Media Relations

UNH Economist: Failure To Raise Debt Ceiling Could Cause Global Financial Crisis

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DURHAM, N.H. – Michael Goldberg, the Roland H. O'Neal Professor at the University of New Hampshire, said the government's failure to raise the debt ceiling could cause a global financial crisis even more severe than the 2008 financial meltdown and send the United States and world economies back into recession.

"To predict what will happen in the future is tricky business; no one knows for sure what will happen," Goldberg said. "But, U.S. treasuries are a key pillar of the international financial system. If the United States was to default on them, it would shake the global credit system at its core."

President Barack Obama and Congress have until Aug. 2 to decide whether to raise the debt ceiling above $14.3 trillion. The debt ceiling is the maximum amount of money the U.S. Treasury can borrow to cover maturing securities and pay for federal spending. Earlier this week, Obama said failure to raise the debt ceiling could result in a stop in Social Security payments and veterans' checks.

According to Goldberg, if the government fails to raise the debt ceiling, the repercussions for Americans and businesses could be devastating. There could be a run on the U.S. dollar and treasury securities and into gold and other currencies. Credit would freeze, meaning that businesses would no longer be able to borrow to fund operations. Like in 2008-09, the economy would weaken, and unemployment would rise.

"The global economy is particularly vulnerable now to negative shocks with the ongoing debt crisis in Europe and the inability of officials there to get ahead of the curve. Moreover, European and U.S. governments are pursuing austerity policies, a significant drag on overall demand and thus economic activity. The last thing the global economy needs right now is for the U.S. to default on its debt and send the global financial system into crisis," Goldberg said.

Goldberg has extensively researched global and national economies, and is an expert in macroeconomics and financial markets. His ground-breaking research and development of Imperfect Knowledge Economics with colleague Roman Frydman, professor of economics at New York University, asserts that exact models of purposeful human behavior are beyond the reach of economic analysis. The economists argue that the longstanding empirical failures of conventional economic models stem from their futile efforts to make exact predictions about the consequences of rational, self-interested behavior. Such predictions disregard the importance of individual creativity and unforeseeable sociopolitical change, thus missing how markets behave and why we need them in the first place. Goldberg and Frydman are the authors of "Imperfect Knowledge Economics"(2007) and "Beyond Mechanical Markets" (2011).

The University of New Hampshire, founded in 1866, is a world-class public research university with the feel of a New England liberal arts college. A land, sea, and space-grant university, UNH is the state's flagship public institution, enrolling 12,200 undergraduate and 2,300 graduate students.

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