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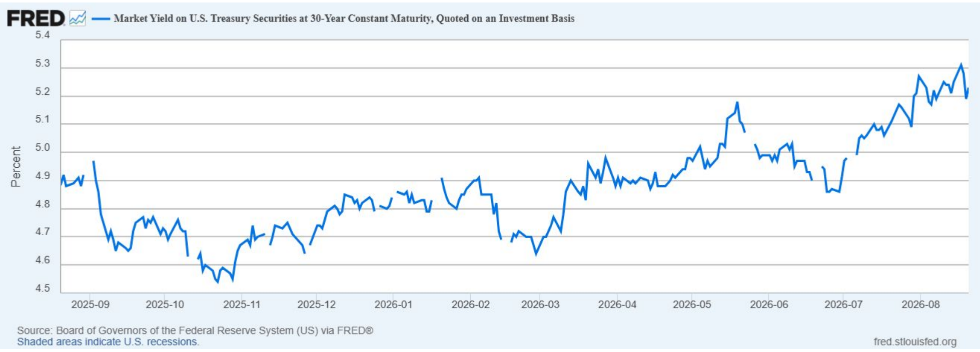
Are we watching the U.S. go bankrupt?

BY NOAH SMITH · NOAHPINION · 22 AUGUST 2026



"Gradually, then suddenly." — *The Sun Also Rises*

Lots of people are worried about rising long-term interest rates. Short-term interest rates are controlled by the central bank. But the Fed doesn't usually intervene in the market for longer-term bonds, so when these interest rates move around, it means the market is telling us something. So a lot of people were worried when the yield on 30-year U.S. Treasury bonds jumped by 6 basis points (0.06%) the other day.

Why were people scared? Well, remember that when interest rates go up, it means bond *prices* went down. Which means that fewer people wanted to buy U.S. government bonds. This could be a signal of several bad things:

1. It could signal **expectations of higher inflation**. When future money will be worth less, bond investors demand higher interest rates today. Higher inflation also means the Fed will probably raise interest rates.
2. It could signal a **loss of confidence in the U.S. government.** If people think there's a possibility that the U.S. won't repay its debts, they will charge a higher risk premium to hold that debt. These doubting investors are sometimes called "bond vigilantes". Bond vigilantes could be scared by soaring U.S. debt levels and deficits, and/or by irrespons-

> ible geopolitical and economic policies from the Trump administration.

Here's John Cochrane on the specter of the bond vigilantes:

> Unsustainable fiscal policies can only go on so long. Eventually bond investors decide that the US will not in the end do the right thing after trying everything else, and default, expropriation, taxation, capital controls, or sharp inflation is on its way. They stop buying long-term bonds especially, and look to the comfort of short term bonds...For some reason there is limited demand for long-term treasury debt...
> The beginning of a global sovereign debt retrenchment would show up first in a feeling of limited demand...Investors, seeing trouble demand a larger risk premium for longer term debt...Moving to short maturity structures is a classic symptom of trouble ahead.

Among the people who were scared by the rise in interest rates, apparently, were the Trump administration. Higher long-term interest rates mean higher mortgage rates,1 which make American voters mad. They also make it harder for the U.S. government to finance its enormous deficits. So Treasury Secretary Scott Bessent announced that the government was intervening in the bond market, with a program to buy long-term U.S. Treasury bonds. This pushed up bond prices — and pushed down interest rates — for exactly one day, but then the bond markets bounced right back:2

