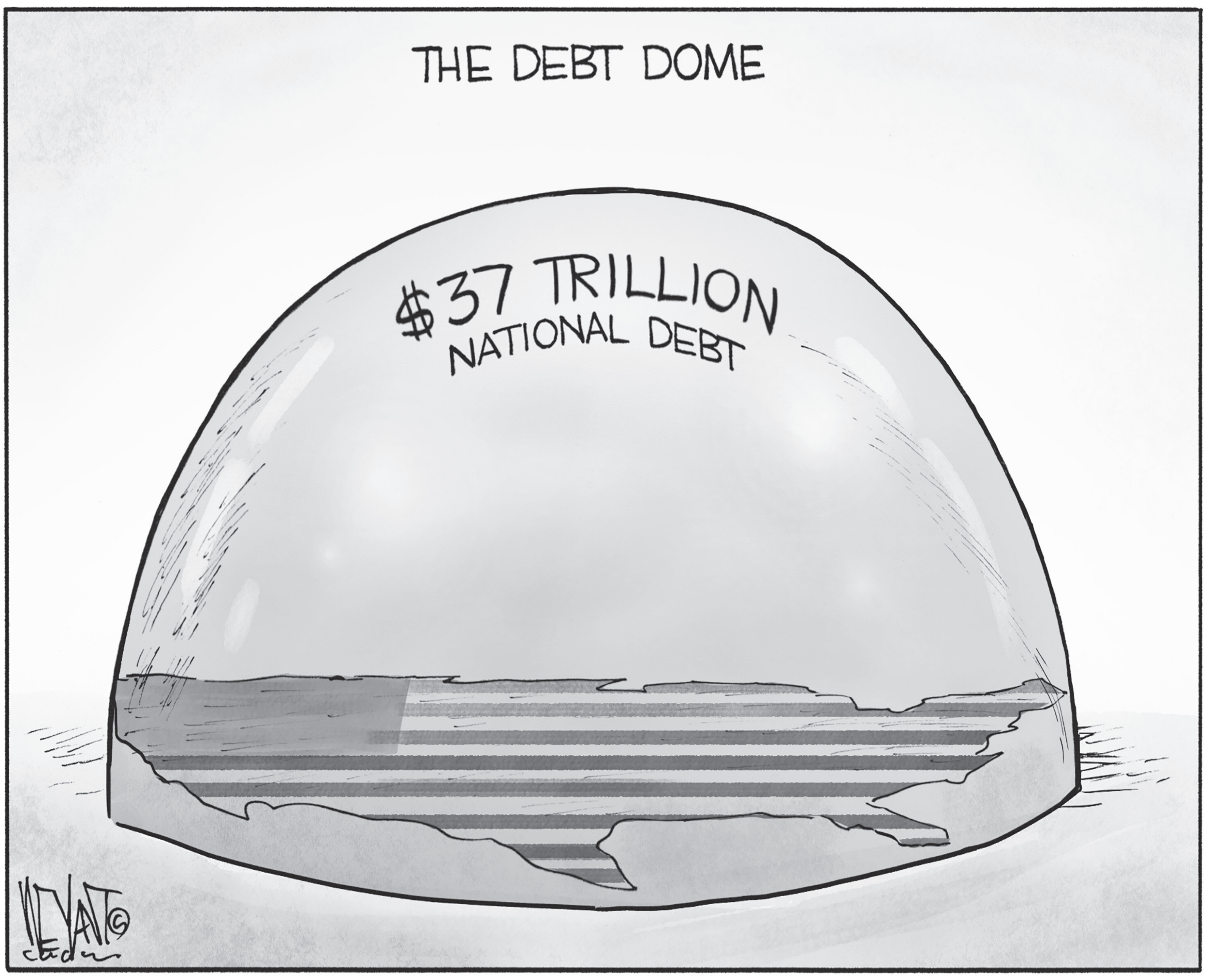
Exploding indebtedness makes a fiscal crisis almost inevitable



GEORGE F. WILL
The Washington Post

Jamie Dimon, the CEO of JPMorgan Chase, was more tantalizing than illuminating when he recently said, regarding the nation's fiscal trajectory, "You are going to see a crack in the bond market." Details, even if hypotheticals, would be helpful concerning the market where U.S. debt is sold.

Twenty-five percent of Treasury bonds, about $9 trillion worth, are held by foreigners, who surely have noticed a provision in the One Big Beautiful Bill (1,018 pages). Unless and until it is eliminated, the provision empowers presidents to impose a 20 percent tax on interest payments to foreigners. The potential applicability of this to particular countries and kinds of income is unclear. It could be merely America First flag-waving.

But foreign bond purchasers, watching the U.S. government scrounge for money as it cuts taxes and swells the national debt in trillion-dollar tranches, surely think: What the provision makes possible is possible. Such a significant devaluation of foreign-purchased Treasury bonds would powerfully prod foreign investors to diversify away from Treasurys, which would raise the cost of U.S. borrowing an unpredictable amount.

Concerning which, Kenneth Rogoff is alarmingly plausible. Before he became an intergalactically famous Harvard economics professor, and a peripatetic participant in global financial affairs, he was a professional chess player. Hence his penchant for thinking many moves ahead.

"I have observed that, although the financial system evolves glacially," he writes in his new book "Our Dollar, Your Problem," "the occasional dramatic turn is to be expected." What is expected is considered probable. The nation's exploding indebtedness could presage a "dramatic turn."

"The amount of marketable U.S. government debt," Rogoff says, roughly equals "that of all other advanced countries combined; a similar comparison would hold for corporate debt." Furthermore, when in 2023 Silicon Valley Bank and some other small and medium-size banks became actuarially bankrupt because of rising interest rates, the Federal Reserve created a facility that implicitly backstopped potential capital losses of all banks, estimated to be more than $2 trillion.

