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Latest Warning on Nation's Credit Risk Reinforces Peterson-Pew Commission Recommendations

Bipartisan budget reform effort advocates for stabilizing the debt at a sustainable level

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Last week, Moody's Investor Services issued an unsettling warning that the nation's triple A credit rating could be at risk unless improvements to the nation's fiscal trajectory are made.

The *Financial Times* reported that a senior officer at Moody's said that President Obama's Fiscal Year 2011 proposed budget failed to stabilize debt levels relative to the economy. In its issuer note, Moody's wrote, "unless further measures are taken to reduce the budget deficit further or the economy rebounds more vigorously than expected, the federal financial picture as presented in the projections for the next decade will at some point put pressure on the triple A government bond rating."

This dire warning reinforces the Peterson-Pew Commission on Budget Reform's recommendations that the United States should stabilize the public debt at a reasonable level over a reasonable time—specifically, a 60 percent debt-to-GDP target.

In contrast, under the President's budget, debt would rise from 53 percent of GDP at the end of FY 2009 to 77 percent in 2020, and the debt would continue to grow thereafter. Additionally, Moody's pointed out that the ratio of debt to GDP for all government, including federal, state and local, could reach 100 percent in 2020.

The Commission's report, *Red Ink Rising,* makes clear that fiscal problems of this extent will take time to fix, especially in light of the current state of the economy, but it also emphasizes that creditors need to see that the United States is serious about stabilizing the federal debt.

The Peterson-Pew Commission recommends that Congress and the White House:

- Adopt an ambitious, but achievable target that would reduce the public debt to 60 percent of GDP by 2018;
- Negotiate a specific package of spending reductions and tax increases that are gradually phased in to protect the recovering economy; and
- Create an automatic enforcement mechanism to keep revenues and spending on target.

"Achieving this goal will not be easy," said Maya MacGuineas, the president of the Committee for a Responsible Federal Budget and member of the Commission. "But as the Moody's warning demonstrates, doing nothing to deal with the problem is no longer an option."

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