Abstract:

It is widely acknowledged that the United States has paid a heavy price for the financial crisis of 2007–2009 and the ensuing Great Recession, and so have many other countries. Intrepid researchers have estimated individual components of the US crisis' costs that range from lost GDP, depleted wealth, outlays and subsidies expended to rescue troubled financial and commercial firms, increased post-crisis regulation and supervision, and damage done to the social fabric by higher unemployment, escalating bankruptcies and foreclosures, greater income and wealth inequality, reduced access to medical services, lower fertility, skyrocketing student debt, and growing political alienation. Yet there is no comprehensive discussion of the full panoply of the costs that the United States has endured. This chapter seeks to fill this gap by surveying and critiquing estimates of many individual components of the crisis' costs. In doing so, it argues that, on the one hand, estimates of lost GDP exaggerate the cost when they compare recession values to pre-crisis trend GDP. Pre-crisis trends have been seriously overstated by failing to notice that growth in labor, capital services, and productivity was already declining before the crisis hit. On the other hand, official estimates of the cost of assisting troubled firms with equity capital, loans, and guarantees seriously underestimate the true costs of this particular response to the crisis.