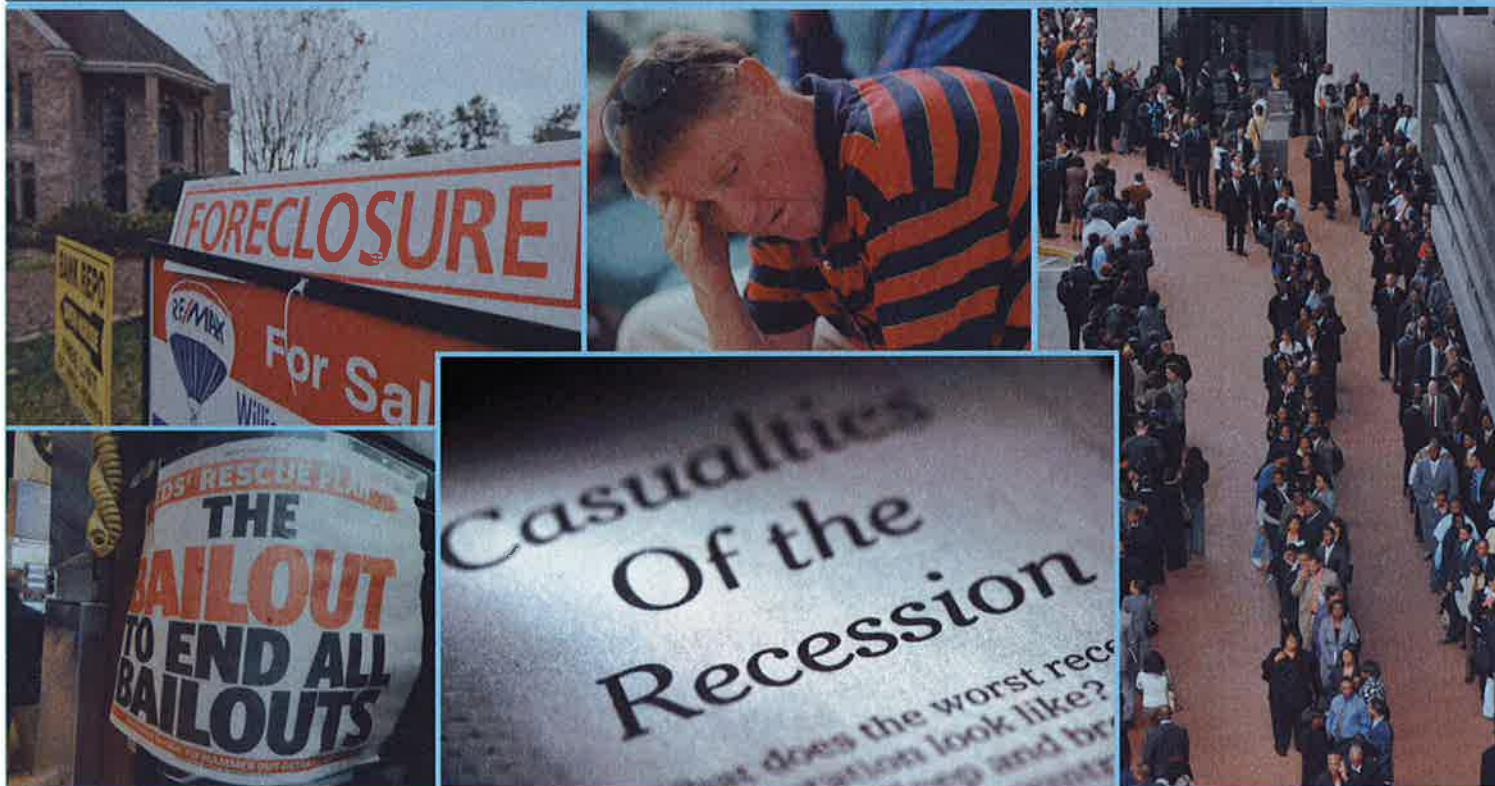


THE COST OF THE WALL STREET-CAUSED FINANCIAL COLLAPSE AND ONGOING ECONOMIC CRISIS IS MORE THAN \$12.8 TRILLION



A Report From

BETTER MARKETS

TRANSPARENCY • ACCOUNTABILITY • OVERSIGHT

September 15, 2012

The Costs of the Wall Street-Caused Financial Collapse and Ongoing Economic Crisis

\$12.8 Trillion in Estimated Actual and Avoided GDP Loss

Because of the financial collapse and the subsequent economic crisis, GDP declined significantly beginning in 2007. GDP would have dropped even more without massive spending by the federal government. The sum of actual GDP loss and GDP loss avoided because of emergency spending and actions by the Federal Reserve Board are estimated to total more than \$12.8 trillion for the period 2008-2018.

