

Please America, Don't Default

Written by Harry Kazianis

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HARRY KAZIANIS, JUN 28 2011

Dear America,

Please Don't Default.

Don't play a game of national chicken with the lives of billions of people. Superpowers don't do these sorts of things, ok?

So now that my begging is over, let me begin this blog post properly. This post has very little to do with the BRIC nations or military prowess. At least not directly.

Indirectly and over the course of time, it has everything to do with it. Let me explain.

This blog was intended to focus on security matters and how the BRIC nations fit into that equation. My research looks at the military posture of BRIC nations and how this can change the international system. This week, there is more pressing matters to talk about with the readers of e-IR. So an apology if my content does not match up with what I advertised. Sadly, there are bigger things at stake for all of us to discuss.

On to the point: Debt, austerity, budget cuts, unemployment, it's all I hear about lately where I reside in Rhode Island (the smallest state in the US 100 kilometers/50 miles south of Boston). Rhode Island has cut education, welfare programs to the poor, heating subsidies, plans are afoot for expanding legalized gambling, and basically cutting anything it can so the state can meet its budgetary goals. Unemployment is over 10% and does not look to be coming down anytime soon. Many of my friends and colleagues have left the state for opportunities abroad or in other parts of the country. Rhode Island, with its beautiful coastline and amazing tourist attractions may have very few natives left if things do not improve.

To be fair, not all of this was due to the "great recession". It was the final nail in the coffin that started a financial avalanche in a state with a dead factory base that left long ago.

What is happening in Rhode Island is also playing out nationally. Most US states are in the same position and can't pay their bills. Cut, Cut Cut all you can is the rule of the day.

In Washington, a larger even more important fight is coming to a conclusion. What use to be an afterthought, the raising of the national debt ceiling so America can borrow money on the financial markets, has become one of the biggest and what I feel largely underreported topics of our time (this is changing fast). What was usually a minor issue and a technical move to raise the nations debt ceiling, thanks to the newly empowered "Tea Party", has become a game of "Russian roulette". The stakes could not be any higher. If the proverbial gun does go off, the crisis that would ensue would be even worse than the 2008 financial panic.

I don't feel the US media on the left or right have given this topic the proper attention it deserves. Does anyone realize what happens if the world awakes on August 2nd and the US Congress have not raised the debt ceiling?

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Many pundits have speculated there is uncertainty to what would happen. Many in the Tea Party have stated the world will not mind if we default for a few days as long as we cut a deal to lower spending. Presidential candidate Michelle Bachman had the audacity to suggest temporarily stop paying federal workers and social security recipients and only pay the interest on the debt if no deal is reached. What a great display of potential Presidential leadership.

This the most foolish and irresponsible talk I have ever heard.

It is very clear what happens come August 2nd, CHAOS. While I am not an economist it is pretty easy to spell out what happens next:

1. Kiss that "Aaa" Credit Rating Goodbye : Lets not throw away the bedrock of American power and strength, the confidence in the American economy. Confidence in the financial markets is a key factor. Stock markets are legalized betting on the confidence and strength of companies. The bond market where nations borrow money is essentially based on the confidence of a nation to pay back the bond it takes out. Perception is king. Confidence in America is extremely important. Lets not lose this powerful asset.

Does anyone want the bond market starting to focus in on the financial issues plaguing our nation? You all saw what the bond market did to Greece, Ireland and Portugal; do you really want that sort of financial attack coming here? Not a smart move.

2. If when we default, America's interest payments sky rocket . You think austerity in Europe is bad? Imagine America immediately after a credit rating downgrade after defaulting losing hundreds of billions of budgetary dollars in one day due to higher interest payment. When you owe trillions of dollars, interest payments could suck up so much of the national budget, we would be lucky to cut as deep as Greece. Scared yet? You should be.

3. Who would want American bonds if we default ? Do you think our Chinese, Saudi and all other creditor nations or groups who buy our debt will continue to do so if we default? Nope. American debt is attractive not because of the 2.00% or so interest rate it pays-out, but because it is considered safe. No safety, no purchase.

Yep, there is more.

4. American Political Will: This issue really goes to the heart of American political will. Will America's leaders compromise on an issue that is largely made up? We have passed countless debt increases in the past, over 74 to be exact (depending on the text of the bill and how you count it). The Tea Party is driving an agenda that literally could cause national destruction.

5. American Decline will be Fully Cemented in World Opinion : Global powers don't default on debt. It's a pretty simple notion. If we default, American creditability will be shot. World opinion will shift from suspecting American decline to fully cemented into people's minds. Who is going to follow the lead of a nation who can't even pay its bills, the most basic function of government? Very few.

6. The International System Will Begin its Move Away from American Hegemony to Instability : This is where the BRIC nations come in. If America defaults, nations will quickly realize if American can't even pay its bills or come to a consensus to pay its bills, how can we trust it will guarantee the basic security structure it created in the first place?

So what will nations do? I believe arms sales will go through the roof. If America defaults, loses its AAA credit rating and now must pay hundreds of billions more in interest, America will have to cut back severely its forward deployed forces. Nations all over the world will realize the American "cop" on the beat maybe gone forever. They will come to the conclusion they will have no choice but to guarantee their own security. This does not sound good no matter how you rationalize it. The chances of war and conflict go through the roof. An international system guaranteed by American power and influence will over time disappear. A rapid disintegration of American power due to self-created budgetary madness will only invite chaos.

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So...to President Obama, the Tea Party, and anyone else who has a voice in this debate, please, don't do it.

Make a deal.

Better yet, pass the debt ceiling increase without any other legislation.

What is needed is the political will to attack America's budgetary quandary. Taxes need to be raised. Yes, I said it. TAXES NEED TO BE RAISED. Do we really need tax breaks for oil companies or billionaires?

Please, don't cut the budget on the backs of the poor or the middle class.

When austerity comes, let it be a balanced austerity. Let everyone sacrifice. Spread the austerity over all parts of society. Don't spare the rich, don't spare anyone. It's the only fair way to do it. Let's rewrite the tax code. Let's us set a new course of national renewal by investing seriously in clean energy. Let America lead the world in the global system we created by prioritizing those things that are important. The war in Afghanistan must be winded down as fast as possible without throwing away gains we have made.

Simply Put: Don't cause a financial panic when one does not need to be made. With all the problems in Greece and a world that is still very financially rocky, why make things worse?

In fairness to the Tea Party, I understand full well why you choose to start this battle. America borrows too much, it spends too much. Keep in mind; we would not be in this mess without the Bush tax cuts in 2001 and 2003, 9/11, two wars and a financial crisis. But, who is counting?

Many around the globe agree in principal with what the Tea Party is saying. I agree.

But putting a gun to a drug addict's head and threatening to pull the trigger if they don't clean up is not away for them to stop the habit. That is in affect what you are doing. We can't threaten national suicide if the problem is not solved immediately. You have begun the debate and you deserve to be applauded. We can work together to come to a national consensus on what the priorities of this nation should be without threatening its very future. Let us appeal to common sense.

This is a problem America can solve. We have solved larger problems in the past. However, we can't **not** come to an agreement. Both sides in this debate need to bend. We do not have the luxury of failure. Not with these stakes. Not with billions around the world who would be affected.

Please America. Don't Default.

Your Comments as always are appreciated and encouraged.

About the author:

Harry serves as Editor-In-Chief for The Diplomat as well as a CSIS: WSD Handa Fellow. He has served in the past as Deputy Editor for e-IR. He specializes in security studies with a keen interest in modern Chinese military strategy

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