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Just Don't Ask About America

Standard & Poor's piss-poor political science

Posted By [Daniel W. Drezner](#) ■ Saturday, August 6, 2011 - 4:43 AM ■ [+](#) [Share](#)

American politicians are *super-mad* at Standard & Poor's for **downgrading U.S. debt** even after the debtopocalypse was averted earlier this week. These same politicians seem torn between pointing out that **S&P sucks at math** and blaming the other political party for the S&P screw-up.

I really don't care about that as much as the debate over whether S&P got its political analysis right. Here's the key paragraphs of **the actual Standard & Poor statement**:

[T]he downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011....

Compared with previous projections, our revised base case scenario now assumes that the 2001 and 2003 tax cuts, due to expire by the end of 2012, remain in place. We have changed our assumption on this because the majority of Republicans in Congress continue to resist any measure that would raise revenues, a position we believe Congress reinforced by passing the act.

Felix Salmon, thinks that **this analysis is spot on**:

[T]he US does *not* deserve a triple-A rating, and the reason has nothing whatsoever to do with its debt ratios. America's ability to pay is neither here nor there: the problem is its willingness to pay. And there's a serious constituency of powerful people in Congress who are perfectly willing and even eager to drive the US into default. The Tea Party is fully cognizant that it has been given a bazooka, and it's just *itching* to pull the trigger. There's no good reason to believe that won't happen at some point.

David Weigel concludes that **the S&P political analysis is fair**:

This is not crazy. **This what Republicans imply about the supercommittee** – they will not accept plans that increase taxes, and despite the fact that they've agreed to let the Bush tax cuts lapse on January 1, 2013, they are making noises about not accepting a return of the rates. The best possible scenario, if we assume that stance, is what I wrote about today -- tax reform plans that start in the supercommittee and win over a committed Congress.

Kevin Drum, however, thinks that **S&P's political analysis is way off**:

S&P shouldn't be in the business of commenting on a country's political spats unless they've been going on so long that they're likely to have a real, concrete impact on the safety of a country's bonds. And that hasn't happened yet. There's no serious macroeconomic reason to think America *can't* service its debt and there's no serious political reason to think the Tea Party has anything close to the power to provoke a political meltdown in which we won't pay our debt....

[S&P] should care only about the safety of U.S. bonds, and for the moment anyway, there's no legitimate reason to think either that we can't pay or that we won't pay. The bond market, which has all the same information as S&P, continues to believe that U.S. debt is the safest in the world, and in this case the market is right. S&P should stop playing dumb political games and stick to its core business.



ABOUT THIS BLOG

EMAIL

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I side, mostly, with Drum. It's totally fair for S&P to factor politics into their assessment of sovereign debt. Indeed, a key trend in sovereign debt analysis over the past five years has been the recognition that political fundamentals can matter as much as economics. That said, if ratings agencies are going to do this, then their political expectations can't just be retrospective -- they need to do some actual forecasting. Instead, they looked at recent weeks and extrapolated into the future.

There are three factors that should give S&P pause before assuming that political dysfunction could lead to no increase in tax revenue. First, as Drum points out, despite all the displays of ideological inflexibility, in the end the debt ceiling vote secured a strong majority of the GOP House caucus. Some Tea Party members were willing to risk a crisis, but not actually go and perpetuate one. It was not a Great Moment in Democracy, but in the end a deal was done. You can't dock for intransigence without noting the outcome.

Second, unlike the debt ceiling, deadlock in late 2012 means that the Bush tax cuts expire. Either a lame-duck Obama or a newly-re-elected Obama will be able to make that fiscal decision (no way any faction in Congress musters the 2/3 vote necessary to override). As **Jonathan Chait has repeatedly observed**, that dynamic is the opposite of the debt ceiling episode, in which case paralysis led to bad fiscal outcomes. If S&P thinks partisan gridlock will persist on Capitol Hill, then the conclusion to draw is that taxes will go up.

Third -- and this is pretty important -- S&P has failed to observe the political aftereffects of the debt deal. **As I argued previously:**

[T]he thing about democracy is that it has multiple ways to constrain political stupidity and ideological overreach. The first line of defense is that politicians will have an electoral incentive to act in non-crazy ways in order to get re-elected. The second line of defense is that politicians or parties who violate the non-crazy rule fail to get re-elected. So, in some ways, the true test of the American system's ability to stave off failure will be the 2012 election.

