

Monday, May 25, 2009

## Editorial: Britain shows the way down

### Government overspending threatens credit.

#### An Orange County Register editorial

Standard & Poor's credit rating agency on Thursday announced a blockbuster piece of news: The British government's credit outlook was reduced from stable to negative, which could lead to the eventual downgrading of the country's debt from its premiere triple-A rating. "The outlook revision does not trigger a formal re-evaluation of Britain's rating," the Associated Press reported, "but does mean that policy-makers have to be aware that a downgrade may happen if public finances do not improve.

This is significant for the United States because the British government is further down the road where we are heading, toward bailouts and excessive government spending and regulation and excessive intrusion into the marketplace. The issue is

of particular interest because Congress is considering the backing of California's debt, as our struggling state looks to borrow its way out of disaster. Orange County Treasurer Chriss Street, in testimony before Congress earlier this month, warned legislators that such a move could eventually undermine the strength of the U.S. credit rating. He was criticized for that view by Democratic Rep. Barney Frank and others.

"They made a joke about it, because they thought it was funny," Mr. Street told us. But the reality in Britain shows that similar things can happen here. If the U.S. gets downgraded from triple-A to double-A, for instance, Mr. Street said interest rates would go up significantly and could dampen any economic recovery and add costs to mortgages and other purchases. "Once your virginity is in question, people start to talk," he said. "Then they start treating you in a different way. Eventually they shun you." That's something to consider as the federal government this week sells \$180 billion in debt.

These are the unintended consequences of government intrusion and bailouts. These are the fruits of the country's longstanding descent into borrow-and-spend policies – policies that have accelerated under the Obama administration, even though the previous Bush administration set new records for fiscal irresponsibility.

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It's time for the British and American governments to move back in a fiscally prudent, market-oriented direction. That seems unlikely to happen, so keep a close watch on the two nations' credit ratings. These developments will eventually have a real impact on our lives, given their potential for driving up interest rates and quashing economic recovery.

Maybe there's still time for Congress to heed Mr. Street's warnings.

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