The Daily Dish

Fitch Downgrades the U.S.

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The Fitch rating agency downgraded U.S. Treasury debt from AAA to AA+. In doing so, it highlighted:

1. The U.S. has high and rising debt. "The GG [general government] debt-to-GDP ratio is projected to rise over the forecast period, reaching 118.4% by 2025. The debt ratio is over two-and-a-half times higher than the 'AAA' median of 39.3% of GDP and 'AA' median of 44.7% of GDP. Fitch's longer-term projections forecast additional debt/GDP rises, increasing the vulnerability of the U.S. fiscal position to future economic shocks."
2. The U.S. has no plan to address the debt. "Medium-term Fiscal Challenges Unaddressed: Over the next decade, higher interest rates and the rising debt stock will increase the interest service burden, while an aging population and rising healthcare costs will raise spending on the elderly absent fiscal policy reforms." Additionally, "the 2017 tax cuts are set to expire in 2025, but there is likely to be political pressure to make these permanent as has been the case in the past, resulting in higher deficit projections."
3. U.S. governance has deteriorated. "In Fitch's view, there has been a steady deterioration in standards of governance over the last 20 years, including on fiscal and debt matters, notwithstanding the June bipartisan agreement to suspend the debt limit until January 2025. The repeated debt-limit political standoffs and last-minute resolutions have eroded confidence in fiscal management."

Fitch is right. The first two observations are indisputable. Effective governance is squishier, but one could make the case.

The Biden Administration's response has been to shoot the messenger. It is arguing that Fitch is playing politics and complaining especially about the timing. Secretary Yellen

argued that Fitch had begun flagging governance issues in 2018, so why downgrade now? Council of Economic Advisers Chair Bernstein was even more blunt, arguing that there should have been a downgrade under President Trump. Even more hilariously, he argued that the Fiscal Responsibility Act (FRA) represented a real effort to deal with the problem. Mind you, the FRA did not touch taxes, did not touch mandatory spending, and relies on discretionary spending caps to control the part of the budget that is not a threat at all. And Congress regularly spits the bit on caps and other efforts at "self-control." Believing in the FRA is like believing in the tooth fairy, Easter Bunny, and Santa Claus.

A better response would be for the White House to display some actual leadership and develop a real plan that addresses the core fiscal problems: Social Security and Medicare. Its current approach is pure pandering politics: Nobody should touch Social Security and Medicare. That is an abdication of the most basic responsibility of public service.

Yes, the Fitch downgrade inconveniently shines a light on the administration's appalling fiscal record. So, it will rally its cadre of apologists and conduct a scorched-earth effort to undercut Fitch. But it won't deal with the problem, and because of that, someday AA+ is going to look good.