In Coke We Trust

Investors now view a default by the U.S. Treasury as more likely than a default by the Coca-Cola Company.

- JANUARY 29, 2010, 1:01 P.M. ET

By JAMES FREEMAN

Along with giving Ben Bernanke another term, the Senate voted yesterday to boost the federal debt ceiling by another $2 trillion to a titanic $14.3 trillion. Yet as Democrats debate whether to use the headroom to launch a new trillion-dollar health care entitlement, the choice may not reside with the House (which must still vote on the debt ceiling) but with the bond market.

Trading in the credit-default swap market this week shows that investors now view a default by the U.S. Treasury as more likely than a default by the Coca-Cola Company. Until very recently, this scenario seemed about as likely as Coke winning a taste infringement suit against Coke Zero. Now the United States has taken its place next to Italy and Spain in a special club that no major country wants to join -- countries whose debt is considered less safe than that of Blue Chip businesses.

Mr. Obama may not be deterred by the verdicts rendered by voters in Massachusetts, New Jersey and Virginia lately. But he won't be able to ignore investors if they send Washington's currently cheap borrowing costs soaring. That would surely be the result if markets become convinced that spending and inflation are destined to run out of control under the combo of Nancy Pelosi and Ben Bernanke. To be sure, we're not there yet. But the recent financial crisis should have taught us that, when markets make up their mind that the story has changed, they can turn against you with blinding speed.

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