US credit outlook rated “negative” as concerns mount over dollar’s global role

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3 August 2020

In another sign of concern over the stability of the US dollar, under conditions where the Fed is pumping trillions into the financial system, the Fitch credit rating agency has placed a question mark over the credit worthiness of the United States.

The agency downgraded its outlook for US credit to “negative” from “stable” on Friday, while retaining its AAA rating—the top grade—for the credit of the US. The agency raised issues about whether the US would be able to contain rising deficits as the government continues its corporate bailouts.

In a statement announcing the downgrade, the agency said the US sovereign rating was supported by “structural strengths” and benefited from the role of the dollar as the world’s preeminent currency. However, the outlook had been revised to negative “to reflect the ongoing deterioration in the US public finances and the absence of a credible fiscal consolidation plan.”

Fiscal deficits had already been on a rising path before the economic shock delivered by the COVID-19 pandemic and they had started to “erode the traditional credit strength of the US,” Fitch declared. Now, there was a “growing risk that US policymakers will not consolidate public finances sufficiently to stabilise public debt after the pandemic shock has passed.”

Articulating the class interests of the financial oligarchy in the US and internationally, it made clear where such “consolidation” should take place—not in reductions to the corporate bailouts or a reversal of the massive corporate and personal tax cuts for higher income earners enacted by Trump at the end of 2017.

With one eye clearly fixed on the development of the class struggle, Fitch said: “Having laid bare inequalities in the provision of health care and exacerbated widening wealth inequality… the crisis could also lead to pressure for higher public spending, greater state involvement in the economy, redistribution of incomes and moves to strengthen workers’ bargaining power.”

It left no doubt about how such issues should be dealt with. “The economic crisis has likely brought forward the point at which social security and healthcare trust funds are exhausted, demanding bipartisan legislative action to sustainably fund or reform these programs,” it said. In other words, there should be an assault on spending for basic social services.

Pointing to what it called the “exceptional financing flexibility” of the US—the borrowing by the US government of $3 trillion from February to June and the interventions of the Fed to “backstop financial markets”—Fitch raised the longer-term consequences of these actions.

In what appeared to be a concession to so-called Modern Monetary Theory, which maintains that as the US is the issuer of its own currency it can never run out of funds—a theory widely promoted in pseudo-left circles—it said: “It is a truism that the US government can never run out of money to service its debts. However, there is a potential (albeit remote) risk of fiscal dominance if [debt-to-GDP] spirals, posing risks to US economic dynamism and reserve currency status.”

Concerns about the global role of the dollar as a result of the rise of government debt and the expansion of the Fed’s financial asset holdings, which have increased from under $1 trillion on the eve of the 2008 financial crisis to around $7 trillion today, go well beyond Fitch and other agencies.

In an editorial published at the weekend, the *Financial Times* warned that the world economy “is in a dangerous place.” Pointing to the resurgence of COVID-19 infections in Europe, Australia and Japan, where the virus had appeared to be contained, it said:

“This was the week when hopes for a short lockdown followed by a swift resumption of economic activity were dashed once and for all.”

This meant, the editorial continued, that it was likely governments would have to continue to borrow and spend. The implications were examined in a separate article titled “Dollar blues: why the pandemic is testing confidence in the US currency.”

The article noted that since the initial scramble for dollars in the crisis that hit financial markets in mid-March as the pandemic struck, the dollar has been falling in currency markets, recording its biggest monthly decline for a decade in July.

The *Financial Times* wrote that the 5 percent fall in the US currency over the month “might sound modest but in the relatively stable foreign exchange market that counts as dramatic.” It added that such a sharp move “inevitably raises questions that go to the heart of the global financial system and the unique role that the US currency plays.”

Those questions are increasingly coming into prominence because of the rise in the price of gold, now trading at a record high of between $1,900 and $2,000 per ounce. Investors, the article noted, are seeking an alternative to the US currency, and as American politics becomes increasingly dysfunctional, “some are openly asking… whether US institutions are now too weak for the world to rely on the dollar.”

Opponents of the view that the dollar could lose its privileged status maintain there is no possibility of it being replaced as the world’s reserve currency, either by the euro or the Chinese yuan. This is because the financial systems of both the euro zone and China are nowhere near large or sophisticated enough for their currencies to play the global role of the dollar.

That analysis is correct as far as it goes. But it does not go far enough. A dollar crisis will not bring about its replacement by the currency of another country or region. Rather, it will set off a crisis of confidence in all fiat currencies and a breakdown of international trading and financial relations.

The FT article cited remarks by David Riley, a chief investment strategist at BlueBay Asset Management in London. He noted that the US government bond market, where yields on 10 year bonds have gone negative when inflation is taken into account, “is reflecting the fact that the US outlook is weakening.”

“There’s going to have to be more stimulus,” he said. “This is where the gold bug view comes in, where sooner or later this is a debasement of the global reserve currency. So you go into gold.”

There are decisive implications flowing from the weakening position of the US. The role of the dollar as the world currency and the decisive importance of US financial markets for every major corporation provide US imperialism with enormous power as it pursues its geostrategic interests.

For example, it is the reason it has been able to impose sanctions against Iran despite opposition from Europe, by threatening to exclude companies that break them from the global flow of finance, or to hit companies backing the Nord Stream 2 pipeline project to transport gas from Russia to Germany.

In response to the deepening crisis of its financial system, triggered and accelerated by the COVID-19 pandemic but not caused by it—the underlying tendencies were already well advanced before the virus struck—US imperialism is going to intensify attacks on the working class at home while pursuing ever more aggressive measures internationally, including war, as it seeks to maintain its global dominance.