The first line of defense has been breached, but the second line of defense looks increasingly robust. **Public opinion poll** after **public opinion poll** in the wake of the debt deal show the same thing -- everyone in Washington is unpopular, but **Congress is really unpopular** and **GOP members of Congress are ridiculously unpopular**. At a minimum, S&P needs to calculate how the current members of Congress will react to rising anti-incumbent sentiment. If they did that analysis and concluded that nothing would be done, I'd understand their thinking more. I didn't see anything like that kind of political analysis in their statement, however.

In the end, I suspect Moody's and Fitch won't follow S&P's move, so this could be a giant nothingburger. Still, if these guys are going to be doing political risk analysis, it might help to actually have some political scientists on the payroll. Based on their statement, S&P is simply extrapolating from the op-ed page, and that's a lousy way to make a political forecast.

Am I missing anything?

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Reading Perry's 2010 book 'Fed Up.' Unlike most campaign books -- Pawlenty's, say -- it's about ideas, not candidate biography. Recommended.

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Yes, @SlaughterAM there is a subtle realist: <http://t.co/UsMWHVj> -- my latest reply to Anne-Marie Slaughter.

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I wonder if we will look back at yesterday as the best day of Michele Bachmann's campaign.

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KBP
7:14 AM ET
August 6, 2011

S&P objective?

The tax can't happen unless it's a trade off for something else. The math error tossed out is like publishing a 10 chapter book while short on 3 of the chapters.

Was David Beers hoping to rain on what is left of Obama's recovery?

It was Beers operation that we saw drug through the mud and new regulations after that subprime thingy.

► **REPLY**

BLUE13326
12:47 PM ET
August 6, 2011

I don't really have much of a

I don't really have much of a problem with your assessment, except the notion that polls should be taken into consideration for these decisions seems absurd, especially in an age where you can push a poll to find whatever you want to find.

Speaking of which, your link that you claim shows 'GOP members of Congress are ridiculously unpopular', doesn't say anything of the kind: It links to a blog called The Monkey Cage that uses the same Gallup Poll that Congress is unpopular (as if that's new....) to predict that this must be trouble for Republicans, which may or may not be true, but doesn't mean that 'GOP members of Congress are ridiculously unpopular', so you might want to check that your links actually say what you think they say.

I mean, it's a cute meme: That the tea partiers are crazy and that they're the ones responsible for us running \$1.4T deficits, as if we could just tax our way back to prosperity. But trust me, outside of academia and our brahmin circles, people just aren't buying it.

► **REPLY**

**ITONLYSTANDSTOR
EASON**
10:31 PM ET
August 6, 2011

Making your own memes

I was with you on criticism of what the polls show, but I exited the bus when you drove off into your own tea-party victimization fantasyland.

I've heard no one say tea partiers are solely responsible for the deficits. They themselves claim responsibility for blocking efforts to reduce the deficit through tax increases.

Academia has many schools of thought on economic cycles, recessions, and recovery. Precisely none of them believe that you can "tax our way back to prosperity". Many do believe that prosperity requires a foundation of physical and legal infrastructure and quality labor - education and healthcare - and a dynamic market that creates new jobs and destroys old ones requires mechanisms to help workers to keep up. Short-term cuts can have long-term consequences.

And defaulting on past debts serves no one.

Perhaps instead of listening to demagogues and trashing the people who try to understand how things work, you could be part of the solution. Until then, you are part of the problem.

► **REPLY**

BILL HARSHAW
2:28 PM ET
August 6, 2011

A Lame-Duck President?

If Obama is a lame duck, yes, he'll veto an extension. But if he's a lame duck, wouldn't that likely mean a Republican Congress and a Republican President which would pass the extension on January 21st? Remember the Dems would be demoralized, so they're not likely to make a stiff resistance.

I hope that's not something we have to face, but remember Murphy's Law.

► **REPLY**

BARKER13
2:57 PM ET
August 6, 2011

You're Obviously Oblivious to What the Actual Crisis Is

{Some Tea Party members were willing to risk a crisis, but not actually go and perpetuate one. }

Dan,

With respect... the actual "crisis" is that Tea Party Republican officials aren't powerful enough to take leadership control of the GOP House caucus and Senate caucus.

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