Financial Analysts Talk About Why a Short-Term Debt Limit Increase Would Hurt the Economy

- A short term increase to the debt limit is not the answer to America's long-term fiscal challenges. It would leave in place a cloud of uncertainty over our economy, which would decrease the likelihood that businesses would invest and harm our ability grow our economy.

- It could also lead to a downgrade of America's credit rating, which could lead to an automatic tax increase for every single American who has a mortgage, car loan, student loan, or credit card as a result of higher interest rates.

- We can't kick the can down the road another six months. We can't create a situation in which Congress would again be risking the full faith and credit of our country just six months from now.

- It isn't going to become easier for Democrats or Republicans, and America's economy will pay the price. That's not a political statement or partisan understanding – it's just a fact.

Over the last few days, financial analysts have voiced their concerns about the economic uncertainty that a short term increase to the debt limit could create:

7/26/11: David Beers, Standard & Poor's, Global Head of Sovereign Ratings: "But We've Also Said On The 14th Of July That We Would Be Concerned If We Thought That The Debt Ceiling Debate Would Come Back And Be Opened And We'd Have To Go Through All This Again And Again And Again…That Would Be A Negative In Our View." "BEERS: Well, we'll look at it. But we've also said on the 14th of July that we would be concerned if we thought that the debt ceiling debate would come back and be opened and we'd have to go through all this again and again and again.

KUDLOW: And that would be a negative.

BEERS: That would be a negative in our view." [The Kudlow Report, 7/26/11]

- **7/14/11: S&P: "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."** "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." [S&P Release, 7/14/11, www.standardandpoors.com/ratingsdirect]

7/27/11: Mark Zandi, Moody's Analytics, Chief Economist: "You Know, My Sense Is That It Would Make Sense To Extend The Debt Ceiling To The Other Side Of The Election. But If We Don't, Then We're Just Going To Be In The Middle Of This Debate Again In The Next Few Months, And It Creates A Great Deal Of Uncertainty For Businesses And All Of Us And It's Not Good For The Economy, Makes No Sense…" "Q: Does it matter how long congress extends the debt ceiling for because that's one of the key differences between the house and senate bills, six months versus through the election.

MARK ZANDI: Yeah, good point. You know, my sense is that it would make sense to extend the debt ceiling to the other side of the election. But if we don't, then we're just going to be in the middle of this debate again in the next few months, and it creates a great deal of uncertainty for businesses and all of us and it's not good for the economy, makes no sense, so, you know, I believe that the election should be a referendum on some of the issues we're debating here that we need to decide how to cut government spending and raise tax revenue and that's something we need to discuss in the election." [Good Morning America, 7/27/11]

7/25/11: Mohamed El-Erian, CEO Of PIMCO: "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.'" "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]

7/25/11: Christian Cooper, Jeffries & Co., Head Of U.S. Dollar Derivatives Trading: "Markets View A Two-Stage Plan As 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.'" "Christian Cooper head of U.S. dollar derivatives trading in New York at Jefferies & Co., said markets view a two-stage plan as 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,' Cooper said." [Bloomberg, 7/25/11, http://www.bloomberg.com/news/2011-07-25/republicans-push-dueling-plans-with-democrats-for-raising-u-s-debt-limit.html]

7/24/11: 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." "Bank of America-Merrill Lynch says in a note that the U.S. credit rating will likely be cut to AA by the end of the year. Even though the house believes a stopgap deal will come at the last minute, any follow-up deal is likely to be disappointing and will fail to provide a credible long-term fiscal solution or lift rating agency concerns. '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,' it writes." [Wall Street Journal, 7/24/11, http://blogs.wsj.com/washwire/2011/07/24/live-blog-the-u-s-debt-battle/]