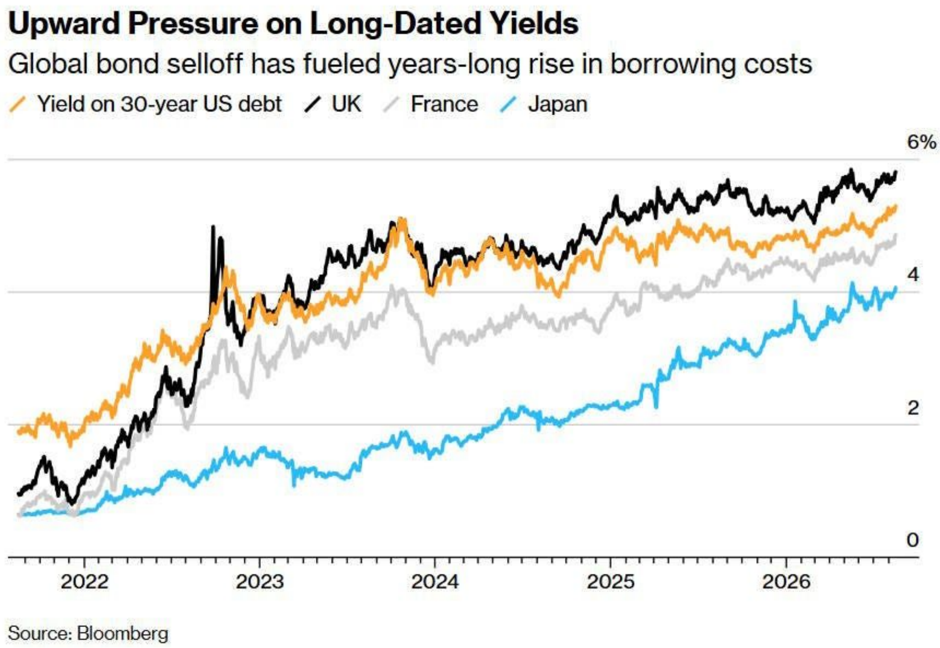
> US Treasuries fell a day after the Trump administration's surprise decision to increase buybacks of longer-dated bonds...The 30-year yield on Thursday rose over seven basis points to as much as 5.27%, where it was just ahead of the US Treasury Department's announcement early Wednesday.

So are we watching the collapse of confidence in the U.S. government? Is this the beginning of bankruptcy for Uncle Sam? Probably not yet. The underlying trends of excessive borrowing and boneheaded policies do bear keeping an eye on, and collapses of investor confidence can happen fast once they begin. But it's unlikely that a true sovereign debt crisis has begun.

How much are interest rates actually up by?

One reason I'm not terrified by the rise in long-term rates is that it's not actually that big of a rise!

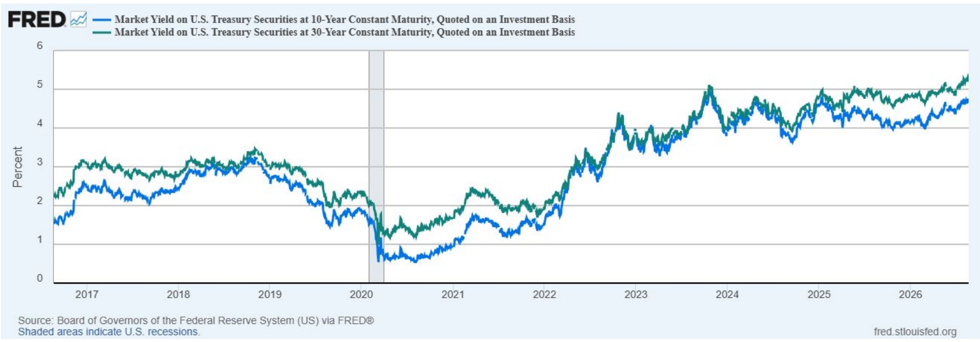
In stories about rising rates, you see a lot of charts about how it's a global phenomenon:



Source: Bloomberg

This has interesting implications, but first, notice that except for Japan, most of the rise was actually in 2021-2023. So whatever happened to make bond investors demand higher rates, most of it happened years ago.

Here's just the U.S., zoomed out to cover the last decade:



Long-term rates fell in 2019 and bottomed out during the pandemic, then in 2022 and 2023 they had a big sustained rise. In comparison, the rise since early 2026 has been very small — only a few tenths of a percent.

That *could* be the beginning of a catastrophic rise, and of course when you're carrying as much debt as the U.S. government is, even a small increase in borrowing costs can be a headache if it's sustained over a long period of time. But I just can't look at that little wiggle in 2026 and see evidence of a bond market collapse. You should be very worried about the U.S. national debt, but this rise in rates should only make you a tiny bit more worried, if at all.

So what is behind the (small) rise in long-term rates? There are three basic possibilities.

Is it inflation?

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