AFR Briefing Paper

COST OF THE CRISIS

The cumulative economic damage caused by the financial crisis and Great Recession (updated September 2014)

The financial crisis of 2007-09 caused deep and lasting harm. Millions of Americans lost jobs or homes; many millions more suffered sharp declines in property values, retirement savings, income, and overall prosperity.

The crisis triggered the nation's longest and most severe recession since the Great Depression. The economy is still recovering, but at a painfully slow pace – a pattern in line with past financial meltdowns both here and around the world. Today, more than five years after the recession officially ended in June 2009, some parts of the economy, such as the stock market and corporate profits, have fully recovered, but many others have not. The recovery has also come more quickly to those who were already financially well off, exacerbating the decades-long trend of widening inequality.

This document reviews some of the quantifiable costs of the crisis.

Diminished Economic Output

- The total U.S. economic output loss from the financial crisis and its aftermath **will eventually be $6 trillion to $14 trillion, or $50,000 to $120,000 for every U.S. household,** according to an estimate from the Dallas Federal Reserve. If economic output never completely returns to the pre-crisis trend, they estimate the crisis cost will exceed their **$14 trillion** high-end estimate of output loss.

Unemployment and Job Loss

- **8.7 million Americans (almost 1 in 15 workers**) lost their jobs during or immediately following the recession. This is by far the most severe job loss associated with any recession since the Great Depression – for comparison, in the 1981-82 recession, 2.7 million workers (or one out of every 33 workers) lost their jobs. Bureau of Labor Statistics (BLS).

- The official unemployment rate (U-3) reached **10 percent** in October 2009, over twice its level in the months of 2007 (4.4%-5.0%). Bureau of Labor Statistics.

- The number of unemployed persons per job opening grew from 1.8 at the beginning of the recession (December 2007) to **6.2** at end of the recession (June 2009). BLS Chart 1.

- The impact of the recession on the **severity** of unemployment was at least as great as its impact on the **level** of unemployment. By 2010, the typical (median) unemployed worker took over six months to find a new job, more than twice as long as had ever been observed in any other period since World War II. BLS.

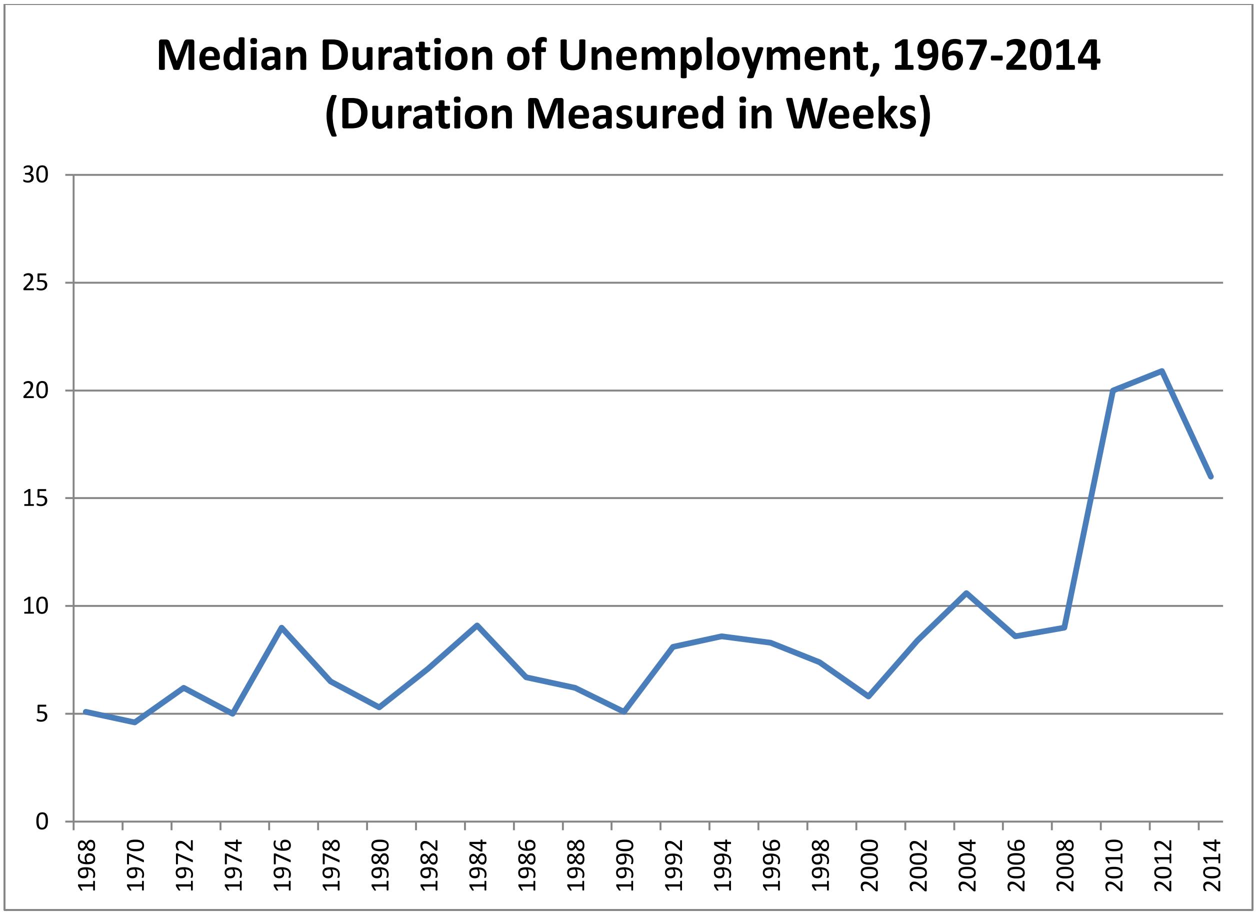
Five Years Later, the Labor Market Has Still not Recovered

