



Trump, Bessent Tout a New Tack on Debt

Leaders said they would wait for rates to fall before issuing longer-term bonds

BY SAM GOLDFARB

The Trump administration is making government borrowing exciting again.

For decades, the Treasury Department's choice of what mix of bonds to sell investors has been boring by design. Officials stressed they weren't trying to get the best rate by market timing, worried that could invite speculation and uncertainty, eventually driving rates higher.

The Trump administration is sending a different message. Calling himself "the nation's top bond salesman," Treasury Secretary Scott Bessent has talked openly about waiting for interest rates to come down before considering the increases in longer-term debt issuance that he had hinted would be necessary before joining the government.

Also loath to lock in borrowing costs that he thinks are too high, President Trump has suggested that Treasury should only issue debt that matures in about six to nine months until Federal Reserve Chair Jerome Powell is replaced next year.

"What I'm going to do is I'm going to go very short-term," he said in June. "Wait until this guy gets out, get the rates way down and then go long-term." Exactly how the government borrows has become a bigger issue recently because of how much it is borrowing. The federal budget deficit is currently running at roughly \$2 trillion annually. The government fills that gap by selling debt of varying maturities, from bills that mature in a year or less to bonds that mature in 30 years.

The Trump administration will provide a formal update about its borrowing plans on Wednesday with the release of its quarterly refunding announcement. Most analysts expect Treasury to keep suggesting that it will issue notes and bonds that mature in two to 30 years at the current pace "for at least the next several quarters." Following through on that guidance will likely soon require heavier issuance of bills to meet the government's growing funding needs, analysts say.

Deputy Treasury Secretary Michael Faulkender said in a written statement that the agency remains committed to its usual practice of issuing debt in a regular and predictable manner, as informed by input from market participants.

"It is disingenuous to suggest this Administration is deviating from longstanding debt management practices when Treasury's auction sizes and market guidance have not changed since the last Administration," he said.

Choosing what debt to issue involves trade-offs. Shortterm borrowing is generally cheaper for the government, because investors tend to demand a premium to hold bonds for a longer period. But it also translates to more volatile funding costs, creating the risk of a jump in expenses if inflation rebounds and the Fed raises rates aggressively. Longer-term borrowing offers the opposite: more predictable, but typically higher, costs.

Investors have generally welcomed the signals from the administration because they fear that an increased supply of longer-term Treasuries could cause further problems for bonds, which are already facing a variety of challenges.

Concerns about inflation, tariffs, the independence of the Fed and the longer-run fiscal outlook have all caused investors to lately demand higher yields on debt that matures in about a decade or more.

Because borrowing costs for consumers and businesses are linked closely to yields on longer-term Treasuries, many say that an increase in short-term debt would be less disruptive to the markets and economy.

Still, some argue that the administration could lean too heavily on short-term debt. Others worry that the talk of market timing could backfire for reasons that past administrations have feared, raising the stakes of the government's borrowing decisions and risking a selloff if investors don't get what they expect.

"The secretary has the right to communicate policy --as he sees fit—it's a question of whether or not it's helpful to his end goals," said Amar Reganti, a fixed-income strategist at Hartford Funds who worked in the Treasury Department's office of debt management during the Obama administration.

The U.S. government wasn't always so particular about how it issued bonds.

In the 1920s, then-Treasury Secretary Andrew Mellon was celebrated for his market timing. Mellon issued longer-term bonds, "interest rates subsequently went up and people would say, 'That guy knows when to bring a bond offering,' "said Kenneth Garbade, a retired former economist at the Federal Reserve Bank of New York, who has written extensively on the history of U.S. borrowing.

A shift occurred in the 1970s when Treasury started issuing longer-term debt at regular auctions rather than on an adhoc basis. A mantra emerged that debt management should be "regular and predictable"—a technocratic exercise to find a mix of debt that would minimize funding costs over an extremely long period.

In the last administration, former Treasury Secretary Janet Yellen barely talked about debt management. Asked about it once at a committee hearing, she stuck to first principles, saying "we never time the market" and that "issuance should be regular and predictable."

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