Moody's: US And UK May No Longer Be "Triple-A"

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Sovereign debt problems in Dubai, Ireland, and Iceland have forced the credit rating agencies to keep a sharp eye on national debt. There have been some warnings that high deficits in the UK might cause its debt to be downgraded from "Triple-A" status.

Moody's is looking at the debt of both the US and UK and does not like what it sees, according to recent data from the credit agency

According to The Wall Street Journal, "Moody's released the report as part of an effort, spurred by investor demand, to examine the creditworthiness of the world's most highly rated countries. There are 17 such "triple-A"-rated countries, ranging from the U.S. to Australia." US debt could be downgraded within three or four years.

In theory, a lower debt rating would mean that the federal government would have to pay higher interest rates on money it borrows in the global capital markets.

The rating of US debt will obviously be based on whether the economy rebounds enough so that the government can cut spending and the size of the national debt no longer grows at break neck speed.

The problem the US has is a "Catch 22?. It can raise taxes and hope that Treasury receipts will improve so the federal government can cut its pool of red ink. Higher taxes could push down corporate profits and personal earning power, driving the economy back into a recession. The results of that recession would almost certainly be a renewed call for federal stimulus spending and lower taxes.

The government could also increase stimulus spending now making the gamble that pushing enough liquidity into the market and creating jobs will put GDP back on a 3% or 4% growth path next year and in 2011. That may work, and if it does, the rising tax base will help decrease the size of the deficit and make it possible that the national debt could actually begin to fall toward the end of the next decade.

The US has two choice, both fundamental and time-honored approaches to cutting deficit spending long-term. Unfortunately, there is no way to predict which will work which means the US debt rating and the interest rates Americans may have to pay are both at risk.

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