- The official unemployment rate (U-3) still remains at **6.1 percent** in August 2014, more than five years after the recession officially ended, up from a pre-crisis rate of 4.7 percent (in November 2007). This means **9.6 million** people are still officially unemployed in August 2014, **2.4 million** more than the 7.2 million who were officially unemployed in November 2007. Bureau of Labor Statistics.

- The overall employment-population ratio was **59.0 percent** in August 2014, down from a high of 63 percent in 2007. This ratio, which measures the number of employed people compared to the entire population, plunged in 2008-2009 to about 58.3 percent and has just barely climbed since then. This is another indication that many people have dropped out of the workforce because of the poor job market. BLS.

- In August 2014, after several years of technical recovery, the typical (median) unemployed worker still takes over three months to exit unemployment – a longer period of unemployment than has ever been observed during any *recession* period since WWII. BLS.

- The long-term **unemployment rate was between 2.9 and 4.3 times as high in 2013** as it was in 2007 for all age, racial, and ethnic groups and in every occupation, in every industry, and at all levels of education. Such broad-based elevated long-term unemployment indicates there is nothing wrong with these workers, their skills, or their location. Rather, demand for goods and services is just so low that businesses of all kinds across the country simply have not needed to significantly increase hiring. Economic Policy Institute (EPI).



Disproportionate Impact on Young People

- In August 2014, the **official unemployment rate for those aged 16-19 was 19.6%.** Unemployment for this cohort peaked in October 2010 at 27.3% and was above 20% for 66 months from October 2008 through March 2014. BLS.
- **For those aged 20-24, the unemployment rate in August 2014 was 10.6%.** Unemployment for this age cohort peaked in April 2010 at 17.2% and has been above 10% for 76 months from May 2008 through August 2014. BLS.
- Not only have young people missed out on years of pay and benefits, but studies have shown that those who are unemployed as young adults earn lower wages for many years following their period of unemployment due to forgone work experience and missed opportunities to develop skills. Center for American Progress (CAP).

Income and Wealth

- The income of the typical American household fell by **8.3 percent** between 2007 and 2012, to a level of $51,017 (in inflation-adjusted 2012 dollars). This is easily the largest sustained decline in income seen since WWII. Today, typical household incomes are lower than they were 16 years ago, in 1996. Census Bureau data (Table H-09).

- Between 2007 and 2011, **more than half of all families lost at least 25 percent of their wealth** and one-fourth of American families lost at least 75 percent of their wealth according to University of Michigan researchers Fabian T. Pfeffer, Sheldon Danziger, and Robert F. Schoeni analyzing Panel Study of Income Dynamics (PSID) data.

- Median household wealth in 2013 was $81,200, **down 40.0%** from $135,400 in 2007 before the financial crisis began (numbers in inflation-adjusted, 2013 dollars). Federal Reserve 2013 Survey of Consumer Finances, Table 4.

Income and Wealth Inequality

- Since the recovery began in 2009 to the end of 2013, **wage rates decreased for the bottom 90 percent of workers**, despite productivity growth of 4.8 percent over that period. With job opportunities tight, employers do not have to pay substantial wage increases to get and keep the workers they need. On the other hand, the stock market and corporate profits (adjusted for inflation) have both surpassed their pre-recession peak. EPI.

- From 2009 to 2011, **the top 1% of incomes grew by 11.2% (capturing 121 percent of the gains) while the bottom 99% of incomes shrank by 0.4%,** magnifying the on-going growth of inequality. This disparity continued a longer-term trend: from 1993 to 2011, through a boom and two recessions, average real incomes of the bottom 99% grew a total of only 5.8% while the top 1 percent incomes grew by 57.5%. 2011 study by UC Berkeley economist Emmanuel Saez.

