Impact of S&P's Announcement on Debt Ceiling Debate

Despite the White House's contentions that the United States economy is improving, Standard & Poor's recent decision to change its outlook on U.S. fiscal health over the next two years from "stable" to "negative" tells a different tale. Besides the obvious impact such an announcement would have on the economic recovery, as well as the stock market, it also appears to play a role in the current debate over a potential raise of the debt ceiling.

Debate over the debt ceiling was already intense prior to the innate pessimism of Monday's announcement from S&P and what it implies about Washington's ability to solve the debt crisis. Now the S&P declaration seems to confirm what fiscal conservatives have asserted all along, and has helped those conservatives affirm their position on the deficit and the debt ceiling.

"Serious reforms are needed to ensure America's fiscal health," said House Majority Leader Eric Cantor, who called S&P's decision a "wake-up call to those in Washington asking Congress to blindly increase the debt limit."

The proximity of S&P's decision to the time in which America is expected to reach the debt ceiling unexpectedly impacts the debate over the debt ceiling. Fox News reports:

> Republicans have called for attaching spending reductions to any increase in the debt limit, which nearly has been reached at over $14 trillion, but the White House has warned that failing to increase the limit in the coming months could be ruinous for federal finances and the economy as a whole, because the nation's creditors may lose confidence in the United States' ability to pay its debts.

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Even as the stock markets tumbled in light of S&P's announcement on Monday, White House Press Secretary Jay Carney asserts that the political process will prove the agency wrong. Likewise, the Obama administration declared S&P's decision to be short-sighted. Mary Miller, assistant secretary for financial markets at the Treasury Department, said, "Both political parties now agree that it is time to begin bringing down deficits as a share of GDP. We believe S&P's negative outlook underestimates the ability of America's leaders to come together to address the difficult fiscal challenges facing the nation."

Evidence to the contrary, however, precludes Miller's conclusion that both parties recognize the importance of bringing down deficits. For example, the most contentious battle the American people have witnessed regarding the deficit during this administration took place just one week ago, when

Democrats and Republicans nearly shut down the federal government over a meager $38 billion. While $38 billion already appeared to be an absurdly low figure, particularly as it nearly brought about a government shutdown, the agreement became an even larger embarrassment when it was later revealed that the true spending cuts found in the deal were merely $352 million.

Money manager and former Reagan administration official, John Rutledge, addressing the deal struck between the Democrats and Republicans last week, said, "The spending problem is a very big deal in the U.S. Europe and Japan. Nobody has come close to dealing with it, which will require big cuts in middle class entitlement spending. For the U.S., I don't think we have the political will to fix the problem."

Meanwhile, as the United States approaches its debt ceiling, the American people are forced to rely upon the efforts of these politicians. Fortunately, not all of the lawmakers are quite so petty or deceitful. Republican Congressman Ron Paul of Texas, for example, contends that there is no reason for an increase to the debt ceiling.

"I wouldn't raise the debt ceiling. I never vote for the spending, so I'd hardly want to accommodate the big spenders. We should be, you know, live within our means. And you'd be forced to do it that way," Paul asserts. "And of course…you'll hear the fear mongers. They've already started. 'The end of the world is coming.' "

Similarly, Republican Senator Jim DeMint of South Carolina has already threatened to block a vote in Congress on raising the debt ceiling unless Congress adds a balanced-budget amendment to the Constitution.

Tom Coburn, (R-Okla.) contends that Republicans are looking to secure commitments to spending cuts before agreeing to raising the debt ceiling, declaring Monday's S&P announcement a "warning of the dangers for the perfect political moment to tackle our debt crisis."

He adds, "It's time for both sides to drop their partisan talking points and decide that we can do together while we still control our own destiny. If we refuse to negotiate within our own government, we will soon find ourselves negotiating with foreign governments and the international financial community on terms far less favorable than we enjoy today."

Despite the Republican opposition, Treasury Secretary Tim Geithner (picture, above) recently encouraged Republican leaders to privately assure the White House that it would ultimately vote to raise the $14.3 trillion ceiling, regardless of spending cuts.

Carney took the opportunity to assert, "The issue here is the debt ceiling has to be raised, and it cannot be held hostage to a process that is very complicated and difficult. We hope we will reach an agreement on deficit reduction — a bipartisan agreement on deficit reduction within the time frame. We believe that's possible."

America's deficit has not only proven to be problematic for its economy and for job growth in the United States, it also impacts the global role of the United States. At the Bretton Woods II Conference held two weekends ago in Bretton Woods, New Hampshire, billionaire leftist George Soros declared that the U.S. dollar should no longer be the reserve currency.

Reporting on the conference, the *Russian Times* explained the concerns articulated by global leaders at the Bretton Woods conference regarding the health of the American economy, and why these leaders did not feel confident that the United States should be taking the lead:

> We also see it in the terms of debt and deficits…Now you see the toll in trillion dollar deficits held by countries like the United States, which is $14 trillion in debt. And you also hear this come in to play when you talk about a crisis in confidence of political leadership, which you just saw in the United States the government come to a near shutdown because it could not get a budget passed and they did it the very last minute, and they cut $38 billion through the rest of 2011. This is nothing to dent the United States deficit problem. The United States runs more than a $1 trillion deficit each fiscal year…which isn't being dealt with by political leaders.

Whether the United States in fact wants to play a role in the new world order that Soros and global leaders are hoping to create — the same that was discussed at the Bretton Woods conference — is another story. However, it is certainly disheartening to hear nations articulate the very same concerns about the American recovery that the American people have quietly feared for so long.

Will politicians consider S&P's announcement when debating the debt ceiling? One can only hope.