FINANCIAL TIMES

January 10, 2008 6:36 pm

Moody's says spending threatens US rating

By Francesco Guerrera, Aline van Duyn and Daniel Pimlott in New York

The US is at risk of losing its top-notch triple-A credit rating within a decade unless it takes radical action to curb soaring healthcare and social security spending, Moody's, the credit rating agency, said on Thursday.

The warning over the future of the triple-A rating – granted to US government debt since it was first assessed in 1917 – reflects growing concerns over the country's ability to retain its financial and economic supremacy.

It could also put further pressure on candidates from both the Republican and Democratic parties to sharpen their focus on healthcare and pensions in the run-up to November's presidential elections.

Most analysts expect future governments to deal with the costs of healthcare and social security and there is no reflection of any long-term concern about the US financial health in the value of its debt.

But Moody's warning comes at a time when US confidence in its economic prowess has been challenged by the rising threat of a recession, a weak dollar and the credit crunch.

In its annual report on the US, Moody's signalled increased concern that rapid rises in Medicare and Medicaid – the government-funded healthcare programmes for the old and the poor – would "cause major fiscal pressures" in years to come.

Unlike Moody's previous assessment of US government debt in 2005, Thursday's report specifically links rises in healthcare and social security spending to the credit rating.

"The combination of the medical programmes and social security is the most important threat to the triple-A rating over the long term," it said.

Steven Hess, Moody's lead analyst for the US, told the Financial Times that in order to protect the country's top rating, future administrations would have to rein in healthcare and social security costs.

"If no policy changes are made, in 10 years from now we would have to look very seriously at whether the US is still a triple-A credit," he said.

Mr Hess said any downgrade in the US rating would have serious consequences on the global economy. "The US rating is the anchor of the world's financial system. If you have a downgrade, you have a problem," he said.

Moody's did once threaten to cut the rating of some of the US Treasury's debt when Congress refused to pass the president's budget in the mid-1990s.