Tens of Millions of Americans Unemployed

In October 2009, the broadest measure of unemployment (U-6 rate) peaked at 17.5 percent, representing 26.9 million Americans. As of July 2012, the U-6 rate remains very high at 15 percent, representing 23.1 million Americans.

Massive Losses in Household Wealth

Real household wealth declined from \$74 trillion in July 2007 to \$55 trillion in January 2009, representing \$19 trillion of evaporated wealth. Although household wealth has regained some ground, the decline is still very substantial and has grave distributional effects, including permanent, lifetime losses suffered by many Americans.

46.2 Million Americans in Poverty

As of 2010, 46.2 million Americans were in poverty, the largest number in the 52 years for which poverty estimates have been published by the U.S. Census Bureau.

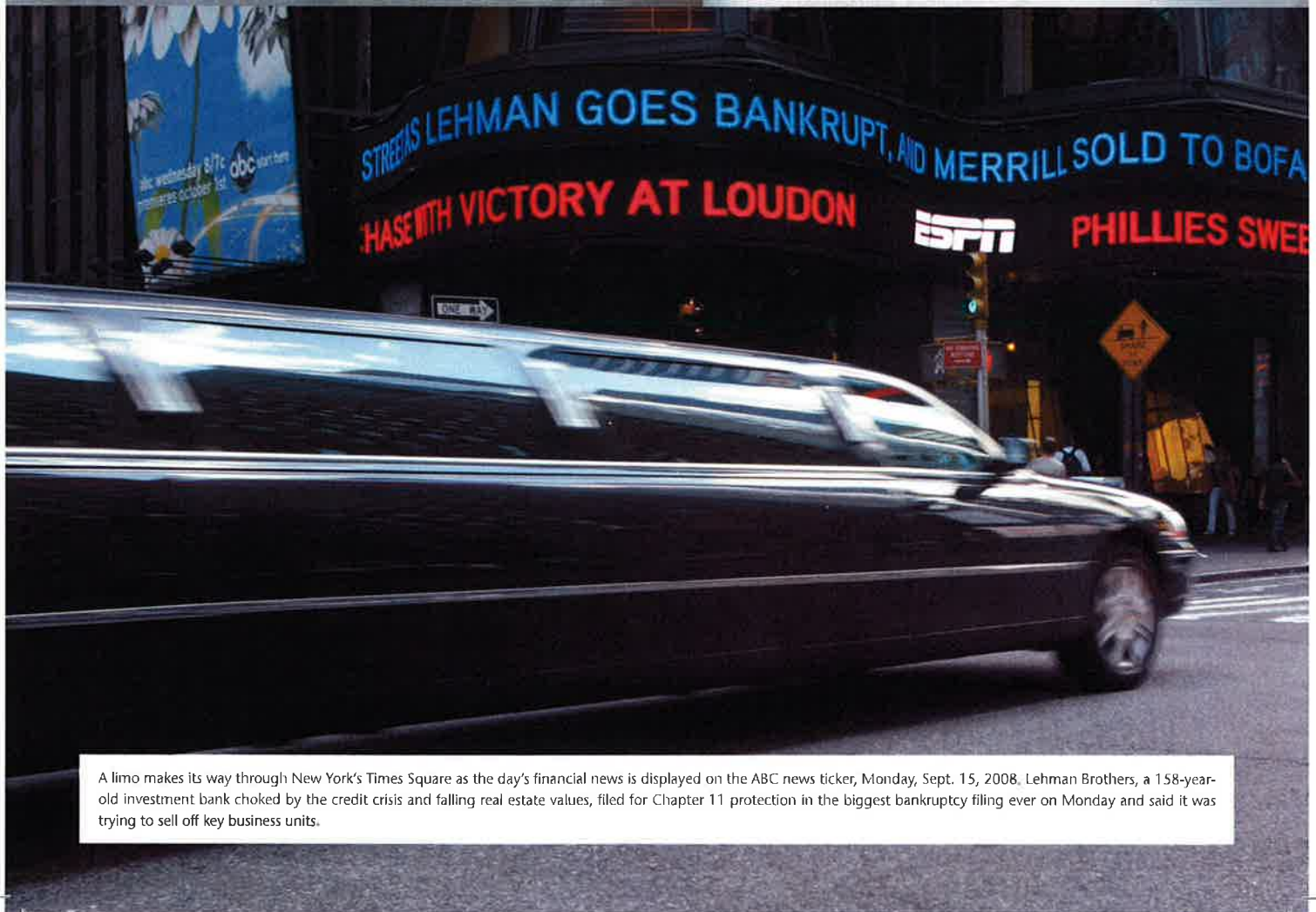
Authors: Dennis Kelleher, Stephen Hall, Katelynn Bradley



