Debtitus

S&P’s downgrade of the US government’s bond rating should serve as a wake-up call to the American public. Unfortunately, I had already assigned [economic grades to US presidents](http://capitalismtoday.blog.wku.edu/2011/05/18/presidential-grades/) back in May. President Obama already had an F-, so it is harder for me to give his presidency a new lower economic grade. Nevertheless, I now give him an F--. I advise him to take a “W” on his transcript and withdraw before the F becomes permanent.

The credit downgrade is a symptom rather than the cause of an economic disease. That disease is “debtitus”. The cause of which is the insatiable desire to mortgage tomorrow’s economic well being in order to consume things today which are not currently affordable.

Symptoms include, but are not limited to: a desire to vote for politicians who promise large amounts of free stuff and low tax burdens, a feeling of entitlement that causes people to think that they are owed as much as their neighbor regardless of what they produce, and a belief that the only generation that matters is the baby boom generation. The cure for debtitus is increased work, savings, and investment combined with a level of government spending that is no greater than tax revenues.

By telegraphing their downgrade, S&P let markets gradually react to the loss of America’s AAA status. Last week’s fall in the stock market was indicative of the lower stock values that will accompany a decreased credit rating. The long term impact of the downgrade will depend upon what happens next in Washington. If Congress and the President continue to borrow at their current pace, credit will dry up for small businesses, interest rates will increase, the value of the dollar will continue its freefall, and the once powerful US economy will be relegated to a second tier economy.

If, Congress and the President take the credit downgrade as a wake-up call to fix America’s structural economic problems, then the long term prognosis of the US economy is rosy. The AAA bond rating is not impossible to recover. Canada took three years in the 1990’s to recover their bond rating once downgraded. They did it through reductions in government spending, running budget surpluses, and engaging in tax reform. They sit as an example for the US to follow.

Hard work and innovation have made America great. The American economy will once again be the envy of every country, as soon as the government bureaucrats, redistributors, and regulators get out of the way. After all, this is the economy that says, [“Time to Make the Doughnuts”.](http://www.youtube.com/watch?v=gwfrBbNo5Jg)