US “debt bomb” ticking louder

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The increase in the US budget deficit for the fiscal year of 2024, announced by the Congressional Budget Office (CBO) earlier this week, has raised decisive economic and political issues. While generally covered over in the official US election campaign, these are of decisive importance for the working class both in America and internationally.

The immediate economic question is: when will the rise in US government debt give rise to a crisis for the US dollar, a major meltdown in the market for debt, the Treasury bond market, or some other area of the financial system? Government debt is now heading towards $36 trillion and increasing at a pace which is regarded as “unsustainable” by Federal Reserve chair Jerome Powell, along with many others.

And flowing from this, how will the political establishment, whether the reins of government are in Democratic or Republican hands, respond to such a shock as they organise attacks on the working class to pay for a deep-seated crisis in the financial system?

According to the CBO, the US budget deficit for the fiscal year of 2024 rose to $1.8 trillion and hit its highest level for three years. That was only outstripped by the major expenditures as a result of the COVID pandemic, much of which went to the largest US corporations which also received massive support from the near-zero interest rates set by the Fed.

Deficits have been climbing sharply in recent years, but they have been considered manageable because of ultra-low interest rates. That situation has changed as a result of the interest rate hikes by the Fed, and it is indicated in the budget data.

Last year, the US government had to pay $950 billion in interest, a 34 percent increase of $240 billion from the year before. This is almost certain to go up in coming years.

Interest payments were higher than both the entire military budget of $826 billion or Medicare, $869 billion, and now comprise 14 percent of the entire budget. That is, one dollar out of every seven of government spending is made to the holders of government debt, meaning that borrowing is increasingly being used just to pay the interest bill on past debt.

The CBO has estimated that the debt will continue to rise dramatically in the immediate future and will be greater than $50 trillion by the end of this decade. By 2027 it calculated the size of the debt compared to the overall economy will exceed its all-time high of 106 percent of GDP, reached as a result of World War II.

That debt did not produce a crisis then because of the expansion of the US economy in the post-war boom. That experience is not going to be repeated because economic growth over the longer term is only around 2 percent. Moreover, the US is not the industrial powerhouse it was in the immediate post-war years, but is marked above all by the growth of financial parasitism.

Commenting on the latest numbers Doug Holtz-Eakin, the president of the conservative Committee for a Responsible Federal Budget, put a spoke in the wheel of the Trump economic campaign with its claims that major tax cuts, combined with tariff hikes, will boost the US economy and bring down the deficit.

“You cannot grow your way out of this problem,” he said.

The US has only been able to lift its debt to extraordinary heights because of the role of the dollar as the international currency. But the dollar is no longer backed by gold, as a store of real value, but is a fiat currency. That is, it only functions as world money because it is considered to be backed by the power of the American state. If that confidence is undermined or wanes significantly then it can lead to a dollar crisis.

Such a crisis may not appear to be on the immediate agenda but as the late German-American economist Rudiger Dornbusch once noted: “The crisis takes a much longer time coming than you think, and then it happens much faster than you would have thought.”

And there are clear indications that a crisis is developing. The price of gold, the ultimate store of value in the capitalist monetary system, is regularly reaching new record highs with numbers of central banks increasing their gold holdings. There is increasing nervousness in the US Treasury market as to whether it can absorb the increase in government debt and there has been lacklustre demand for new US debt at recent auctions.

There are also moves by a number of countries, including China, Brazil, Turkey and others, such as the US ally Saudi Arabia, to arrange trade transactions in currencies other than the American dollar.

This movement has attracted the attention of Donald Trump who recently warned that the loss of the dollar’s global status would be the equivalent of losing a war as he threatened to impose a 100 percent impost on goods from countries that sought to move out of the dollar system.

The underlying and mounting problems in the US economy and what they portend are receiving virtually no coverage in the so-called mainstream media. Just as they wave away the real danger of nuclear war with the claim that Russian President Vladimir Putin is bluffing, so they believe that if they just ignore the signs of a developing financial crisis, it will just go away.

According to Jason Furman, a former top aide in the Obama administration, and now at Harvard, there is no need for concern. "We've learned we borrow more than we could. And we've actually borrowed more than we expected," he told the *Wall Street Journal* last month.

There is, however, some recognition in the upper echelons of financial circles that major problems are developing, including the growing deficit and the fact that inflation, leading to elevated interest rates, is a significant risk.

In two separate public appearances this week, reported by the *Australian Financial Review,* JP Morgan chief Jamie Dimon and hedge fund mogul Ray Dalio both sought to direct attention away from the issue of when and how big the next Fed interest rate cut might be.

Dalio said those who were looking for further large rate cuts were "getting ahead of themselves" and the risks were more to the upside than the downside as he pointed to what he called the "ticking time bomb of the debt situation" in the US.

Dimon said there should be concern about the US deficit, noting that in the early 1980s when inflation was 14 percent the deficit was 3.5 percent of GDP compared to 7 percent today. Total debt was 35 percent of GDP compared to about 100 percent at present.

Under conditions where military expenditure will increase whichever party wins the presidential election, the knives are being sharpened for a major attack on social services spending.

Both Kamala Harris and Trump have said they will not touch two of the biggest items in the budget, Social Security and Medicare. But election commitments are one thing, economics and finance are another.

Reflecting widely held views in the economic establishment, Romina Boccia, director of budget and entitlement policy at the right-wing Cato Institute, a long time advocated of so-called smaller government, told the *Journal* Medicare had to be made more efficient and Social Security benefits cut.

"Any fiscal plan that doesn't address these programs is basically not addressing the root cause of higher spending," she said.

The key issue is how this frontal assault on the working class is to be carried out. That question is also the subject of discussion behind closed doors in ruling circles as the debt crisis deepens.

A recent opinion piece by Mitch Daniels in the *Washington Post* entitled "The Day the Dollar Died is coming. What's the plan?" provided some insight into those deliberations.

Daniels, a former Republican governor of Indiana, who served in both the Reagan and George W Bush administrations, framed his comment around a conference he said should be called "devoted to preparing a plan for the collapse of the US public debt market and the dollar's world reserve status—and the economic and social consequences of such an event."

He noted that with deficit close to $2 trillion and debts about to surpass the nation's GDP, "only a dwindling number of denialists doubt that a cataclysmic reckoning, including double-digit damage to Americans' income growth lies ahead." It was "past time to prepare."

The focus had to be planning for the day when, not if, "tens of millions of Americans are told that the trust funds are not trustworthy, and that the safety-net benefits they have been receiving are about to be reduced, perhaps drastically."

Daniels warned that messages to an enraged public that they had to deal with the necessities of the situation would not suffice.

Economic collapse, he stated, would unleash violent reactions raising the question of which of the president's "more than 100 unilateral powers might be needed." This could include martial law and there had to be a plan to determine "what is and is not permitted by the language of the Insurrection Act [which Trump wanted to invoke in 2020], authorising the use of the military not just to 'suppress the rebellion' but also to suppress an 'unlawful combination or conspiracy' that 'hinders the execution of the laws.'"

It would be a grave mistake to dismiss such analysis as "musings" with no real basis. In fact, these conclusions flow from the objective logic of economic and financial processes.

Just as there is a discussion in ruling circles about how to deal with the mounting economic crisis, so the working class must make its preparations. It must ground itself on the objective logic of events and begin a political fight for the overturn of the bankrupt capitalist system and its inherent drive to dictatorship. That is the fight to take political power and establish a workers' government and socialism.