Firefighters applaud Andy Delgado, back to camera, a five-year-veteran of the Camden Fire Department, as he tells them to keep their hopes up in Camden, N.J., as they prepare to turn in their gear after being laid off. Five weeks after Camden laid off a third of its firefighters, the shock waves are reverberating outside city lines, Camden's fire department was cut to such bare bones that a structure fire on any given day requires all seven companies to respond, leaving none to attend to any other fire or rescue emergencies in the city.

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A limo makes its way through New York's Times Square as the day's financial news is displayed on the ABC news ticker, Monday, Sept. 15, 2008. Lehman Brothers, a 158-year-old investment bank choked by the credit crisis and falling real estate values, filed for Chapter 11 protection in the biggest bankruptcy filing ever on Monday and said it was trying to sell off key business units.

INTRODUCTION

Today, the 4th anniversary of the bankruptcy of the 158 year old investment bank Lehman Brothers, our country and tens of millions of Americans continue to suffer from what is correctly called the Great Recession: it is the worst economy the country has suffered from since the Great Depression of the 1930s. That is a direct result of Wall Street causing the worst financial crisis since the Stock Market Crash of 1929. The cost of those financial and economic crises so far is no less than \$12.8 trillion dollars, including lost gross domestic product, destroyed household wealth, unemployment and under-employment, foreclosures, government bailouts, emergency spending measures, and other actions necessary to prevent a second Great Depression.

The consequences of those events touch every corner of our country, including many of our neighbors who will sit at their dinner table tonight, look their children in the eye, and worry about their future, for good reason:

- ♦ 23.1 million Americans today cannot find full time work.
- ♦ 9.3 million Americans have lost their health insurance.
- ♦ 11 million homeowners—almost 1 in 4—are saddled with mortgages higher than the value of their homes.
- ♦ Home values have fallen to 2002 levels, destroying \$7 trillion in homeowner equity.
- ♦ 3.7 to 5 million foreclosures have already forced millions of American families to move out of their homes and millions more foreclosures are in process.
- ♦ The American family's net worth plummeted almost 40% in just three years, from 2007-2010, wiping out almost two decades of hard work and prosperity.
- ♦ Zero interest rates have prevented families from rebuilding their net worth, either by savings or investments, because yields are historically low or even negative.
- ♦ Trillions of dollars that were spent, lent, pledged, guaranteed, or otherwise used by the government to bail out the financial system and respond to the resulting economic crisis
 - dramatically increased the annual deficit (\$1 trillion plus) and the national debt (\$8 trillion), and, thereby,
 - depleted the government's ability to maintain the social safety net and respond to the greatly increased needs arising from the Great Recession.

All of that—and much more—adds up to more than \$12.8 trillion.

