should be shut down, investigated, and prosecuted.

President Obama and PM Brown should “just say no” to the attempted intervention by these fundamentally misguided deficit hawks into their economic and political affairs. Not only would fiscal tightening now or even within the next several years be a monumental mistake, the notion that continued deficits threaten our economies is unsound. In the remainder of this piece we will briefly explain why. What these Neoliberals do not understand is that the UK and US operate with sovereign currencies—that is both of these nations issue their own non-convertible (floating exchange rate) currencies. For this reason the comparison with any nation that uses the Euro (such as Greece), or with a nation that pegs to precious metals or foreign currencies is invalid. In other words, there is no question of solvency or sustainability of deficits for the US and UK. Sovereign debt of these nations never carries default risk and hence cannot be rated below triple A.

### And—the bond ratings agencies have no credibility—their threats are politically motivated.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“What explains a Moody's change?,” *The Guardian*, March 23rd, Available Online at http://www.guardian.co.uk/commentisfree/cifamerica/2010/ mar/23/us-debt-rating, Accessed 03-25-2010)

Moody's and the other bond rating agencies have featured prominently in the build-up to the financial crisis. These agencies gave investment grade ratings to complex financial instruments filled with subprime mortgages and other bad assets. These ratings allowed Goldman Sachs and other investment banks to sell this trash around the country and the world, ensuring that the effects of the collapse of the housing bubble would reverberate throughout the financial system.

It was not just incompetence that caused Moody's to misunderstand the quality of the issues it was rating. Moody's and the other bond-rating agencies were getting paid by the banks whose assets that they were rating. The bond-rating agencies knew that these companies wanted investment grade ratings for their issues. As one examiner for Standard and Poor's said in an email, they would give investment grade ratings to products "structured by cows".

This record must be kept in mind when considering the possibility of a Moody's downgrade of US government debt. It is no secret that many on Wall Street would love to see social security and Medicare cut back or even privatised. Investment banker Peter Peterson has even committed $1bn toward promoting this agenda. When Moody's threatens to downgrade US government debt, or if it actually does so, it may reflect its actual assessment of the creditworthiness of the US government or it could be a reflection of the Wall Street agenda to cut back these key public programmes.