

Last week the financial markets were roiled by Standard & Poor's announcement that they will change their outlook on the fiscal health of the United States over the next two years from "stable" to "negative". The administration decried this decision as political. However, it seems the only political thing about this decision is the fact that it took so long. The Washington Post recently reported that the White House and the Treasury Department put tremendous pressure on S&P not to do this. However, if S&P made its ratings based on political pressures rather than economic reality, it would cease to have any relevance to the business community. Even if S&P delayed its announcement that U.S. government bond market would be downgraded, at some point it would become obvious that the finances of this country are out of control and our leadership is out of touch. All credibility would be lost if S&P simply continued to assign U.S. debt a AAA rating.

S&P noted in its announcement that negotiations among leaders in Washington to address deficit concerns did not sound promising, and expressed skepticism that politicians could agree to any viable budget compromise. Of course this has been obvious for years but in the midst of the current debate over raising the debt limit it is perhaps the wake-up call that Washington needs. For decades politicians and government officials have been able to maintain their denial about our real financial situation, patching the system together by passing emergency and supplemental funding bills, issuing more debt, and allowing the Federal Reserve and foreign creditors to paper over deficits with more monetary expansion. I've said many times the real day of reckoning comes when fiscal and monetary tricks no longer work and there are no buyers for our debt.

Even the most conservative budget that has been proposed by Republican leadership requires raising the debt ceiling by an additional \$9 trillion by 2021. This demonstrates absolutely that no one in power right now has any real intention of addressing our spending problems or paying down the debt. They simply expect to continue to borrow and run up more debt forever, without limit. Yet they always imagine our dollar will have value no matter how many we print. This expectation is foolish and naïve. I guarantee that those buying our debt are not foolish and naïve enough to go along with this charade forever.

The S&P announcement may just be the harbinger of economic realities acting as a restraint on government expansion. Government is not anxious to cap its own growth, in spite of misnomers like "debt limit" or "deficit reduction". Government will continue to grow like a cancer, sapping our country of its wealth and freedom until the laws of economics no longer can be ignored.