S&P cuts US debt outlook

Uncle Sam could lose top credit rating without changes

By Paul Wiseman
THE ASSOCIATED PRESS

WASHINGTON — A key credit agency issued an unprecedented warning to the United States government Monday, urging Washington to get a grip on its finances or risk losing the nation's sterling credit rating.

For the first time, Standard & Poor's lowered its long-term outlook for the federal government's fiscal health from "stable" to "negative" and warned of serious consequences if lawmakers fail to control the massive federal deficit.

An impasse could prompt the agency to strip the government of its top investment rating in the next two years, S&P said. A loss of the triple-A rating would ripple through the American economy, making loans more expensive and credit more difficult to obtain.

The downgrade was interpreted as a rebuke to President Barack Obama and congressional Republicans, admonishing them to put politics aside and come up with a long-term plan.

Analysts at S&P have never before used the outlook to cast doubt on the nation's credit worthiness.

In response, stocks suffered their worst slide in a month. The Dow Jones average plunged 245 points before recovering to close down 140 points for the day.

"The credit quality of U.S. debt is sacrosanct, and legislators will do everything within their power to avoid a downgrade," said Jack Ablin, chief investment officer at Harris Private Bank.

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RATING THE RATERS

Despite failure during housing crisis, ratings agencies still pack financial punch. 9A

RATING

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The government is on pace to run a record $1.5 trillion deficit this year, the third consecutive deficit exceeding $1 trillion.

But so far, S&P sees little chance of an agreement on a deficit-reduction plan before the November 2012 elections, and the rating agency doubts any plan would be in place until 2014 or later.

Obama and congressional Republicans are sparring over how to reduce the nation's red ink. If Congress refuses to raise the nation's debt limit this spring, and the U.S. Treasury lost authority to borrow more money, the government could not pay its bills and would default on its debt.

Although it's a worst-case scenario that's highly unlikely, default by the government means anyone owning federal debt of any kind — bills, notes, bonds — could go unpaid.

Both sides have proposed cutting $4 trillion from future deficits over the next 10 to 12 years.

The White House wants to cut the deficit through spending cuts and by ending the Bush-era tax cuts for the wealthy. Republicans seek to narrow the deficit largely by overhauling Medicare and cutting spending elsewhere.

The credit report called the proposals a "starting point" for the process but warned the gap between them remained wide.

S&P took no position about how to reduce the deficit or how to change spending plans.

A lower credit rating would drive up the government's borrowing costs. It could lead to higher interest rates on everything from mortgages to car loans and threaten to slow U.S. economic growth.

For now, S&P continues to give the U.S. government its top investment ranking. But the agency says the U.S. faces a one in three chance of a downgrade in the next two years.

The other major credit agencies — Moody's and Fitch Ratings — did not match S&P's warning.

S&P gives its top investment rating to just 19 of the 127 countries it analyzes.

S&P said the U.S. deficit grew to 11 percent of economic activity in 2009. The deficit averaged less than half that in the previous six years.

The government had surpluses at the end of the Clinton administration. But deficits returned after President George W. Bush's tax cuts, a 2001 recession, wars in Afghanistan and Iraq, and a massive expansion of Medicare's drug coverage.

The deficit widened even more after the Great Recession started in 2007, depleting tax revenue and raising spending to stimulate the economy and provide benefits for the unemployed and the poor.

S&P warning: Fix deficit or risk credit rating

BY PAUL WISEMAN
ASSOCIATED PRES

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The downgrade was interpreted as a rebuke to President Barack Obama and congressional Republicans, admonishing them to put politics aside and come up with a long-term financial plan as soon as possible.

"This is a warning: Don't mess around," said Robert Bixby, executive director of the Concord Coalition, a nonpartisan group that is pushing for deficit reduction.



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House Budget Committee Chairman Paul Ryan, R-Wis. gestures during a news conference at the Capitol in Washington. Standard & Poor's Ratings Service downgraded its outlook Monday on the United States' sovereign debt, expressing unprecedented doubts over the ability of Washington to bring the massive federal budget deficits under control in the next three years. He is flanked by Rep. Diane Black, R-Tenn., left, and Rep. Jeb Hensarling, R-Texas.

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