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# Credibility, Chutzpah And Debt

By PAUL KRUGMAN

To understand the furor over the decision by Standard & Poor's, the rating agency, to downgrade U.S. government debt, you have to hold in your mind two seemingly (but not actually) contradictory ideas. The first is that America is indeed no longer the stable, reliable country it once was. The second is that S.& P. itself has even lower credibility; it's the last place anyone should turn for judgments about our nation's prospects.

Let's start with S.& P.'s lack of credibility. If there's a single word that best describes the rating agency's decision to downgrade America, it's chutzpah — traditionally defined by the example of the young man who kills his parents, then pleads for mercy because he's an orphan.

America's large budget deficit is, after all, primarily the result of the economic slump that followed the 2008 financial crisis. And S.& P., along with its sister rating agencies, played a major role in causing that crisis, by giving AAA ratings to mortgage-backed assets that have since turned into toxic waste.

Nor did the bad judgment stop there. Notoriously, S.& P. gave Lehman Brothers, whose collapse triggered a global panic, an A rating right up to the month of its demise. And how did the rating agency react after this A-rated firm went bankrupt? By issuing a report denying that it had done anything wrong.

So these people are now pronouncing on the creditworthiness of the United States of America?

Wait, it gets better. Before downgrading U.S. debt, S. & P. sent a preliminary draft of its press release to the U.S. Treasury. Officials there quickly spotted a \$2 trillion **error** in S. & P.'s calculations. And the error was the kind of thing any budget expert should have gotten right. After discussion, S. & P. conceded that it was wrong — and downgraded America anyway, after removing some of the economic analysis from its report.

As I'll explain in a minute, such budget estimates shouldn't be given much weight in any case. But the episode hardly inspires confidence in S. & P.'s judgment.

More broadly, the rating agencies have never given us any reason to take their judgments about national solvency seriously. It's true that defaulting nations were generally downgraded before the event. But in such cases the rating agencies were just following the markets, which had already turned on these problem debtors.

And in those rare cases where rating agencies have downgraded countries that, like America now, still had the confidence of investors, they have consistently been wrong. Consider, in particular, the case of Japan, which S. & P. downgraded back in 2002. Well, nine years later Japan is still able to borrow freely and cheaply. As of Friday, in fact, the interest rate on Japanese 10-year bonds was just 1 percent.

So there is no reason to take Friday's downgrade of America seriously. These are the last people whose judgment we should trust.

And yet America does have big problems.

These problems have very little to do with short-term or even medium-term budget arithmetic. The U.S. government is having no trouble borrowing to cover its current deficit. It's true that we're building up debt, on which we'll eventually have to pay interest. But if you actually **do the math**, instead of intoning big numbers in your best Dr. Evil voice, you discover that even very large deficits over the next few years will have remarkably little impact on U.S. fiscal sustainability.

No, what makes America look unreliable isn't budget math, it's politics. And please, let's not have the usual declarations that both sides are at fault. Our problems are almost entirely one-sided — specifically, they're caused by the rise of an extremist right that is prepared to create repeated crises rather than give an inch on its demands.

The truth is that as far as the straight economics goes, America's long-run fiscal problems shouldn't be all that hard to fix. It's true that an aging population and rising health care costs will, under current policies, push spending up faster than tax receipts. But the United States has far higher health costs than any other advanced country, and very low taxes by international standards. If we could move even part way toward international norms on both these fronts, our budget problems would be solved.

So why can't we do that? Because we have a powerful political movement in this country that screamed "death panels" in the face of modest efforts to use Medicare funds more effectively, and preferred to risk financial catastrophe rather than agree to even a penny in additional revenues.

The real question facing America, even in purely fiscal terms, isn't whether we'll trim a trillion here or a trillion there from deficits. It is whether the extremists now blocking any kind of responsible policy can be defeated and marginalized.



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