Geithner Won't Resign After S&P Downgrade of U.S. Securities

On Friday, Standard & Poor's kept its word and downgraded the U.S. credit rating for the first time in history — from AAA to AA+. The action came because the debt bill passed last week is not considered stringent enough to stabilize the debt crisis. Treasury Secretary Tim Geithner (left) has already railed against the credit agency, saying it has shown "terrible judgment" in its decision, but some are using the rating downgrade to call for Geithner's resignation, a move that Geithner had already been considering. At the behest of President Obama, however, Geithner has decided to stay for now.

"Secretary Geithner has let the president know that he plans to stay on in his position at Treasury," Jenni LeCompte, assistant secretary for public affairs, said in a statement today in Washington. "He looks forward to the important work ahead on the challenges facing our great country."

Bloomberg reports:

> Geithner, the last remaining member of Obama's original economic team, made his announcement after months of speculation over his future. He told White House officials this year that he was considering leaving once a deal to raise the nation's borrowing limit deal was reached. Obama signed an increase in the limit on Aug. 2.

"The President asked Secretary Geithner to stay on at Treasury and welcomes his decision," said White House Press Secretary Jay Carney.

Some analysts believe it may be best for Geithner to maintain his post as an indication of some stability in an already tumultuous economic climate.

Drew Matus, senior U.S. economist at UBS Securities LLC, said, "His leaving would have been viewed as negative following the S&P downgrade."

Similarly, Dan Greenhaus, chief global strategist at BTIG LLC, remarked, "In the middle of this crisis, Geithner probably doesn't want to roil markets anymore than they have already been, so it's best to just say you're staying for now even if you are ultimately planning on leaving."

But a number of politicians have demanded Geithner's resignation following S&P's announcement, and S&P 500 Index of stocks plummeting 7.2 percent over the last week.

For example, Republican Senator Rand Paul called on Geithner to step down, asserting that he is guilty of "gross mismanagement of federal economic policy and his role in the first-ever downgrade of United States' debt."

Likewise, Minnesota Representative and GOP presidential hopeful Michele Bachmann appeared on Fox News and declared,

> I call on the president to seek the immediate resignation of Treasury Secretary Tim Geithner and to submit a plan with his list of cuts to balance the budget this year, turn the economy around and put our people back to work. I'm very concerned that the administration tomorrow might look for anyone else to blame. They may blame the Tea Party, they may blame the ratings agency or anyone else. They knew it was coming this year in January but they didn't write a plan and they still don't have a plan.

Bachmann had it right. Following S&P's lowering of the U.S. government's credit rating, Geithner immediately turned on the credit agency. "They've handled themselves very poorly. And they've shown a stunning lack of knowledge about the basic U.S. fiscal budget math," Geithner said in his first public comments about the Standard & Poor's decision.

According to Geithner, U.S. Treasury securities are as safe now as they were prior to the credit downgrade, and he predicts that foreign investors will continue to purchase U.S. government debt confidently.

Financial expert Peter Schiff [contends](#), however, that Geithner is entirely incorrect in his positive outlook on the economy:

> The fiscal situation is going to deteriorate because we are either in or on [the] cusp of a brand new recession. And remember, contrary to previous recessions, this one is starting, starting with unemployment above 9 percent, starting with interest rates already at 0, so imagine what's going to happen when we get to the next round of fiscal stimulus. They're going to blow the deficit off the charts. And of course, the Fed[eral Reserve] can't do anything on the rate front, all they can do it print more money, which destroys the value of U.S. bonds.

In addition to claiming that Geithner is wrong in his optimistic assertions, Schiff asserts that S&P's downgraded credit rating is far too humble:

> [S&P] did the right thing and downgraded them. I think the only thing S&P did wrong is that they didn't downgrade them far enough. They did leave it at an AA+ with a negative watch, and they did mention that they might bring it down to an AA in the next couple of years if the fiscal situation deteriorates, which it surely will, but I don't think the U.S. deserves to be AA+. After all, New Zealand is AA+. The New Zealand dollar is making record highs. The net public debt in New Zealand is about 10 percent of the GDP. They're far more solvent than the United States. I would much rather buy New Zealand government bonds than U.S. treasuries.

Geithner also took the opportunity to criticize S&P, as well as the other rating agencies, for missing the 2008 financial crisis and continuing to give top ratings securities backed by subprime mortgages.

"Look at the quality of judgments they've made in the past," said Geithner.

Schiff addresses this as well, asserting that if anything, it proves that the credit agencies often give ratings that are far too high, proving his original point that an AA+ rating is far too generous. He explains:

> If you are going to question their credibility, it's based on the fact that their ratings are too high. That they often base their ratings on political considerations or conflicts of interest that don't render their opinion truly objective. So if you're going to question S&P, and of course, you've got

> to question Finch and Moodys, it's not because they're rating the U.S. government too low, it's because they are rating it too high. Because that was the mistake they made with subprime. They put too high a rating on a security, not too low.

For months, S&P had warned that they would downgrade the U.S.' credit rating if Congress could not reach a deal that would achieve $4 trillion in deficit reduction, which they did not.

Geithner has not yet remarked on whether the credit rating decrease will impact interest rates, but has continued to tout optimistic and unrealistic claims.

"I think everyone can be confident around the world, that Treasuries are the…most liquid, the strongest place to put your money at a time like this," he said.

He also indicates that he has "absolutely no concern" that China will stop buying U.S. debt.

However, as noted by *The Blaze*, "A critical editorial by China's state-run news agency on Saturday said that the United States must 'cure its addiction to debts.' "

Just last month, Geithner said, "We can say with confidence today that the American financial system is in much stronger shape because of the actions we took, the strategy we embraced to resolve the crisis, but also because of the progress we made in implementing the basic foundations, the reforms in Dodd-Frank."

Most others recognize, however, that the bailouts and the Dodd-Frank bill have failed to make enough of an impact to prevent the United States from having to rescue financial institutions again in the near future.

Mark Calabria of the Cato Institute observes, "He's had a long career of embracing too-big-to-fail. He's done almost nothing to control the moral hazard created by the federal safety net."

As Geithner continues to don his rose-colored glasses, others are beginning to recognize just how dire the straits in which the United States economy finds itself are. One wonders why President Obama has asked him to stay on in his post, particularly as confidence in his abilities to recognize impending economic crises is practically non-existent, and as his record of being wrong continues to grow.