US debt warnings grow louder

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In the wake of the latest update by the Congressional Budget Office (CBO) showing a marked escalation in how far and fast US debt will rise, there are mounting warnings that it is sowing the seeds of another financial crisis.

The *Financial Times* (FT) carried a lead story last week in which it cited analysts who said the increasing turn by the Treasury to the short end of the bond market—Treasury bills of one-year duration as opposed to 10 years—to finance the debt could cause problems.

It cited Jay Barry, co-head of interest rate strategy at JPMorgan, who said the stock of unredeemed short-term debt would rise from $5.7 trillion to $6.2 trillion by the end of this year to hit an all-time high.

Torsten Slok, chief economist at the financial firm Apollo, who is regarded as an astute observer of the financial system, warned this could cause a disruption.

"It is likely that the share of Treasury bills as a share of total debt increases, which raises the question of who is going to buy them. This absolutely could strain funding markets," he said.

As the FT article noted, the size of the Treasury market (now at more than $26 trillion) has quintupled since the financial crisis of 2008, in an "indication of how much the US has turned to debt financing over the past 15 years."

Longer-dated Treasury auctions have been at record sizes in the recent period and "questions about who will buy all the debt on offer have plagued economists and analysts for months."

The global chair of research at the Barclays bank, Ajay Rajadhyaksha, told the FT: "We are spending money like a drunken sailor on shore for a weekend."

The liquidity problems of the Treasury market are being compounded by the withdrawal of the Federal Reserve as a buyer of bonds due to its efforts to run down its stock of debt holdings built up during the period of quantitative easing—so-called "quantitative tightening."

There is a risk that a lack of liquidity could cause problems in the overnight repurchase (repo) market, in which interest rates, normally a fraction of a percentage point, went to as high as 10 percent in September 2019, causing the Fed to intervene.

Rajadhyaksha warned the US could again experience "a September 2019 moment."

And given the acceleration in the debt levels since then, it could well be something even more serious.

What was significant about the CBO update was not just the amounts involved, but the pace at which the debt level is rising.

In its report last week, the CBO said the budget deficit for 2024 was $400 billion (27 percent) larger than it had projected back in February, and "the cumulative deficit over the 2025?2034 period is larger by $2.1 trillion (10 percent)."

Not only are the amounts significant, but so is their relationship to US gross domestic product (GDP). The CBO forecast that debt would rise from near 100 percent of GDP this year to 122 percent over the next decade, surpassing the 106 percent it reached in 1946 at the end of the Second World War.

Over the following years, the US was able to reduce its debt because of the post-war boom and the vast expansion of US industry. That is not a prospect today because the US is no longer an industrial powerhouse, but the world centre of financial speculation and parasitism.

The events at Boeing exemplify the relationship between the two. Once a byword for the power of American industry, its planes are becoming too dangerous to fly because of the promotion of shareholder value through share buybacks and other schemes in the interests of the financial oligarchy at the expense of safety.

And there is little prospect for sustained growth in the

US economy over the longer term. The CBO forecast that the growth rate for 2024 and 2025 would be lower than in 2023 and for the years 2026?2034 it would average only 1.8 percent a year, well below levels reached in the past.

What growth there is and the increase in government revenue it brings will increasingly be gobbled up by military spending.

Pointing to the reasons for the sharp uplift in debt, the CBO said:

> The largest contributor to the cumulative increase was the incorporation of recently enacted legislation… which added $1.6 trillion to projected deficits.
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> This legislation included emergency supplemental appropriations that provided $95 billion for aid to Ukraine, and countries in the Indo-Pacific region.

The CBO did not specifically indicate where the spending cuts would be made to pay for the increasing military bill, but it identified the target—social spending”

> The aging of the population causes the number of beneficiaries of Social Security and Medicare to grow faster than the overall population. In addition, federal costs per beneficiary for the major health care programs continue to rise faster than GDP per person. As a result of those two trends, outlays for Social Security and Medicare increase in relation to GDP from 2024 to 2034.

In addition to immediate concerns over turbulence in financial markets, warnings have been issued about the implications of rising debt for the position of the US as the dominant capitalist power and whether it will impact on the status of the dollar as the world’s currency, which enables the US to run up debt in a way not possible for any other country.

In an interview with the FT in May, Ray Dalio, the multi-billionaire founder of the giant hedge fund Bridgewater, said he was concerned over whether the continued military involvements of the US would deter foreign investors from buying US bonds.

He was concerned about Treasury bonds because of the high debt levels and sanctions such as those imposed on Russia following the invasion of Ukraine, when $300 billion of its foreign assets were frozen by the US and the European powers.

If sanctions were imposed on other countries, this could reduce the international demand for US Treasury bonds. Any moves in this direction—there are already signs of it, as China has started to reduce its holdings of US debt—would impact on the status of the dollar.

He also voiced concerns about the state of US politics, characterising the present situation as leading to what he called a “civil war.” That did not necessarily mean a situation in which people “grab guns and start shooting,” although he maintained such a scenario was possible.

The growth of debt has also set off alarm bells at the *Wall Street Journal*, one of the chief voices of US imperialism. Long-time writer and editorial executive Gerald Seib authored an essay published Saturday with the title “Will Debt Sink the American Empire?”

He said America was cruising into “an unchartered sea of federal debt,” pointing out that history offered some “cautionary notes about the consequences of swimming in debt.”

“Over the centuries and across the globe, nations and empires that blithely piled up debt have, sooner or later, met unhappy ends,” he wrote.

He cited warnings that even if a country had the chief reserve currency and was the leading geopolitical power, that did not necessarily bail it out, and a withdrawal by China and other Asian nations from US Treasury debt could set off a fiscal and economic crisis.