US debt at $40 trillion as financial crisis deepens

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The rise of the US national debt to $40 trillion, announced by the Treasury yesterday, marks a new stage in the deepening economic and financial crisis of US imperialism, to which it will respond with ever increasing military measures as it seeks to counter its historic decline.

Within a day of the milestone, US Treasury Secretary Scott Bessent was compelled to intervene in the government bond market itself, announcing Wednesday that the Treasury would double its buybacks of long-term debt after the yield on the 30-year bond reached its highest level since 2007. That the department which issues what is supposed to be the world's safest financial asset must now step in to support the market for its own debt is a measure of how far the crisis has developed.

Every day brings new threats, new actions in the Ukraine and the Middle East, the latest being the threat to bomb Oman if it gets in the way of US operations in the Strait of Hormuz, while Washington develops its preparations for war against China. As Leon Trotsky warned nearly a century ago, the eruption of American imperialism would be expressed more openly, more violently under conditions of its decline.

The financial indices of the decline—the ultimate driving force of the unfolding global war it is prosecuting—are revealed in the escalation of US debt and the turmoil it has set off in global bond markets in recent days with yields (interest rates) on US, German, Japanese and UK bonds rising to multi-year highs.

The most revealing feature of the US debt is not just its size, significant as that is, but the speed with which it has been reached. At the turn of the century, it was less than $6 trillion. In the past 10 years it has more than doubled, growing by $3 trillion in the past year alone.

And a new stage is now being reached—the onset of a debt spiral in which more money must be borrowed just to pay the interest bill on past borrowing.

This year the US is set to borrow at least a further $2 trillion to pay for increased military spending—the Trump administration wants to lift it to $1.5 trillion—and to cover the loss of revenue flowing from the tax cuts to the wealthy and corporations in the One Big Beautiful Bill.

But at least half of this increase in debt will be needed just to cover the interest bill now running at more than $1 trillion a year, more than the current military budget. It is estimated that nearly one in five dollars of US government revenue goes to pay interest on Treasury bonds.

As the senior policy director for the Committee for a Responsible Federal Budget, Marc Goldwein, commented: "The scariest thing about this is how we're staring to see the debt spiral begin."

Similar comments were made to the *New York Times* by Matt Egan, a portfolio manager at the global equity fund Loomis Sayles, in response to the increase in the yield of 30-year Treasury bonds to 5.3 percent earlier this week, the highest level since 2007.

Pointing out that "everyone knows" that the increase in debt is unsustainable, he continued: "You are on a bus called the 30-year bond and there is a cliff coming, but you don't know if it is 100 metres away or 100 miles away. You're hoping to get off the bus before it crashes. That is the conundrum we face."

With the US financial system having suffered two near-fatal heart attacks in the past 18 years—the global financial crisis of 2008 and the freeze of the US Treasury market in March 2020—another crash is set to take place sooner rather than later.

The increasingly frantic actions of Bessent certainly point in that direction.

At the end of last month, he organised an extraordinary joint intervention with the Japanese Ministry of Finance to try to prop up the value of the yen. It was put forward as "helping out" a friend. In fact, it was motivated by the fear that if Japan, the largest foreign holder of US debt, started selling bonds to try to prop up its currency, then this could lead to a crisis in the Treasury market.

These concerns were reflected in the way the intervention was organised. The US activated a little-used mechanism using Japan's US bonds as collateral to lend it dollars, obviating the need for it to sell them. It then organised its own intervention not by using dollars but by selling euros, without even informing the European Central Bank.

In a comment on the operation, the global economy commentator at the UK-based *Telegraph*, Ambrose Evans-Pritchard, pointedly noted: "All this screams desperation."

There are other desperate measures. One of them is to try raising debt at the short end of the market because the interest rate there is lower. But this means that the debt has to be rolled over with increasing frequency under conditions where the nature of the US Treasury market has undergone a major transformation in the recent period. It used to be dominated by long-term investors.

But in the past several years the involvement of hedge funds, which use it as a means for speculation, has grown rapidly.

Writing on this development earlier this month, *Financial Times* journalist Robin Wigglesworth noted that the Treasury market, which had played a decisive role in financing the development of the US economy market, was "now arguably a source of peril—one that transcended the mere size of the debt burden."

According to an analysis by the Federal Reserve earlier this year, hedge funds doubled their exposure to US government debt between 2023 and 2025 and now controlled some 8.5 percent of the market, making them bigger holders of Treasury debt than Japan, China and Saudi Arabia combined.

Hedge funds are not long-term investors, and one of their chief activities is the so-called basis trade, where they exploit the difference between Treasury futures and the present price in order to make a profit. But because the difference is so tiny, large amounts of money must be borrowed to make it profitable.

This means they are extremely susceptible to a rise in interest rates, so much so that at least one analyst, Steven Blitz, chief US economist at the UK-based global economy research firm TS Lombard, has concluded that the Fed cannot lift interest rates to combat inflation because any hard tightening would set off a chain reaction and cause financing costs to "explode."

The effect of hedge fund activity has already been seen in the "dash for cash" in March 2020 leading to a freeze of the Treasury market—for days there were no buyers for US debt. This required a multi-trillion-dollar intervention by the Fed to prevent a collapse of the US and global financial system. Their involvement and the level of speculation have expanded by leaps and bounds in the six years since then.

In his latest endeavour to quell bond market turmoil, Bessent has announced that the Treasury will increase its buybacks from the secondary Treasury market, where previously issued bonds are bought and sold, from $2 billion to $4 billion, in order to lower long-term borrowing costs.

But far from having some solution to the deepening crisis, Bessent's actions increasingly resemble the fabled Dutch boy rushing to plug one hole after another in the dike. But unlike the boy in the story who saved a town, Bessent's desperate actions are only making the situation worse.

And this forms part of a broader development, going back at least 40 years. In 1987, Fed chair Alan Greenspan intervened to guarantee liquidity after the largest single-day stock market crash on Wall Street in history.

The "Greenspan put," as it was called, backed the explosion of financial speculation in the 1990s and early 2000s, leading to the global financial crisis of 2008.

It was further fuelled by massive government bailouts and the intervention of the Fed through "quantitative easing," supposedly to save the financial system. But their chief effect was to finance a new round of speculation, further accelerating after the March 2020 intervention. Regulations brought in to try and control the banks only led to the growth of private credit and hedge fund activity, now at the centre of a new and rapidly developing crisis.

There are no economic or financial solutions at hand. US imperialism is seeking to resolve this crisis by means of war while initiating ever deepening attacks on the working class at home. The working class can only resolve it through the fight for political power, based on the overthrow of the irrational and destructive capitalist order and its oligarchs and the reconstruction of society on socialist foundations.