

Moody's lowers US debt outlook to "negative"

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The decision last week by the rating agency Moody's to downgrade the outlook on the credit status of US government debt from "stable" to "negative" is notable. While still retaining it at AAA, Moody's update is another expression of American capitalism's ever worsening fiscal and financial position and the political turmoil that is both accompanying and feeding into it.

It followed the move by the rating agency Fitch to lower its long-term rating for the US from AAA to AA+ in August and the S&P downgrade of US debt in 2011.

Moody's has not gone that far, at least not yet, but the move to "negative" status often precedes an outright downgrade.

The driving forces for the decision are the increase in the US budget deficit, much of it the result of increased military spending, the sharp increase in the interest bill on the debt because of the rate hikes carried out by the US Federal Reserve, and the conflicts in Congress which have led to repeated threats of shutdowns of government services.

This Friday, a government shutdown is once again looming—they have become an almost perpetual feature of the political landscape—when a 45-day deal between the Biden administration and the Republican-controlled House of Representatives to avert the last crisis and maintain government funding expires.

That deal led to House Speaker Kevin McCarthy losing his position, sparking a revolt led by aggressive Trump supporters which, after weeks of wrangling, resulted in the extreme right-winger Mike Johnson filling the post.

Announcing its decision, Moody's said: "In the context of higher interest rates, without effective policy measures to reduce government spending or increase

revenues, Moody's expects that the US fiscal deficits will remain very large, significantly weakening debt affordability."

It warned that continued polarisation within Congress "raises the risk that successive governments will not be able to reach consensus on a fiscal plan to slow the decline in debt sustainability."

The interest rate increases, from near zero to almost 5 percent since rises began in March 2022, are having a major impact. In the third quarter of this year, the interest bill on government debt was running at an annual rate of \$981 billion, an increase of 54 percent from the first quarter of 2022, and up by 91 percent from the second quarter of 2020.

The US government debt is now more than \$33 trillion and rising, and stands above 120 percent of gross domestic product (GDP).

In a comment piece in the *New York Times*, columnist Peter Coy recalled that four years ago Olivier Blanchard, a former International Monetary Fund official now at MIT, said it was possible for a government to run moderate budget deficits forever so long as economic growth exceeded the interest rate.

"The problem," he continued, "is that deficits in the US have been large, not moderate, and the interest rate on debt now exceeds the economy's growth rate, rather than vice versa."

Long-term interest rates are now pushing towards 5 percent, while US economic growth is not expected to go much above 2 percent, and could even move into recession in the next year.

In a post for the Peterson Institute for International Economics, Blanchard said he freely admitted he did not predict the rise in long-term rates.

This failure only points to a more fundamental issue, that of methodology.

Notwithstanding its highly developed mathematical models and the availability of vast computing power, bourgeois economics assumes that the capitalist profit system is the only possible and viable form of economic organisation. It therefore ignores its inherent contradictions until they erupt in the form of crisis which it then puts down to some kind of accident or external factor.

This outlook is reflected in the political sphere. It was seen in the Biden administration's response to the Moody's downgrade, largely based on the attempt to assert that all was still for the best in the best of all possible worlds.

Deputy Treasury secretary Wally Adeyemo said that while Moody's had retained the AAA rating, "we disagree with the shift to a negative outlook."

He continued: "The American economy remains strong, and Treasury securities are the world's pre-eminent safe and liquid asset."

Such an assessment ignores all recent experience. In March 2020, at the start of the pandemic, the Treasury market froze for several days when no buyers could be found for US government debt. A full-blown meltdown of the entire US and global financial system was only averted when the Fed intervened to the tune of \$4 trillion.

Ever since then the liquidity problem has bubbled away. It came to the surface, at least partially, earlier this month when the Treasury tailored its issuance of new debt to shorter-term bonds to try to avoid market turbulence.

And rather than a sound and stable institution where the money to fund government activity is calmly raised, the \$25 trillion US Treasury market is more and more resembling a giant gambling casino.

Huge bets, the quantity of which is not fully known, are being made in the so-called basis trade, in which investors take advantage of the difference between bond prices and their futures. But because the difference is tiny, vast amounts of money must be borrowed to make a profit, giving rise to what the Fed called in a recent report the potential for "financial stability vulnerability."

The response from the White House to the Moody's decision was to shift the blame to the Republicans.

"Moody's decision to change the US outlook is yet another consequence of Congressional Republicans'

extremism and dysfunction," said spokesperson Karine Jean-Pierre, as she accused them of "holding the nation's full faith and credit hostage."

The deepening crisis of the US financial system since 2008, attempts by a number of countries to lessen their dependence on the US dollar as the global reserve currency, the ongoing turbulence in the US Treasury market, the rapid interest rate hikes instituted by the Fed and backed by the Biden administration and the impact of ongoing war—to name just some of the features of the present situation—were passed over.

The very fact that Trump-led forces have been able to gain a certain social base and political traction is due to Democratic attacks on the position of broad sections of working people, with the collaboration of the trade union apparatuses, going back decades.

But for all the political turbulence, there is a consensus in ruling political and financial circles about what must be done to meet the growing crisis in government finances. An all-out attack is being organised against the working class involving the further suppression of wages, cuts in living standards and the gutting of so-called entitlement programs. The only issue in ruling circles is how this is to be carried out.



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