In fact, even \$12.8 trillion dramatically understates the true costs of the crises, not only because that number does not include every cost, but also because so much is simply unquantifiable. For example, the ultimate immeasurable cost is not included: preventing the complete collapse of the financial system and a second Great Depression or worse, which undoubtedly would have cost many tens of trillions of dollars more. There are also the many incalculable costs of unprecedented government actions that enabled that outcome: the federal guarantee of the \$3.7 trillion money market industry, which stopped a run on those funds and the liquidity crisis in short term funding that it caused; the extraordinary overnight conversion of the two largest investment banks into bank holding companies giving immediate access to all the highly favorable federal bank programs, which prevented their bankruptcy; and, most important, the literally priceless full federal guarantee of the entire financial system in February 2009, which almost certainly—in combination with all the other emergency measures—prevented the full collapse of the financial system and another Great Depression.¹

Then there are the enormous unquantifiable costs from the economic wreckage Wall Street caused from one end of our country to the other. For example, unemployment, bankruptcies, foreclosures, and underwater homes have destroyed many neighborhoods and communities across the country, while decimating the tax base of cities, towns, counties, and states. Added to that are the demoralizing and gnawing invisible costs of anguish, anger, depression, and often humiliation from losing a job and failing to provide for a family; being forced to move out of a home, often to move in with relatives or friends, but sometimes to move into a car or homeless shelter; watching your children get sick with no ability to go to a doctor or pay for a prescription; signing up for food stamps and having your children get free school lunches that you can no longer afford; having to break it to your children, who have worked so hard in school, that college is no longer affordable and they have to get a job, any job, as soon as pos-

The \$12.8 trillion cost to the American people of the Wall Street-caused crises dramatically understates the true costs of the crises, not only because that number does not include many costs, but also because so much is simply unquantifiable.

¹ This is not an exaggeration: a second Great Depression was a very real possibility, if not probability. See, e.g., *World Bank: Economy Worse Since Depression*, CNNMoney, Mar. 9, 2009, http://money.cnn.com/2009/03/09/news/international/global_economy_world_bank/ (“World Bank says global economy to shrink for the first time since World War II, dragged down by sharp decline in industry, trade”); *World Growth: Grinds to Virtual Halt, IMF Urges Decisive Global Policy Response*, IMF SURVEY ONLINE (Jan. 28, 2009), <http://www.imf.org/external/pubs/ft/survey/so/2009/res012809a.htm> (“World growth is forecast to fall to its lowest level since World War II, with financial markets remaining under stress and the global economy taking a sharp turn for the worse, sending both global output and trade plummeting.”). See also PAUL KRUGMAN, *END THIS DEPRESSION NOW!* (W.W. Norton & Co.) (2012).

sible; or your spouse finding out that you aren't retired but working at a low paying, often minimum wage, job because you need the money. This list sadly goes on and on, including spouse, child, alcohol, and, too often, drug abuse.

This Report details many of those costs, but first it is necessary to review the events that gave rise to those costs and then discuss why the process of understanding, cataloging, and aggregating these costs is so critically important.

1. The Lehman Bankruptcy, Wall Street's Collapse, and the Historic Multi-Trillion Dollar Bailout of the Financial System

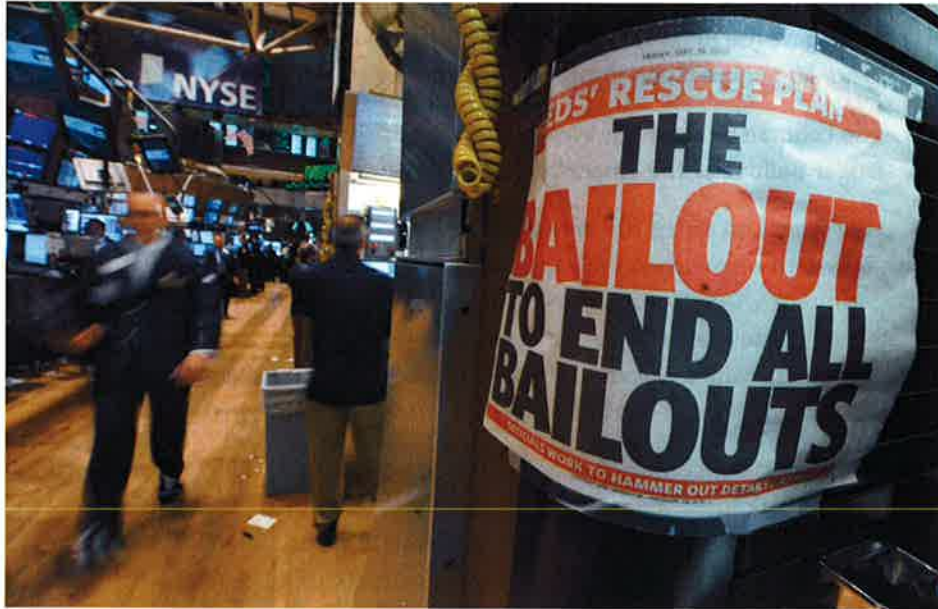
Four years ago today, the investment bank Lehman Brothers shocked the global financial system when it filed the largest bankruptcy in the history of the United States on September 15, 2008. With former Goldman Sachs CEO and then-current Treasury Secretary Hank Paulson having just prevented the failure of Bear Stearns, the **fifth** largest investment bank, with a bailout funded by the Federal Reserve Board, few thought the **fourth** largest investment bank Lehman Brothers would be allowed to fail.