The facility has gone away, but the mentality that created it remains. Therefore, so does another potential large increase in government debt. "The U.S. government has continually increased the size and scope of its implicit bailout guarantees," Rogoff writes, "creating what might be termed 'the financial welfare state.'"

Those of the "lower forever" school of thought regarding interest rates are serene about the challenge of servicing the national debt. Rogoff, however, notes that when Ben Bernanke left as Federal Reserve chair in 2014, Bernanke, then 60, "reportedly began telling private audiences that he did not expect to see 4 percent short-term interest rates again in his lifetime." Eight years later, such rates reached 5.5 percent, and long-term rates have risen significantly.

Rogoff thinks today's higher rates are likely the new normal, resembling the old normal, for many reasons, including "the massive rise in global debt (public and private)." And "if the worldwide rise in populism leads to greater income redistribution, that too will increase aggregate demand, since low-income individuals spend a higher share of their earnings." This would be an inflation risk.

Rogoff warns that many believers in "lower forever" interest rates express the human propensity to believe in a "supercheap" way to expand "the footprint of government." The nation is, however, "running deficits at such a prolific rate that it is likely headed for trouble."

He rejects "lazy language" about U.S. government debt obligations being "safe." Debt is a temptation for inflation, which is slow-motion repudiation of debt compiled in dollars that are losing their value. (Ninety percent of U.S. debt is not indexed for inflation.) When President Franklin D. Roosevelt abrogated the gold standard backing the currency, the Supreme Court ruled it a default. Also, holders of U.S. bonds were not safe from significant losses during this decade's post-pandemic inflation, or from huge losses during the 1970 inflation.

Investors watching U.S. fiscal fecklessness might increasingly demand debt indexed to inflation. "How sure are we," Rogoff wonders, "that no future president would seek a way to effectively abrogate the inflation link out of frustration" that it impeded "partial default through inflation." A president could call this putting America first.

Projecting the exact arrival of an economic crisis is, Rogoff writes, "extremely difficult," an uncertainty shared with medicine. Physicians can identify factors that increase risks of heart attack in patients who nevertheless escape them. And low-risk patients can suffer attacks after being deemed fit as fiddles. Still, today reasonable fiscal physicians discern not just a risk but a high probability of a debt and/or inflation crisis.

George Will is a national columnist.

AMERICAN OPINION

Deportations alone can't fix US immigration problems

BLOOMBERG

Underlying the demonstrations and street clashes of recent weeks is a dysfunctional system of immigration enforcement that needs to be fixed. With a bit of goodwill — from both the president and his opponents — that shouldn't be too much to ask.

To much public outcry, federal immigration authorities have been detaining unauthorized migrants at job sites, courthouses and other public places in recent weeks. They're doing so both to meet the administration's steep deportation quotas and because too many state and local officials are refusing to cooperate.

Although this strategy hasn't resulted in a notable rise in deportations, it has created significant disorder. Anxiety has rippled through immigrant communities as job-site raids have picked up. Protests have spread and at times turned violent. Some attention-seeking politicians have attempted to interfere with law enforcement. Those immigration officers just looking to do their jobs are caught in the middle.

Amid all this, "mass deportation" remains the unapologetic goal of the White House . Politics aside, this is hopeless. Resources for the task are limited — Immigration and Customs Enforcement has only about 7,700 field officers nationwide — and practical impediments abound. Public support has already begun to erode as ICE officers are seen breaking up families and ejecting otherwise blameless workers. (The disastrous family-separation policy of 2017 offers a further case in point.)

Moreover, as the president himself has conceded, unauthorized migrants — like it or not — are deeply integrated into the U.S. economy. Referring to farmers, he said: "They have very good workers, they've worked for them for 20 years. They're not citizens, but they've turned out to be great. We can't take farmers and take all their people and send them back." In a brief acknowledgment of this reality, the administration halted enforcement at farms, restaurants and hotels earlier this month before reversing course.

In fact, the original instinct was right. It would be far better — and more popular — to focus on criminals and threats to national security. "Felons, not families" was the agreeable slogan of President Barack Obama , who deported many times more migrants than this administration has. Adapting this approach would both serve the president's goals and mitigate the risks of the current strategy.

One option, which the administration has started to take up, involves so-called 287(g) agreements, under which local police departments alert immigration authorities when they arrest someone who turns out to be subject to deportation, then transfers them to federal custody, usually at a jail. More such agreements should ease demands on ICE while boosting justifiable deportations. Local leaders inclined to resist should remember it will also reduce community disruptions and economic harm.

Beyond such measures, a bigger rethink is needed. By now, Republicans should grasp that deportations alone can't resolve America's immigration dilemmas and that wanton raids are disrupting lives and businesses to no productive end. Democrats should accept that refusing to comply with federal immigration enforcement — or actively impeding it — undermines the rule of law, creates needless risks and amounts to political self-harm.

The best approach remains a comprehensive immigration deal, of the kind Congress has been trying and failing to enact for decades. Broadly, that should involve a path to legal status for unauthorized workers, stepped-up enforcement on employers, tightened asylum standards, and a more expansive and orderly system of legal immigration, including a guest-worker program.

That this is a boring and obvious solution should be a point in its favor. The current chaos serves no one well.

Grand Forks Herald

A division of Forum Communications Company
ISSN: 0745-9661 (print) and 2642-7249 (digital)
USPS 225-580 | Vol. 146 Edition 8
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www.grandforksherald.com
(701) 780-1100 | (800) 477-6572

The Grand Forks Herald is published digitally daily and printed Wednesdays and Saturdays by the Herald at 3535 31st St. Suite 205 Grand Forks, ND 58203-3707. Periodical postage paid at Grand Forks and additional mailing offices.

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