Insight

The Downgrade: What It Is and What It Isn't

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Before we commence beating our breasts over the credit downgrade, we should all agree on exactly what precipitated the downgrade.

The one thing that most definitely did *not* factor into this decision was the just-in-the-nick-of-time outcome of the debt-limit negotiations. Despite the dire warnings of the pundits and Democrats — but I repeat myself — that a technical default would unleash untold damage to our economy, the market didn't believe that for a minute. Was there even *one* person who seriously thought the U.S. government would make its bondholders take a haircut before this was resolved?

No, the trigger of the downgrade was the outcome itself. At the end of the day, the cuts signed into law were a few hundred billion dollars of opaque cuts well into the future that could easily be rescinded by a future Congress. The so-called supercommittee tasked to find another trillion dollars or so of cuts will not likely dance around any reductions in entitlement programs, and this is what spooks the credit-rating agencies — and the markets.

Despite a widespread agreement that our fiscal gap needs to be closed, and a supposed fear on the part of the Democrats that the Republicans are willing to crash our precious financial markets (and the economy with them), the Democrats are resolved to never, ever, *ever* do a thing to fix the rapidly growing costs of Medicare, Medicaid, or Social Security. They're okay with taxing the wealthy more, but making them pay a bit more for Medicare benefits or reducing the growth of their Social Security checks precipitates a fight to the death. It is hard to see how we can get entitlement reform without at least 50 Republican senators — probably four or five more would be necessary. And it is hard to see how we get there. Fiscal collapse is more likely to occur than a Republican supermajority — and after the debt-ceiling deal, it is looking more and more likely.

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