But, fail it did, in precipitous and spectacular fashion, igniting a financial contagion that quickly caused the global financial system to grind to a halt and brought the world to the precipice of a second Great Depression or worse. Events quickly appeared unexpectedly grim, as three-inch headlines screamed from the newspapers and TV news personalities breathlessly reported on the panic that gripped the markets and the financial system as well as the policy and political arenas.

In the days and weeks after the Lehman bankruptcy, the wave of bailouts, buyouts, forced mergers, and other rescue efforts that were undertaken to support the nation's leading financial institutions revealed the depth of the unfolding crisis. The U.S. government, having nationalized Fannie Mae and Freddie Mac the prior week, effectively nationalized AIG and Citigroup through bailouts totaling hundreds of billions of dollars. To prevent their imminent bankruptcies,

- ♦ Goldman Sachs and Morgan Stanley, the two largest investment banks, were allowed to quickly convert into bank holding companies, thereby receiving access to the full panoply of federal banking support programs, the so-called federal safety net;
- ♦ Merrill Lynch, the third largest investment bank, was acquired by Bank of America; and
- ♦ Wachovia, the fourth largest bank holding company, was acquired in an FDIC-forced sale by Wells Fargo (derailing Citigroup's attempt to buy Wachovia announced only days before).

The nation's largest savings and loan association, Washington Mutual, failed, was seized by regulators, and was ultimately sold to JPMorgan Chase at a bargain basement price (similar to the bargain price JPMorgan paid for Bear Stearns in March 2008).



All of this happened at an alarming and dizzying speed, with the public and policy-makers struggling to keep up with developments.

Throughout this time, with the shadow of the Lehman failure darkening the financial and political landscapes, the U.S. government was creating innumerable bailout programs to prevent any financial institution or sector of the financial industry from collapsing.² The \$700 billion Troubled Asset Relief Program ("TARP"), signed into law by President Bush on October 3, 2008, was but one of the countless emergency measures

² Excellent comprehensive domestic and international timelines of these events have been created by researchers at the Federal Reserve Bank of New York and are available at: http://www.newyorkfed.org/research/global_economy/policyresponses.html.

adopted during this time.³ Moreover, the U.S. government also assisted foreign banks and financial institutions throughout the world, not just those in the United States.⁴

Yet, the scale and scope of deteriorating events still continued at an unprecedented rate, as the contagion from the liquidity and solvency crises spread rapidly to every corner of the financial system and the globe.

It was difficult to believe, but even those unprecedented actions, programs, and interventions—representing trillions of dollars—were not sufficient to stop the multiple crises from spiraling out of control, as almost every financial indicator continued to deteriorate and to do so at an accelerating pace into 2009. Indeed, as late as February 2009—more than five months after the Lehman bankruptcy—the financial systems and economies of the U.S. and the global community were still declining rapidly, with no bottom in sight. Policymakers were facing a very treacherous abyss and the possibility of a second Great Depression was an increasingly likely prospect.⁵

In response, the U.S. government took additional unprecedented actions. For example, on February 23, 2009, it announced that the full faith and credit of the United States would stand behind the entire financial system, which was thus effectively nationalized, as set forth in a dramatic joint statement by the Treasury, FDIC, OCC, OTS, and the Federal Reserve.⁶ That historic step was followed by others, and—ultimately—trillions of additional government dollars were spent, lent, pledged, guaranteed, or otherwise used in an all-out effort to prevent a second Great Depression.