- Since 2009, housing wealth, stock wealth, and job income have improved, but at different rates. By mid-2013, the stock market had rebounded to pre-recession levels but home prices were still below their mid-2007 values, and employment and wage levels were still quite low (leading many people to draw down their savings). Since affluent households generally have large stock portfolios, those at the 95th percentile in wealth saw their wealth grow a substantial 14.4% from 2003 to mid-2013 (from $1,192,639 to $1,364,834). The less affluent saw decreases in net wealth. For example, those at the median (50th percentile) had lost 36.0% (from $87,992 to $56,335). University of Michigan researchers Fabian T. Pfeffer, Sheldon Danziger, and Robert F. Schoeni analyzing Panel Study of Income Dynamics (PSID) data.

Housing

- From when the financial crisis began in September 2008 through March 2014, approximately **4.9 million families lost their homes to foreclosure**. Between 2010 and 2013, **another 1.3 million families lost their homes to short sales**. CoreLogic Haas Institute for a Fair and Inclusive Society.

- In July 2014, foreclosure completions were still elevated, with **45,000 foreclosures** completed that month (up from an average of 21,000 per month in the years before the crisis, from 2000 to 2006) and 1,666,000 properties that were still seriously delinquent. CoreLogic.

- Despite home prices rising in many parts of the country, at the end of the second quarter of 2014 there were still **8.7 million households underwater** on their mortgages, representing **17.0 percent** of all mortgaged homes – one out of every six such homes. This rate is down from the 31.4 percent peak in the first quarter of 2012. At the end of 2014 Q2, the average negative equity amount for underwater homeowners was $72,381 or 34.8% more than the home's worth. In most markets across the country, the largest part of the negative equity is in the bottom tier – 28.2 percent of the ~~cheapest~~ least expensive third of homes by home value were underwater compared to 15.8 percent of homes in the middle tier and 9.2 percent in the top tier. ~~The rate for the cheapest third of homes was far higher in some cities such as Atlanta (55%), Detroit (52%), Chicago (45%), Tampa (43%), Las Vegas (42%), Orlando (41%), and Cleveland (41%).~~ Zillow.

- ~~Today~~As of 2014 Q2, hard hit cities for underwater homes included Atlanta (28.9% of all owner-occupied homes), Las Vegas (27.4%), ~~NV, Atlanta, GA, Jacksonville, FL,~~ Chicago (27.1%), Orlando (24.9~~, FL, and Chicago, IL~~Tampa (23.7%), and Detroit (23.2%). The rate for the ~~cheapest~~least expensive third of homes was far higher with the highest rates -in ~~some cities such as~~ Atlanta (55%), Detroit (52%), Chicago (45%), Tampa (43%), Las Vegas (42%), Orlando (41%), and Cleveland (41%). Zillow.~~Haas Institute for a Fair and Inclusive Society~~

- The overall homeownership rate, which peaked at **69.2 percent** in the second quarter of 2004, fell to **64.8 percent** (seasonally adjusted) by the second quarter of 2014. Census Bureau Table 14.

Disproportionate Impact on Communities of Color

- The official unemployment rate continued to be much higher for many people of color. In August 2014, the U-3 rate for Blacks or African Americans was **11.4 percent** and for Hispanics or Latinos was **7.5 percent**. The rate for non-Hispanic whites was **5.3 percent**. The rate peaked for Blacks or African Americans at 16.9 percent (in March 2010), at 13.1 percent for Hispanics or Latinos (in August 2009), and at 9.2 percent for whites (In October and November 2009). BLS.

- Minority homeownership rates continued to lag far behind white homeownership rates in the years leading up to the crisis, but from 1995 through 2004, minority homeownership gains outpaced white homeownership gains. When the housing bubble began to burst, however, homeownership fell among all groups, but more steeply among minorities, according to a study by Pew and data from the US Census Bureau.

- Between 2005 and 2009, African Americans experienced a decline in household wealth of **53 percent** and Latinos lost **66 percent of household wealth**, compared to a 16 percent decline for whites. The Pew study also showed record-high disparities between the household wealth of non-Hispanic whites ($113,149) and that of blacks ($5,677) and Hispanics ($6,325) as a result of the crisis.

Additional Government Spending and Revenue Losses

- The total budgetary impact of the crisis caused by diminished tax revenues and higher outlays for unemployment insurance, food stamps, other safety-net programs, and debt service is projected to be **$3.5 trillion** between 2009 and 2018. Center on Budget and Policy Priorities (CBPP).

- The combined cost of government spending and diminished home and stock values was **$108,000** per U.S. household during the acute stage of the financial crisis from September 2008 through the end of 2009. Pew.