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AFR Briefing Paper

COST OF THE CRISIS

The cumulative economic damage caused by the financial crisis and Great Recession

The financial crisis of 2008-09 caused deep and lasting harm. Millions of Americans lost jobs or homes; many more millions suffered sharp declines in property values, retirement savings, income, household wealth, and over-all prosperity. Not since the Great Depression has the United States or the world experienced such a dramatic erosion of wealth.

The crisis triggered the nation's longest recession since World War Two, from which the economy is recovering at a painfully slow pace – a pattern in line with past financial meltdowns both here and around the world. Even today, unemployment remains **close to 8 percent**, up from a pre-crisis rate of **5 percent**, representing a net increase of more than **five million** people. Meanwhile, the average duration of unemployment has **more than doubled**, from **16.4 weeks** at the end of 2007 to **38 weeks**, according to the Bureau of Labor Statistics.

While there is no way to put a dollar figure on all the costs, this document reviews the dimensions where such an exercise is meaningful.

JOBS & INCOMES

- During or immediately following the recession, which officially ran from December 2007 through June 2009, **8.8 million Americans (**roughly **1 in 20 full-time workers**) lost their jobs. By contrast, as the Associated Press points out, the nation lost just 2.8 million jobs in the 1981-82 recession.

- Between April 2008 and October 2009, the unemployment rate doubled from **5** to **10** percent, its highest level (adjusting for demographic shifts in the workforce) since the 1930s, according to the Bureau of Labor Statistics.

- Three years later, unemployment remains **above 8 percent.** That figure represents some **12.5 million** Americans who want jobs and can't find them. **About 5.2 million** (**40 percent)** of the unemployed have been out of work for more than six months. Economic Policy Institute analysis of BLS data.

- If you add discouraged and under-employed workers, the figure is sharply higher: **23.1 million** Americans, or **14.7 percent,** as of August 2012. This broader measure, known as U-6, peaked at **17.2 percent** in October 2009. BLS.

- According to the latest Census Bureau data, median family income after inflation fell by **8 percent** between 2007 and 2011, to a level of $50,054.

POVERTY

- From a pre-recession level of **12.5 percent**, the proportion of Americans living in poverty has increased to **15 percent**, the Census Bureau reports.

- Roughly **46.2 million** Americans (**1/6th** of the adult population) are officially considered poor today, up from **37.3 million** in 2007, according to the Census Bureau.

HOUSING

- Between January 2007 and early 2012, roughly **4 million families** lost their homes to foreclosure, according to The New York Times and Realty Trac,

- Many million more families are destined to follow in their wake. Between **3.5 and 4 million** borrowers are already over 60 days past due on their loans, says Laurie Goodman of Amherst Securities. Another **four-plus million** either have a shaky payment record or owe more than the current value of their homes. That adds up to **more than seven million** homeowners facing the threat of foreclosure and eventual liquidation.

- Home values have dropped **33.7 percent** since the crisis began. As the 2012 Economic Report of the President observes, that is a sharper decline than the nation experienced during the Great Depression.

- The median value of Americans' stake in their homes fell by **42 percent** between 2007 and 2010, to $55,000, according to Federal Reserve data.

- Lost household wealth due to declining home values alone comes to **$7 trillion,** according to the Economic Report of the President.

- The homeownership rate, which peaked at **69.2 percent** in June 2004, fell to **65.6 percent** in the first half of 2012. A Bloomberg story, based on Census Bureau figures, points out that this was the lowest homeownership rate in fifteen years.

HOUSEHOLD WEALTH

- Between 2007 and 2010, the median net worth of families plunged by **38.8** percent, from **$126,400** to **$77,300**, according Federal Reserve estimates. That put Americans roughly on par with where they had been in 1992.

- By the end of 2011, Federal Reserve data put total household wealth at **$58.5 trillion**, down from **$67 trillion** before the crisis.

DISPROPORTIONATE IMPACT ON COMMUNITIES OF COLOR

- The decline in household wealth was even more precipitous for minority families, because home values typically constitute a larger fraction of their assets. From 1995 through the middle of the last decade, minority homeownership gains outpaced white homeownership gains. Since the housing bubble began to break in 2005, homeownership has fallen among all groups, but more steeply among minorities, according to Pew. Between 2007 and 2011, the homeownership rate for African Americans dropped from **47.7 percent** to **45.1 percent;** for Hispanics/Latinos, the rate fell from **48.5 percent** to **46.6 percent.**

- The typical Latino family lost **two-thirds** of its household wealth between 2005 and 2009, while African Americans families lost **more than half**, mostly due to declining home values. The Pew study also shows record-high disparities between the household wealth of non-Hispanic whites and that of blacks and Hispanics as a result of the crisis.

HEALTH AND EDUCATIONAL ACHIEVEMENT

- Prolonged unemployment is a devastating experience. Men who get laid off before retirement age experience a significant increase in mortality – a spike of **50-100 percent** in the years immediately following job loss, according to a 2011 study by economists Daniel Sullivan and Till von Wachter. Their children, as reporter Binyamin Applebaum noted in the New York Times recently, eat less well, do less well in school, and earn less over their lifetimes. And the longer the unemployment lasts, "the deeper the damage appears to be."

DIMINISHED ECONOMIC OUTPUT

- As the Congressional Budget Office noted in late 2011, "A large portion of the economic and human cost of the recession and slow recovery remains ahead." Between 2008 and 2012, the U.S. economy produced an estimated **$2.6 trillion** less than it was on track toward producing before the crisis. By 2018, when output is projected to climb back to its potential, the shortfall in economic output will have reached an estimated **$5.7 trillion**.

- Economists have estimated that more than **$6 trillion** in additional economic damage was avoided by economic stimulus measures, Federal Reserve actions, and other Federal government responses.

- Past experience with financial crises suggests that their impacts on economic growth are long-lasting, and that some of the losses are never fully recouped. By the time the story of this crisis has played out, Andrew Haldane of the Bank of England projects a cumulative loss of **$60 trillion** in global economic output.

GOVERNMENT SPENDING AND REVENUE LOSSES

- Total budgetary impact of diminished tax revenues and higher outlays for unemployment insurance, food stamps, other safety-net programs, and debt service: $3.5 trillion between 2009 and 2018, according to the CBPP.

- Combined cost per U.S. household of government spending *and* diminished home and stock values: **$108,000,** according to Pew.