

The economics of the madhouse may get its day soon

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I admit that I keep saying that inflation will go away in the UK, but it is always subject to the caveat “assuming there is no further external shock to the UK economy”. But suppose there was?

The risk of such a shock is developing now. As [the FT notes](#):

US Treasury secretary Janet Yellen has warned of a “constitutional crisis” that risks economic and financial catastrophe if Congress does not raise the federal debt limit, with the government in danger of running out of cash in the absence of new borrowing capacity.

Right now it is thought that the Congress approved US debt limit will be hit by 1 June and the Republicans in Congress are refusing to raise it, putting at threat many of President Biden’s programmes as a result, as well as leaving open the possibility of a major US government shut down.

We have, of course, been here before. This is a common tactic, usually of the Republicans. They rather oddly let their own Presidents raise the debt limit by however much they want, and Trump did so with wilful abandon. But this time it seems like they are not in the mood to negotiate, and that the conditions they will attach to the demands that they are making are too extreme for the President to accept.

One possible outcome is a US government close down.

Another is a debt default by the US, which would result in financial market turmoil and significant increases in interest rates.

There is also a possible let out. The fourth section of the 14th Amendment to the US constitution, passed in 1866, says:

The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned.

The trouble is those words 'authorised by law'. No one is quote sure what they mean. And as a result no one knows if Biden can ignore Congress and keep issuing debt. Hence Janet Yellen's warning.

This issue needs to be watched. It could be the next big crisis. It need not happen. No one, barring right wing fanatics who hate government., will win from it. The cost to countries with debt denominated in dollars (which is much of the global south) will be economically crippling. But it may just happen.

If it does there will be ramifications here in the UK. Andrew Bailey at the Bank of England might be able to use this as the excuse to push through interest rate increases on a scale he had never imagined. I do not doubt he would, if he could. And then the madness of the US Republicans will become the living nightmare of UK households.

Would the Republicans care? I really don't think so.

The economics of the madhouse may get its day soon. We all need to worry about that.