

This Economic Weapon Is Worth Congress's Attention

di Elaine Dezenski

Washington has a foreign-policy lever that costs almost nothing, earns interest and might have helped break up the Organization of the Petroleum Exporting Countries. Currency swap lines are one of many economic implements the Trump administration has creatively deployed—only to find them constricted by outdated regulations. Congress must step in and modernize the U.S. economic statecraft tool kit.

Last month, Treasury Secretary Scott Bessent endorsed the idea of an emergency swap line to the United Arab Emirates. The U.S. would lend dollars to the U.A.E., and the U.A.E. would provide an equivalent amount of its local currency. At maturity, the principal amounts would be traded back. The U.S. earns interest for the duration of the swap while helping the U.A.E. stabilize its markets.

The U.A.E. isn't short on money. It holds \$285 billion in foreign reserves and nearly \$2 trillion in sovereign wealth funds. But it needs liquidity. The local currency is pegged to the dollar, and the closure of the Strait of Hormuz has disrupted the flow of dollars into the U.A.E. economy. Emirati officials have reportedly warned that a dollar shortage could compel Abu Dhabi to rely on Chinese yuan for oil transactions. Liquidity from a swap could help defend the peg to the dollar.

A swap would also signal U.S. support. Days after Mr. Bessent's comments, the U.A.E. left OPEC. Whether the departure was an explicit condition of a potential swap or a signal of strategic alignment, the sequence wasn't coincidental.

Mr. Bessent would likely employ the roughly \$40 billion Exchange Stabilization Fund to offer the swap line. This move wouldn't be repeatable. A swap line to the U.A.E. alone could eat up most of the fund. It operates under archaic authorities, lacking the necessary capacity and accountability to respond to additional geopolitical challenges.

The ESF—established under the Gold Reserve Act of 1934—sits in a legal vacuum. Statutes provide few guidelines as to when a swap line can be extended or under what conditions. It operates outside the normal appropriations process on a framework built for a different world. Meanwhile, China has spent a decade building yuan-denominated oil derivative markets and bilateral swap agreements designed to offer countries an alternative to dollar dependency.

Modernizing the ESF requires Congress to increase its funding so that it can handle multiple swaps. Lawmakers should also formalize ESF oversight, putting guardrails around the Treasury's use of the fund. Establishing definitive criteria for when and how swap lines can be extended, along with requiring congressional notification upon deployment, would protect market credibility without sacrificing speed.

An expanded and formalized ESF would also prevent the misuse of Federal Reserve swap lines for foreign-policy purposes. The Fed maintains its own swap lines to promote domestic financial stability, governed by the Federal Reserve Act and managed by the Federal Open Market Committee. That mandate should remain separate from foreign policy to preserve dollar credibility.

Swaps aren't Washington's only overly constrained economic lever. Tools like it—including the Defense Production Act, sanction authorities and development finance programs—are scattered across government and underresourced. Washington needs an economic Pentagon, a coordinating institution that turns these dispersed tools into a coherent strategy. The U.S. would never enter a shooting war without commanders, planners and integrated control, yet it fights an economic war without centralized leadership. A key to this transformation is a more active Congress. A statutory overhaul is necessary to modernize economic instruments and make possible their coordination. If the swap with the U.A.E. happens, it would demonstrate that the U.S. can conduct effective economic statecraft. But without proper congressional support and oversight, Washington's global economic leverage will dwindle. Congress should provide the coordinated leadership and resources needed to transform dispersed instruments into a coherent strategy for American power.

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