Thursday, July 28, 2011

Washington, D.C. – Congressman Ben Ray Luján of New Mexico's Third District spoke on the House floor today in opposition to a plan introduced by Republican House Speaker John Boehner to increase the debt limit in a two-step process.

During his remarks, Luján was interrupted by Republican Rep. David Dreier. Below are numerous quotes from financial experts on the risk of a credit rating downgrade due to the Republicans' short-term plan.

Below are Luján's remarks as prepared.

"Mr. Speaker, it is clear that we must act to prevent a default and a downgrade of our nation's credit rating. Sadly, the House Republican leadership's plan is not a serious proposal to avoid such a downgrade. It's just more smoke and mirrors.

"It will put us right back in the same position in a few months, requiring another vote to raise the debt limit, putting America in position for a potential downgrade, costing Americans $100 billion a year – $1 trillion over 10 years.

"A short-term increase in the debt limit has already been rejected by economists and credit rating agencies, which have made it clear that this plan will likely result in an unprecedented downgrade to our credit rating, leading to higher interest rates for mortgages and student loans.

"In addition, this reckless plan leaves the door open to the same damage as the Ryan plan to attack Medicare, Medicaid, and Social Security, while protecting tax breaks for billionaires and corporations.

“I urge my colleagues to reject the partisan gamesmanship and seek a responsible and balanced solution to this crisis.”

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Numerous financial experts agree – House Republicans’ two-step plan for a short-term increase in the debt limit puts the nation’s credit rating at risk:

Christian Cooper, Jeffries & Co., Head of U.S. Dollar Derivatives Trading:

“‘From the markets’ point of view, a two-stage plan is a non-starter because we now know it is amateur hour on Capitol Hill and we don’t want to be painted in this corner again…There is significant risk of a downgrade with a deal that ties further cuts to another vote only a few months down the road given the significant resistance to do the right thing now.’” [Bloomberg , 7/25/11]

Standard & Poor’s:

“We may also lower the long-term rating and affirm the short-term rating if we conclude that future adjustments to the debt ceiling are likely to be the subject of political maneuvering to the extent that questions persist about Congress’ and the administration’s willingness and ability to timely honor the U.S.’ scheduled debt obligations…We view an inability to timely agree and credibly implement medium-term fiscal consolidation policy as inconsistent with a ‘AAA’ sovereign rating, given the expected government debt trajectory noted above.” [S&P Release , 7/14/11]

Mohamed El-Erian, CEO Of PIMCO:

'"We're still figuring some of it out,' says Mohamed El-Erian, chief executive and co-chief investment officer of Pacific Investment Management Co., manager of the world's largest bond fund. 'And it's on the table as a risk.' On Sunday evening, Mr. El-Erian said in an email that the 'political ground is being prepared for a short-term stop-gap compromise' that probably will push stocks and the dollar lower and leave the U.S. debt rating 'extremely exposed to a damaging downgrade.'" [Wall Street Journal , 7/25/11]

Bank Of American/Merrill Lynch:

"A snap credit rating cut in August could occur upon a late or very disappointing stopgap deal, but it is more likely in several months when the follow-up deal disappoints. The former could have a more negative impact on stocks than the latter, as a delayed downgrade should give investors more time to digest the implications." [Washington Post , 7/25/11]

Downgrade seen adding $100 billion to U.S. funding costs

"A downgrade of the United States' AAA credit rating is a bigger risk than a default and could over time add up to 0.7 percentage point to bond yields, members of a U.S. securities industry group said on Tuesday. 'That's on the order of $100 billion over time that we will add to our funding costs,' said Terry Belton, global head of fixed income strategy at JPMorgan Chase. He was speaking on a conference call organized by the Securities Industry and Financial Markets Association, also known as SIFMA." [Reuters , 7/26/11]

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