Treasury secretary says US will never default on its debt

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When the Treasury secretary, in charge of the finances of the world's dominant power, is forced to go on public television to insist that the US will not default and will pay its debts, it is a sure indication that there are some deep-seated problems in the system over which he presides.

Appearing on the CBS program "Face the Nation" on Sunday, Scott Bessent said, "The United States of America is never going to default. That is never going to happen. We are on the warning track, and we will never hit the wall."

Bessent's remarks were delivered as a reassurance to financial markets, which have become increasingly concerned about rising US government debt, the increase in the annual deficit resulting from President Trump's "big, beautiful budget," and the volatility generated by the violent swings in his tariff war.

These concerns were brought to the surface by the head of JPMorgan Chase, Jamie Dimon, during an interview at the Reagan National Economic Forum in California on Friday. He predicted a crisis unless action was taken to address the spiraling US national debt.

"You are going to see a crack in the bond market," he said. "And I tell my regulators… it's going to happen, and you're going to panic. I just don't know whether it's going to be a crisis in six months or six years."

Dimon linked the debt issue to the global status of the dollar as the reserve currency and the erosion of US economic and military might.

"If we are not the preeminent military and preeminent economy in 40 years, we will not be the reserve currency," he continued. "People tell me we are enormously resilient. I agree with that. I think this time is different. This time we have to get our act together and do it very quickly."

In his interview, Bessent dismissed Dimon's remarks, saying he had known him for a long time, and he had made similar predictions in the past, "fortunately, none of them have come true."

But others will not dismiss such warnings so lightly because there is objective data that forms the basis for the concerns.

There is broad agreement in the US financial establishment, including by the chair of the US Federal Reserve, Jerome Powell, that while the present level of debt—$36 trillion and rising to $37 trillion—is "sustainable," its rate of growth is not.

The US Treasury bond market, a central foundation of the global financial system where debt is bought and sold, has grown from around $5 trillion in 2008 to almost $29 trillion today. Total public debt is now at 123% of GDP—the result of tax cuts for the ultra-wealthy and corporations, government bailouts for corporations, and the relentless rise of military spending.

While interest rates were at historic lows, because of the quantitative easing policies of the Fed after 2008, debt was not an immediate pressing problem. But the interest rate rises of the Fed after 2022 have meant that the interest bill on government debt is now becoming the largest item in the federal budget at almost $1 trillion a year. If this continues, it can lead to a situation where the government must borrow more money just to pay the interest on past debt.

In the past decade and a half, there has been no shortage of financial storms. But they have had one common feature—a move into US dollar assets as a safe haven and a rise in the value of the US currency.

That situation changed markedly in the financial turmoil set off by Trump's "liberation day" reciprocal tariffs spearheaded by the imposition of a 145% tariff on China. Rather than rising, as had been the case in the past, the dollar fell, and this movement has continued with the result that it has lost around 10% of its value since the start of the year. While it has fallen a little in recent weeks, gold also rose to a record high of $3500 at one point.

Normally, there is a positive correlation between the yield (interest rate) on US government debt and the dollar. But since April, this relationship has broken down. The yield on the 10-year US Treasury bond has risen from 4.16% to 4.42%—a not insignificant uptick in this market. The dollar, however, has lost 4.7% of its value against a basket of currencies in that time.

An article in the *Financial Times* (FT) last week on the breakdown of the Treasury yield-dollar correlation contained some warnings from major participants in financial markets about its significance.

Shahab Jalinoos, involved in foreign exchange strategy at UBS, told the FT that if yields were going up "because the US debt is becoming more risky, because of fiscal concerns and policy uncertainty, at the same time the dollar can weaken," then that was a pattern "more frequently seen in emerging markets."

According to the FT report, "Analysis by Torsten Sløk, chief economist at Apollo, suggested that US government credit default swap spreads – which reflect the cost of protecting a loan against default – are trading at levels similar to Greece and Italy."

Michael de Pass, global head of rates trading at Citadel Securities, told the FT that Trump's continued attacks on Fed Chair Powell—Trump called him to the White House last week to tell him he was not cutting interest rates fast enough—are also causing nervousness in financial markets.

The role of the US dollar as the global reserve currency came partly from its institutional integrity, including the rule of law, the independence of the central banks, and predictable policy, he said.

"The last three months have called that into question," and a "major concern for markets right now is whether we are chipping away at the institutional credibility of the dollar."

Added to these concerns is the downgrading of the US credit rating by Moody's from its top level, meaning that for the first time in its history, the US no longer enjoys an AAA rating from any of the three major agencies.

Bessent is right in his assertion that the US is not, for now, on the brink of a default.

But his assertions that it could never take place applied in very different times. Today, what were the norms of the past have been overturned, as is widely acknowledged.

Moreover, it should be noted that a crisis in financial markets takes a longer time coming than might have been expected, but when it arrives, it proceeds far more quickly than envisaged.