We now know that those actions somehow worked, that the financial system did not entirely collapse, and that a second Great Depression was avoided. Having lost 54

3 Some talk misleadingly as if TARP was the only government rescue program, apparently attempting to minimize and understate the depth and cost of the crisis. Even as to TARP alone, some made the claim that it will make money. That is not accurate. TARP is currently projected to cost between \$32 and \$78 billion. OFFICE OF THE SPECIAL INSPECTOR GEN. FOR THE TROUBLED ASSET RELIEF PROGRAM, QUARTERLY REP. TO CONGRESS, 42, Table 2.3 (July 25, 2012). However, even if all TARP money were repaid in full, that hardly means it would have “made” money. The meritless claim made by people who know better is that if TARP (or any one of the other bailout programs) takes in one penny more than it lent out, then it made money. That is simply misleading. The only proper way to evaluate any of these programs is to determine the return that was or should have been received by the government on a **risk adjusted basis**. By that measure, none of the government bailouts “made” money. Rather, they have all cost taxpayers and the government hundreds of billions if not trillions of dollars—above and beyond all the other costs of the crisis.

4 For example, the Federal Reserve bailed out the foreign exchange markets with more than \$2.9 trillion in October 2008 alone and with more than \$5.4 trillion of foreign exchange swaps in the three months following the Lehman Brothers bankruptcy, before effectively nationalizing that market as well. See Better Markets’ comment letters, *available at* <http://bettermarkets.com/sites/default/files/TREAS-Comment%20Letter-%20ForEx%20Swaps-11%EF%80%A229%EF%80%A210.pdf>; [http://bettermarkets.com/sites/default/files/Treas-%20Comment%20Letter%20\(followup\)-%20Forex%20Swaps%202-25-11.pdf](http://bettermarkets.com/sites/default/files/Treas-%20Comment%20Letter%20(followup)-%20Forex%20Swaps%202-25-11.pdf); and <http://bettermarkets.com/sites/default/files/Treas-%20CL-%20meeting%20followup-%20FX%20exemption%203-23-11.pdf>.

5 See note 1 *supra*.

6 JOINT STATEMENT BY THE TREASURY, FDIC, OCC, OTS, AND THE FEDERAL RESERVE (Feb. 23, 2009), *available at* <http://www.federalreserve.gov/newsevents/press/bcreg/20090223a.htm>.

percent of its value since its October 9, 2007 high, we also now know—with the benefit of hindsight—that the stock market hit its lowest point on March 9, 2009 and that the rapid and uncontrolled decline of the financial markets and the economy stopped sometime in the March-April 2009 period.

However, and most important, even to this day no one knows exactly why or how complete disaster was averted. No one knows which policy, program, intervention, action, or expenditure—or what combination or order of those measures—arrested the downward spiral.

What we do know is that the financial collapse and economic crisis cost many tens of trillions of dollars and it also caused vast, often unquantifiable, and still-ongoing human suffering, **from** skyrocketing unemployment, millions of home foreclosures, widespread poverty, and enormous wealth destruction, **to** lost retirements, obliterated college funds, and, for many, the loss of faith in the American Dream. These events and their costs proved yet again that, other than war, nothing devastates a country more than the economic ruin that follows a financial crisis such as the one that began in 2007.⁷



⁷ See, e.g., FERNANDO M. MARTIN, FED. RESERVE BANK OF ST. LOUIS, FISCAL POLICY IN THE GREAT RECESSION AND LESSONS FROM THE PAST, ECONOMIC SYNOPSIS NO. 1 (2012), available at http://research.stlouisfed.org/publications/es/12/ES_2012-01-06.pdf.

2. Accumulating, Cataloging, Aggregating, and Understanding the Scope and Scale of the Costs of the Crises Are Critically Important to Ensure that They Never Happen Again

As Wall Street and its allies seek to kill financial reform, as memories fade and amnesia sets in, and as the focus turns from the crises to regulatory reform, accumulating, cataloging, and aggregating the costs of the crises are vital. Among the many reasons for this, some discussed below, only a full accounting of the costs will provide the basis and motivation to take the proper actions to reduce the likelihood that the American people will have to suffer from another financial collapse and economic crisis.

