

U.S. Dysfunction Clouds Economic Diplomacy Efforts

Treasury Secretary Janet Yellen calls on Congress to authorize more economic support for Ukraine.



By Alan Rappeport

Alan Rappeport is traveling with Treasury Secretary Janet L. Yellen to the annual meetings of the World Bank and I.M.F. in Marrakesh.

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As Treasury Secretary Janet L. Yellen arrives in Morocco this week to meet with her international counterparts, she will be representing a nation that has led the world's post-pandemic economic recovery but is now struggling with potentially destabilizing political dysfunction.

America came perilously close to defaulting on its debt over the summer and tiptoed toward a government shutdown last month as Republicans fought over the proper levels of federal spending and whether to bankroll more aid to Ukraine. Those events culminated in last week's ouster of Representative Kevin McCarthy as House speaker, a development that is raising questions about whether the United States can actually govern itself, let alone lead the world.

The political dynamic is expected to strain the credibility of the United States at the annual meetings of the International Monetary Fund and the World Bank, which begin on Monday in Marrakesh. Ms. Yellen is expected to press European governments to provide more funding for Ukraine and push creditors like China to relieve the debts of poor countries, including many African nations.

The meetings are taking place amid heightened global uncertainty because of the weekend attacks that Hamas waged upon Israel, which threaten to spiral into a regional conflict. The possibility of a wider war could pose new economic challenges for policymakers by pushing oil prices higher, disrupting trade flows and inflaming tensions between other nations.

As she traveled to Morocco, Ms. Yellen affirmed America's support for Israel.

"The United States stands with the people of Israel and condemns yesterday's horrific attack against Israel by Hamas terrorists from Gaza," Ms. Yellen said in a post on X, formerly Twitter, on Sunday. "Terrorism can never be justified and we support Israel's right to defend itself and protect its citizens."

In an interview on Sunday during her flight to Marrakesh, Ms. Yellen acknowledged that other nations feel concerned and anxious about the political gridlock that has gripped the United States. However, she pointed out that other democracies face similar obstacles and that she believed America's allies would continue to be supportive of the Biden administration's efforts on issues such as protecting Ukraine and addressing climate change.

"I think they have been delighted over the last two years to see the United States resume a very strong global leadership role and they want to work with us and they want us to be successful," Ms. Yellen said.

Yet America's role as an economic bulwark against Russia's war in Ukraine has been undercut by its own domestic politics, including Republican opposition to providing more economic support to Ukraine. The United States's huge debt load and its inability to find a more sustainable fiscal path has also hurt its economic credibility.

"The rest of the world can only look aghast with trepidation at our dysfunction — lurching from threats of default, to shutdowns, the adjournment of the House because there is no speaker," said Mark Sobel, a former longtime Treasury Department official who is now the U.S. chairman of the Official Monetary and Financial Institutions Forum, a think tank. "While foreign governments have always expected a degree of hurly-burly U.S. behavior, the current level of dysfunction will surely erode trust in U.S. leadership, stability and reliance on the dollar's global role."

Eswar Prasad, the former head of the I.M.F.'s China division, added that instability in the U.S. economy could be problematic for some of the world's most vulnerable economies that rely on America to be a source of stability.

“For countries that are already struggling to prop up their economies and financial markets, the added uncertainty from the political drama in Washington is most unwelcome,” Mr. Prasad said.

The gathering comes at a delicate moment for the global economy. While the world appears poised to avoid a recession and achieve a so-called soft landing, the fight against inflation remains a challenge and output remains tepid. Economic weakness in China and Russia’s ongoing war in Ukraine continue to be headwinds.

The higher borrowing costs that central banks have deployed to tame inflation have also made it more difficult for countries to manage their debt loads.

That is a problem across the globe, including in the United States, where the gross national debt stands just above \$33 trillion. Foreign appetite for government bonds has been weak in recent months and concerns about the sustainability of America’s debt have become more prevalent. That is making it somewhat more challenging for the United States to counsel other nations on how they should manage their finances.

The most challenging task for Ms. Yellen will be persuading other nations to continue to provide robust economic aid to Ukraine as its war with Russia drags on. European nations are coping with economic stagnation, and with Congress in disarray, it is unclear how the U.S. will continue to help Ukraine prop up its economy.

Ms. Yellen said she would tell her counterparts that supporting Ukraine remains a top priority. Explaining that the Biden administration lacks good options for providing assistance on its own, she called on Congress to authorize additional funding.

“Fundamentally we have to get Congress to approve this,” Ms. Yellen said. “There’s no gigantic set of resources that we don’t need Congress for.”

Dismissing concerns that the U.S. cannot afford to support Ukraine, Ms. Yellen argued that the cost of letting the country fall to Russia would ultimately be higher.

“If you think about what the national security implications are for us if we allow a democratic country in Europe to be overrun by Russia and what that’s going to mean in the future for our own national defense needs and those of our neighbors, we can’t not afford it,” Ms. Yellen said.

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