

The USA: default deferred

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So the [USA has a deal on debt](#). In exchange for increasing the federal borrowing limit cuts of maybe \$2 trillion in spending have been agreed, and it seems likely that the vast majority of these cuts will be borne by those least able to suffer the burden amongst the American poor.

This is as a result a day when all who campaign against injustice should rightly be angry.

And let's remember this deal is not a solution to a real problem: this deal is a solution to a crisis deliberately created by far right politicians in the USA who were determined to increase the wealth of the wealthiest Americans at cost to the vast majority of the rest of the population of that country. It looks very likely that they have achieved their goal. It's hard to celebrate a victory that will bring increased unemployment, an economic downturn, mass hardship and even a return to destitution for many Americans when that outcome has been deliberately planned and imposed by the country's own politicians.

But there's something even worse than that at the core of this deal which would be all too easy to ignore. The fact is that this deal is not going to solve the US debt crisis. By putting millions out of work, as I'm sure it will, US tax revenues will decline. Its fiscal position will deteriorate. And the Tea Party's contempt for US debt repayment has now undermined the prospect of the US maintaining its debt position into the future. All things considered the US is now viewed in a very different way from three months ago, and its prospects are much the worse as a result of this deal.

All that though is exacerbated by another consequence of this deal: US states and municipalities were already near the tipping point with regard to bankruptcy before this deal. Forty states could face insolvency already, and with the increase in social deprivation this deal will cause increasing demand on their budgets the likelihood of there being major municipal or state default in the USA is now very high indeed. With over \$3 trillion of municipal debt in the US economy, much of it owned, paradoxically, by those who support the Tea Party, the artificial crisis on federal debt may transfer

into a real meltdown for municipal and state level debt in the near future. And that will have enormous impact: this debt underpins the pensions of what is called 'Mom and Pop' America.

The fact is that as a result of this deal the Tea Party are getting close to delivering what they want, which is a failure of US democracy and the collapse of government in that country. Of course, they think that such an outcome would be benign; that the end of effective government would enhance well-being, but there is no evidence from anywhere in the world this has ever been true. There is, however, ample that the opposite is the case.

There are, therefore, lessons in what we are seeing, and good reason why progressive thinkers and activists in the UK should take serious note. First, this crisis could have been averted if the impasse on the debt had been referred to the US people in an election. But, the US system of fixed term elections prevented that. Democracy could not, therefore, prevail, and nor could the common sense of the people, who are, I'm sure, over all revolted by the process that has been ongoing in Washington. The best possible outcome of that situation, that Obama would have walked away, gone to the people, called an election and sought of mandate for his policy, was not available. This electoral deficit is, however, precisely the scenario that the coalition government is trying to introduce to the UK by introducing fixed term parliaments. It is vital on occasion that an election can be called to ensure that sound policies can be put in place. The Conservatives want to prevent that in the UK so that they can exploit the same type of situation as the Tea Party did in the USA.

Secondly, this whole arrangement, whether with regard to the federal debt limit or with regard to state budgets which are required by law to be balanced shows the absurdity of imposing a legal structure on economic management in a time of crisis. Economic management requires the government have flexibility to deal with the situations that it faces and yet dogma wants to constrain that option. Any attempt to impose a balanced budget requirement in the UK would be catastrophic for our well-being.

Third, as is all too clear, we need courageous governments to stand up against the evil politics, based on contempt for the poor, that the right wing are promoting in both the USA and the UK. Belief in the duty of the state to ensure the well-being of everyone who lives in a country has to be restored if we are to hold our heads up high again. That is why I am working on a book on this issue at the moment.

Finally, and most importantly, the lesson of Keynes has to be noted: during good times you should not borrow. But that is exactly what George W Bush did. He took a good situation that he inherited from Bill Clinton, decided to fight two wars, refused to pay for them, gave tax breaks to wealthy America at the same time and in the process completely trashed on US economy, at cost to the ordinary people of that country, and ultimately to the world at large. Keynes was right: borrowing to stimulator demand during a time of deficit is essential, but repaying debt during a time of strong market

activity is also vital. To argue, as some are, that the current crisis is a result of the failure of the Keynesian policies put in place to save the USA from a worse recession is completely false: this crisis is the result of George W Bush failing to heed Keynes during the good times, and in fairness, due to Bill Clinton letting the banks abuse their situation when he repealed the Glass Steagall Act.

There is much to learn from this current crisis, and much to fear, including the prospect of the Democrats losing the White House. But what we can do is make sure that the right wing of the Conservative party in the UK, that adores what the Tea Party is doing in the USA, does not wreak the same havoc upon our economy as the Tea Party are going to unleash in the USA