BURNS ADVISORY GROUP
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U.S. Downgrade: A Crossroad
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Early last month the U.S. was parted unceremoniously with its AAA credit rating via a press release from Standard & Poor's, a rating agency which first granted the nation its top designation in 1917. We have been through many recessions, one Great Depression and a variety of financial crises since the early days of our AAA status, but S&P, alone among the top three rating agencies, decided our growing public debt and gridlocked political climate had finally created enough uncertainty over the country's ability to pay its creditors that it needed to be downgraded.

The political assessment offered as the centerpiece of the agency's decision may not have represented an objective hard numbers evaluation, and it seems their math left a lot to be desired as well, but S&P's basic premise has been sound since they first raised their warning. U.S. leaders have not exhibited a willingness to rein in spending and appear content with debt levels that are spiraling higher.

Deleveraging – the process of retiring debt – is taking place everywhere. Oklahomans are cutting credit card debt by more than residents of all but two other states. Businesses are borrowing less and building up cash reserves. States and municipalities have been left with little choice but to make painful cuts. European countries are submitting to austerity measures intended to get borrowing under control.

The debt limit deal enabled the U.S. to increase borrowing as long as it promised to cut spending over the next decade. While the rest of the world is forced to spend less now, our federal government borrows more by "cutting" future projected expenses. As issuer of the global reserve currency, the U.S. is uniquely able to borrow vast amounts at rock bottom rates, capitalizing on global institutional investors' desires for "risk-free" U.S. Treasuries.

But just like the stream of credit card offers we receive in the mail, the U.S. government should not justify borrowing to cover increasing expenses it cannot afford simply because someone is willing to lend.

Hopefully the decision to strip the U.S. of its AAA rating will prove a positive force in retrospect. It is like a sign at a crossroad indicating that to continue along the current path would be an increasingly perilous journey. We can choose to correct our path now on our terms, or we can continue along until highly painful change can no longer be avoided. The only variable is whether we confront our problems or wait until our problems and their collateral damage confront us.

We cannot look to the government to improve our lifestyle while it slowly becomes insolvent. Reforms to our entitlement programs are inevitable despite the fact they escaped the debt limit deal untouched. No one should be surprised by S&P's downgrade in light of the decision by our leaders to put off necessary changes once more.

Eventually gravity will catch up, and the U.S. will have to begin the inevitable process of deleveraging.

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