Interest rate rises adding to surging US debt

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There is growing concern, reflected in the rise of the yield on government bonds in the US and other major economies and in the analysis by some economic commentators, that the rise in interest rate payments is heading in the direction of a financial crisis.

Analysis by the *Financial Times* (FT), published over the weekend, found that since the increase in bond yields, which started with the US war on Iran in February, the "cost of borrowing for the world's biggest economies [has risen] by tens of billions of dollars."

The G7 economies have already taken a hit of $16 billion in additional debt financing costs since the war began and could be faced with a total of an extra $34 billion by the end of the first quarter of next year if the rise in yields persists.

The lion's share, some $10.6 billion, has been incurred by the US and it is set to face total additional costs of $21.6 billion by the beginning of next year.

Reporting on its findings, the FT said that while the additional amounts were "relatively small in comparison to overall public commitments," they 'threaten to pile additional pressure on already stretched government balance sheets."

And the effects may spread into the stock market and financial system more broadly.

Mohit Kumar, chief European economist at the global financial firm Jefferies, told the FT: "Rising rates are one of the biggest risks to equity and credit markets.… We are entering the area where further rises in rates would be negative for both equity and credit."

He warned that if the yield on the crucial 10-year bond continued to rise—it started the year at 4.19 percent and has reached 4.72 percent—and hit 5 percent this would result in a "negative reaction" in equity markets. The trend is certainly in that direction with the yield on the 30-year bond, 5.2 percent, now at its highest level since 2007.

Former International Monetary Fund chief economist and now Harvard economics professor Kenneth Rogoff had some pointed comments on the rise of debt and interest rates in an interview with Bloomberg on the sidelines at the central bankers' symposium at Jackson Hole over the weekend.

Addressing the question of how US government debt became so large (in 2000 it was $5.67 trillion and is $40 trillion today) he noted the effect of crises—the 2008 crash and the pandemic—but then turned to what he said was a "bigger issue," the rise in interest rates.

There had been a "near religious conviction" in academic and government circles that interest rates were going to go "down and down and down" and so "who cares about how much debt you owe, you'll never have to pay interest on it."

He said that view had dominated the political landscape and "interest rates have reversed, but Washington hasn't."

Rogoff is among those in the bourgeois economics academy and within the financial oligarchy who insist that massive cuts in entitlements, especially Social Security, throwing millions of people into destitution, is the only "rational" way to halt the growth of the debt mountain and maintain the capitalist financial system.

But, with one eye on the class struggle, which is rarely overtly mentioned, he said that was "very difficult" to do because of the attitude of "voters" and it would take a crisis (he has described the inflation spike result from the war as a mini-crisis) to "catalyse the change which will be very painful."

He clearly sees such a crisis developing as evidenced by a comment published on Project Syndicate at the end of last month where he took sharp issue with the decision by US Treasury secretary Scott Bessent to lift Treasury purchases of long-term bonds from $2 billion to $4 billion per operation in a bid to lower yields.

His Project Syndicate comment began: "Are we seeing the first signs of panic in US President Donald Trump's Treasury. The United States is by far the world's biggest debtor, and the steady rise in long-term interest rates… is starting to cause real pain."

He drew out the contradiction in Bessent's response to the debt crisis, dismissing the $40 trillion as a "big nothingburger," and his insistence that growth in the US will be so great that it will be able to meet its debt obligations and the rest of the world will continue to feed it money.

"But if Bessent really believes that, why is he trying to strong-arm the bond markets by fiddling with the maturity structure of government debt?"

Rogoff went on to detail the implications of the growing debt crisis. He noted that a major part of the dollar's "exorbitant privilege" had "largely evaporated," US debt no longer traded as a "special safe asset relative to other advanced economies," and its dominance was fading even under the best of circumstances.

"And if budget pressures eventually trigger a crisis, the result could be a rapid loss of the dollar's global market share that might otherwise take decades."

With interest rates more likely to rise than fall over the long term and with national debt exceeding $40 trillion this was "not the time" to tell investors there was "nothing magic" about that number.

"Taken together with the growing fiscal deficit, higher long-term interest rates, and mounting spending pressures, America's debt burden is a very real concern."

Katie Martin, a leading journalist at the FT, also focused a recent article on Bessent's extraordinary bond market move. She took up an issue which has been ignored in most of the financial media.

This was Trump's comment last month when asked if there were other means of intervention besides that undertaken by Bessent.

Trump replied that the US had many types of intervention and Bessent's proposed actions in the bond market were one. "The ultimate intervention," he continued, "is our military. And if we have to use that, we will."

The issue, according to Martin, was "financial repression," that is, action by a state to force the buying of its debt.

In what she called "normal person-speak," this was sometimes translated as "like holding a gun to someone's head and making them buy your bonds. It is not supposed to be taken literally. And yet a week ago, Donald Trump hinted at precisely that."

Analysts and investors appeared to have been willing to "let this wild statement slide—something it would be hard to imagine had it come from the lips of another president of any country ever."

She did not make the point, but it could well be added that such action might be considered "unthinkable," that is, before it was recalled that kidnapping the president of a sovereign country, Venezuela, or murdering the entire leadership of another, Iran, might, not so long ago, have been so regarded.

But the issue of financial repression—by whatever means the US imperialism might consider necessary as it thrashes about seeking to counter its economic and financial decline—is very much present, even as Trump's threats are passed over.

In her article, Martin cited the remarks of David Skilling and John Llewellyn of Independent Economics, a global financial consultancy firm in a recent note to clients.

"Monetary policy support," they wrote, "will likely involve financial repression, with lower real interest rates for the US (and others) as yields are capped in various ways and ownership of Treasuries is required or incentivised.

"The US will use economic and geopolitical pressure to attract capital, in increasingly aggressive ways. These capital wars stand to be markedly more consequential than the recent trade wars."

Such comments are an expression of the fact that with the failure of previous measures to halt it, the deepening US debt crisis, exacerbated by the rise in interest rates, is becoming ever more deeply entwined with war abroad and the war against the working class at home now being actively developed with the ever-growing onslaught against social entitlements.