US Treasuries No Longer A "Safe Haven," Warn Experts

By Ahmed Adel
Global Research, August 28, 2024

Region: USA
Theme: Global Economy

New research presented at the Federal Reserve's annual research conference in Kansas City, Wyoming, found weaknesses in US Treasuries, once labelled a "safe haven" for securities. This is devastating news for the US as unsustainable debt and the weaponisation of the US dollar are now catching up and negatively affecting the American economy.

The study determined that the bonds are a "little different from the debt issued by the likes of Germany, Britain, France, or even big corporations," Reuters reported on August 23. According to the article, the study found that the US government has enjoyed an "exorbitant privilege" of borrowing heavily from the global market despite growing gaps in the federal budget.

"In response to COVID, US Treasury investors seem to have shifted to the risky debt model when pricing Treasuries," Reuters wrote.

The researchers found that investors did not stockpile Treasury bonds, which would have increased their volume, but rather reduced prices, as they did with bonds from other countries.

> "In the risky debt regime, valuations will respond to government spending shocks, which may involve large yield changes in bond markets," the researchers explained.
>
> "In this environment, large-scale asset purchases by central banks in response to a large government spending increase have undesirable public finance implications," they wrote. "These purchases, which provide temporary price support, destroy value for taxpayers but subsidise bondholders" and may also encourage governments to overestimate their true fiscal capacity.
>
> "Policymakers, including central banks, should internalise this shift when assessing whether bond markets are functioning properly," the authors concluded.

This is an unsurprising outcome considering that four decades ago, the US national debt hovered around $907 billion, while today, according to the US Treasury Department, it exceeds that amount dozens of times over, reaching over $35 trillion.

In September 2022 alone, US President Joe Biden approved nearly $4.8 trillion in loans, including $1.85 trillion for the American Bailout and $370 billion for the bipartisan infrastructure bill. Rising interest rates over the past year and a half have compounded the situation, increasing the cost of servicing the national debt.

In fact, interest payments on the national debt are expected to be the fastest-growing part of the federal budget over the next three decades, according to the Committee for a Responsible Federal Budget. Thus, by 2032, payments are expected to triple to $1.4 trillion, and by 2053, interest payments are expected to rise to $5.4 trillion. To put that in perspective, that will be more than the US spends on Social Security, Medicare, Medicaid, and all other mandatory and discretionary spending programs.

Biden is set to hold the record for increasing the country's public debt among all American leaders, and by the end of his term, the debt is expected to reach $36.3 trillion specifically. Since the start of the Biden administration, US debt has increased by $7.3 trillion, surpassing the $35 trillion mark for the first time in history in July.

Between January 2021 and July 2024, the average increase in US debt was 0.026% per day. If these rates continue, the US public debt will grow by another $1.3 trillion by the end of Biden's term. Thus, by the end of the Democrat's four-year term, the amount could increase by a record $8.6 trillion.

So far, Biden's predecessor, former President Donald Trump, who is trying to return to the White House, is the record holder for the increase in the US indicator. During the Republican term, the debt grew by almost $7.8 trillion. However, more than half of this increase occurred in 2020, when the COVID-19 pandemic began. The third worst result was under Barack Obama when the US debt grew by $5.7 trillion in his first term.

The last time the country saw a president reduce the indicator was more than 100 years ago when Calvin Coolidge (1923-1929) reduced the country's debt by almost a third.

According to polling conducted exclusively for Newsweek by Redfield & Wilton Strategies and published on August 25, 46% of Americans believe the economy is in a worse state than in January 2021, when Trump left the White House, compared to 33% who said it has improved. In effect, Americans feel the economy's decline as the cost-of-living crisis deepens.

This is coupled with the fact that US Treasuries are no longer a safe bet, showing that the US is far from being the global economic hegemon it once was. Yet, despite this reality, the US continues to use its economy as a weapon against countries outside of its control.

As a Professor of Political Economy Glenn Diesen highlighted in his response to the Reuters article,

> "It appears that fiscal irresponsibility, unsustainable debt, weaponisation of the US dollar, and legalisation of theft reduce demand for US Treasuries."

*

This article was originally published on InfoBrics.

Ahmed Adel is a Cairo-based geopolitics and political economy researcher. He is a regular contributor to Global Research.

Featured image is from the Public Domain

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Ahmed Adel