U.S. Debt Downgrade by Chinese Rating Agency Is "Inevitable"

This would bring the Chinese agency's rating on U.S. sovereign debt to BBB, "medium high rating" or just one notch above "junk."

When Standard and Poor's downgraded its rating on the U.S. sovereign debt from AAA to AA+ back in August, it expressed a dim view of the Budget Control Act that allowed for an increase in the national debt limit while doing little to tackle out-of-control spending: "The fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics." Moreover:

> We also believe that the fiscal consolidation plan that Congress and the Administration agreed to this week falls short of the amount we believe is necessary to stabilize the general government debt burden by the middle of the decade…
>
> As we see it, the resulting agreement fell well short of the comprehensive fiscal consolidation program [needed] … while delegating to the Select Committee [the Supercommittee] decisions on more comprehensive measures.

Not optimistic about the federal government's efforts to tackle the debt problem, Standard and Poor's warned: "We could lower the long-term rating to AA within the next two years."

Even if the Supercommittee is able to come up with the mandated amount of cuts in future spending projections ($1.2 trillion over 10 years) by next Wednesday's deadline, S&P said that it wouldn't bend the curve significantly even when compared to the United States' peers — Canada, France, Germany and the United Kingdom — noting that even with such an agreement, "the trajectory of the US's public debt [will continue to] diverge from the others."

The Chinese rating agency is pulling its punches. If the United States were rated as a corporate or a municipal bond, its debt wouldn't even be rated. As explained by Lew Rockwell:

> Imagine that the Federal Reserve were not in a position to pay everyone from welfare recipients to banksters with newly created money. Under such actual market conditions, federal debt would not be rated AA+. It would be worth even less than junk bonds. In fact, it wouldn't even quality for a market rating at all, because it would be utterly worthless and the institution that issued [the rating] would be in default [as well] and the whole rotten apparatus of the state would be seen to be bankrupt at its very core, in every sense.

Peeling away the rhetoric by Dagong and Standard and Poor's, one is left with the sense that it's just a game, a charade, a velvety mist designed to look substantive in its seriousness. The Budget Control Act agreement that Congress and the President agreed to last August did not prevent the United States' GDP from being overtaken by the growth of the national debt. In fact, there are no signs that the debt crisis will even improve. Recognizing the true nature and size of the liabilities created by the government, it is clear that these rating agencies, while threatening future downgrades, are nonetheless playing a game by pretending that federal debt qualifies for anything even close to the ratings they currently assign.

As Rockwell stated: "Let S&P and many more competitive rating agencies go to town on US bonds and rate them as they would any bond in the private sector or even the public sector not backed by a printing press. Let reality speak, and let us listen."