Part 1 of Two Part Series on U.S. Economy—
the S & P Downgrade

S & P Downgrade of U.S. Debt—
Business Panels Says Well Founded Because of Delay in Raising Debt Ceiling and Probability of Increased Spending; Downgrade Damaged U.S. Economic Situation But Second Downgrade Unlikely

Weekly CEO/Business Leader Poll
By COMPAS in *Canadian Business*
For Publication Week of August 16, 2011

COMPAS Inc.
Public Opinion and Customer Research
Week of August 16, 2011

1.0 Introduction

Following the S & P Downgrade of U.S. debt, COMPAS' business panel of CEOs and business leaders was asked for its assessment of the decision. The general view is that the downgrade was well founded, notably because of the delay in raising debt ceiling and fear of increased spending. Yet the downgrade did on balance damage the U.S. economic situation. A second downgrade is unlikely, in panelists' estimations.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine.

2.0 Details

Table 2.1: On a 7 point agreement scale where 1 means disagree strongly and 7 agree strongly, how much do you agree with S & P's decision?

MEAN	7	6	5	4	3	2	1	DNK
4.8	16	29	25	7	10	5	9	0

Table 2.2: To what extent do you see the downgrade as motivated by each of the following considerations, on a 7 point scale where 1 means not at all motivated, and 7, means motivated a lot : RANDOMIZE

	MEAN	7	6	5	4	3	2	1	DNK
Conflict and delay in Congress' raising the debt ceiling	5.8	43	32	7	3	5	7	2	1
Concern that U.S. government spending would continue to rise	5.3	25	31	26	3	7	5	3	0
Concern that U.S. tax rates would rise, depressing economic growth as a result	3.8	7	9	25	13	19	17	10	1

Table 2.3: Independently of the actual situation of the U.S. government and U.S. economy, do you think that the S & P downgrade…
ROTATE POLES

	%
Worsened the economic situation a lot	18
Worsened it somewhat	40
Had no net effect	19
Made it somewhat better	19
Made it a lot better	0
Don't know	3

Table 2.4: On a 100 point probability scale, what's the probability that U.S. debt will be further downgraded by S & P within the year?

MEAN	DNK
30	1

The following verbatim comments provide a nuanced sense of respondent opinion:

> The U.S. will meet its debt; they will just print more money. S & P will downgrade in December, when there is no plan still! Some bucket head from Texas with a simplest plan, will spend a billion for the presidency. The middle class will be further screwed as the prospect for jobs will not be there. Obama great orator, not a leader. No balls! No push back. The top 3% will fund the Republican presidency, and their bidding.

> The analogy here is the citizen who maxes out their credit card, pays only the interest because they can't afford anything more, then applies for an increase in credit limit with no foreseeable ability to pay down the principle. This is the road to bankruptcy. I think this is the point S & P is trying to make. Governments cannot continue along this road and expect to maintain their AAA credit rating. It simply doesn't work.

> Many of the issues in the U.S. stem from their spending being so far beyond their means. Whether they fix this by cutting spending, raising taxes or, a bit of both doesn't matter as long as they get some type of plan in place to deal with it. Business will adjust to whatever

they settle on but not having a plan just creates fear and uncertainty. It's really difficult for businesses to grow when they don't have a handle on where taxes and input costs are going. From an economic standpoint we need businesses to be focused on how to grow and in turn creating jobs but, with too much uncertainty business will have a tendency to shepherd their capital and the economy will stagnate. Unfortunately, after the debacle over raising the debt ceiling I don't have a lot of hope that the Super Committee will be any more successful by Thanksgiving, leaving us still without a plan and putting us squarely back in the quagmire of uncertainty.

The U.S. debt is at an unsupportable level, the government does not have the ability to deal effectively with the debt. Money supply will continue to increase well beyond the inflation levels until value crashes, Other governments will continue trying to support a dollar with disastrous results. Only solution is a new world trading currency not controlled by U.S.

Prime Minister Harper is just following the path set by Paul Martin.

S & P at least took the discussion to a better level - whether the U.S. leadership will take this opportunity, or not, has yet to be decided.

Eventually we may have to differentiate between types of investment. For example if someone invests in new technology, the capital works to potentially generate wealth and repay debt. On the other hand, if we buy currency low and sell high, we have generated monetary return, but somebody somewhere has to supply "real" goods or services to generate the wealth extracted from the economy. We may eventually have to distinguish between "contributory" and "parasitic" investments, and increase taxes on returns based upon non wealth generation.

Just as a person who keeps getting credit cards to pay off their other credit cards comes to a breaking point sooner or later, so too do countries who practice the same thing.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted August 11 – 15, 2011. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=95 are deemed accurate to within approximate 10.1 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.