

Opinion **Inside Business**

The US budget is like an aggressive leveraged finance deal

Trajectory of America's debt burden feels unsustainable

PATRICK JENKINS



The US debt clock was established in 1989 when national borrowing was less than \$3tn. Soon the number will rise above \$35tn. © Mario Tama/Getty Images

Patrick Jenkins 9 HOURS AGO

Not far from Times Square in Midtown Manhattan, a giant screen displays a fast-changing string of 14 digits. Soon the number will flip above \$35tn, as the quantity of US government debt spirals to a new record. There is space on the US debt clock for another couple of digits, allowing the display to reach into quadrillions. The only snag: the trajectory of America's debt burden already feels unsustainable.

Over dinner at the swanky Cafe Boulud on New York's Upper East Side, Hungarian-born brokerage billionaire Thomas Peterffy regaled me with stories of his business successes while also striking an alarming note about the debt burden. "It's inevitable," he predicted. "Whether it's five years from now, or 20 years from now, the US will default on its national debt."

Peterffy, who grew up in communist Hungary, sounded strangely sanguine about the idea, citing the debt restructurings of other major economies, including during the Eurozone crisis of the early 2010s. But there can be little question that for the world's biggest economy, and the home of the world's reference currency, debt default would cause a major global meltdown.

Already issuance has ballooned and the US Federal Reserve is no longer sweeping up Treasuries under its quantitative easing programme, now being reversed. Concerns

have [also mounted](#) about the use of highly leveraged basis trades, which involve hedge funds arbitraging Treasury bonds and futures. Regulators and financiers fear that a rapid unwinding of positions could dislocate the market, in a way similar to the UK gilts crisis that followed Liz Truss's unfunded "mini-Budget" tax cuts in 2022.

Plenty of economists dismiss such doom-mongering. [Paul Krugman, writing](#) in the New York Times last week, posited that raising tax income or cutting expenditure by just 2.1 per cent of GDP would be a perfectly manageable way to fix the budget deficit. There is precedent for a swift fix, too. During Bill Clinton's 1990s presidency, a combination of good policy and luck produced strong growth, turning a strained debt burden into a budget surplus.

And yet, a similar scenario today seems far-fetched. Outgoings have been inflated by a sharp escalation in defence spending amid heightened geopolitical tensions, and big spending to reboot the economy after the Covid pandemic. Joe Biden has also felt obliged to extend Trump's 2017 tax cuts. With an election looming, neither Biden nor Trump is promising tight fiscal discipline. The prospect of bipartisan collaboration to tackle rising debt — [the abandoned dream](#) of Barack Obama's National Commission on Fiscal Responsibility — feels more distant than ever.

In the eyes of one senior Wall Street banker, that leaves America's national finances looking disturbingly like a leveraged buyout. With [\\$1tn of interest payments](#) to service every year and interest rates stubbornly elevated, the US is making an aggressive bet on future growth reminiscent of the punchiest private equity deal. Ironically, private equity refinancing risk is high on the agenda of regulators in both the US and UK.

A yet more disturbing analogy might be with the commercial real estate sector — also highly leveraged and under pressure from a combination of higher interest rates and lower demand for offices. Property brokers reckon that at least a third of the \$2tn of US commercial property loans [that need refinancing](#) by 2026 will fail to raise the money. That could spark another round of the regional banks crisis that felled the likes of Signature Bank last year: hundreds of small regional banks, the mainstay of commercial real estate lending, could be at risk.

That kind of outlook should resonate with property developer-cum-ex-president Donald Trump. But if re-elected, he is expected to keep up a high pace of government spending, while cutting taxes — or at least further extending the cuts he initiated seven years ago. That would be a long way from the fiscal conservatism that traditional Republicanism would dictate, and would do little to make the budgetary deficit sustainable again.

Such ironies would not be lost on Seymour Durst, the late real estate mogul who took a cautious fiscal approach while building the Durst Organization property empire, worth more than \$8bn at the last count. It was he who in 1989 established the US debt clock, when national borrowing was less than \$3tn. It's a fair bet that he'd be horrified by today's runaway debt.

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