Great Powers Don’t Default : The Dangers of Debt-Ceiling Brinksmanship

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There is no question that Washington must put the United States on a more responsible fiscal footing. Threatening to default on the country’s debt, however, is the wrong way to address this problem.

No one should underestimate the stakes involved: U.S. dollar primacy is a national treasure. It allows American households, businesses, and governments at all levels to fund themselves far more cheaply than would otherwise be the case. Families benefit from the dollar’s unrivaled status each day by paying lower interest rates on credit card debt, mortgages, and student loans. It has, at least so far, conferred on the United States the unique capacity to absorb a shock, such as the 2011 downgrade of the United States’ credit rating, without seeing the country’s borrowing costs rise or U.S. currency fall in value.

Dollar primacy also gives the U.S. government the singular power to deliver an economic shock to an adversary by excluding it from the dollar-based global financial system through sanctions. The geopolitical incentive and operational capacity to reduce exposure to dollars is on the rise, however, another debt ceiling drama needlessly gives other countries further justification to consider alternatives.

Most experts forecast that the department will exhaust its remaining headroom sometime between June and August. In the run-up to the potential default date, Congress will make the United States a global spectacle, as the world’s wealthiest and most powerful country careens toward the unthinkable.

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