First and most important, Wall Street and its many allies and sympathizers are denying and understating the costs of the crisis, primarily to kill, weaken, or avoid financial reform and re-regulation. To protect the American people, financial system, and economy from another financial and economic crisis, financial reform eliminates or limits Wall Street's most reckless trading and investment activities, which also happen to be the most profitable to them and the most risky to taxpayers. That is why Wall Street and its allies are doing everything possible, including spending inordinate amounts of money on lawyers, lobbyists, PR-spinners, campaign contributions, advertising, "studies," trade groups, and many other things, to stop, kill, weaken, or avoid financial reform.

Second, all sorts of wild, baseless, and exaggerated claims have been made about the cost of financial **reform** to the financial industry by Wall Street and its allies seeking to kill or weaken reform. Tellingly, they rarely if ever mention the costs of the crisis to the country or the American people and they, of course, never mention their role in inflicting those costs. These claims fall into two categories. One is to overstate the claimed costs of financial reform to the industry by announcing attention-getting, but highly questionable, numbers. For example, Wall Street's lobbyists tout a "study" by Oliver Wyman and claim it shows that the Volcker Rule will result in a "loss" of \$315 billion in liquidity in the corporate bond market.⁸ However, that "loss" only results from their baseless assumption that, if the few biggest too-big-to-fail banks do not provide this highly profitable trading, then no one will. Not only does that violate basic economic principles, it is also proven false by history, which shows repeatedly that new entrants move in quickly to take advantage of such large profit opportunities.⁹

Of course, Wall Street knows few would care about limiting their most reckless activities that put taxpayers at risk of another bailout or about shifting the costs from

⁸ OLIVER WYMAN, THE VOLCKER RULE RESTRICTIONS ON PROPRIETARY TRADING (Feb. 2012), available at http://www.oliverwyman.com/media/Oliver_Wyman_The_Volcker_Rule_Restrictions_on_Proprietary_Trading.pdf.

⁹ See, e.g., BETTER MARKETS, THE VOLCKER RULE, JAMIE DIMON & THE WHALE'S SPLASH (July 24, 2012), <http://bettermarkets.com/blogs/volcker-rule-jamie-dimon-whales-splash>.

society back to the industry where they belong (and where they were before de-regulation). So the second way they hype costs is to claim that limiting their most profitable activities is really going to hurt economic growth, business,¹⁰ and employment.¹¹ For example, in attempting to defeat the Volcker Rule, which would end their enormously profitable proprietary trading, the industry claimed that it will “reduce market liquidity, capital formation and credit availability, and thereby hamper economic growth and job creation.” Unsurprisingly, the industry fails to mention that the financial crisis did more damage to those concerns than any rule or reform possibly could: starting in September 2008 and continuing into 2009, there was no “market liquidity, capital formation [or] credit availability” and, since then, there has been little “economic growth” and even less “job creation”—due to the financial collapse and economic crisis caused by Wall Street. These misleading claims are little more than Wall Street’s attempt to hide their enormous profits and high risk trading and investments behind Main Street concerns, and they must be rejected.

Third, the latest weapon that Wall Street and its allies are using in an effort to kill financial reform is what they refer to as “cost-benefit analysis,” which they insist the financial regulators, primarily but not exclusively the SEC and CFTC, must use in all financial reform rulemaking. However, the industry is really advocating for an incomplete and biased version of “cost-benefit analysis” that is no more than a one-sided “industry-cost-only analysis.” This effort entirely ignores the costs of the crisis to society and also ignores the benefits of financial reform to society. Better Markets has exhaustively researched the legislative history, judicial precedents, and policy decisions relating to the industry’s version of what it calls cost-benefit analysis. That analysis shows that the industry’s claims about cost-benefit analysis are baseless.¹² The industry

10 The pro-Wall Street, anti-reform crowd rarely refers to businesses or corporations any more. They prefer the moniker “job creators.” However, Wall Street is not a job creator. It is a job destroyer of historic proportion. See, e.g., BETTER MARKETS, WALL STREET IS NOT A JOB CREATOR. WALL STREET IS A JOB KILLER.... OF HISTORIC PROPORTIONS (July 10, 2012), <http://bettermarkets.com/blogs/wall-street-not-job-creator-wall-street-job-killer%E2%80%A6-historic-proportions>.

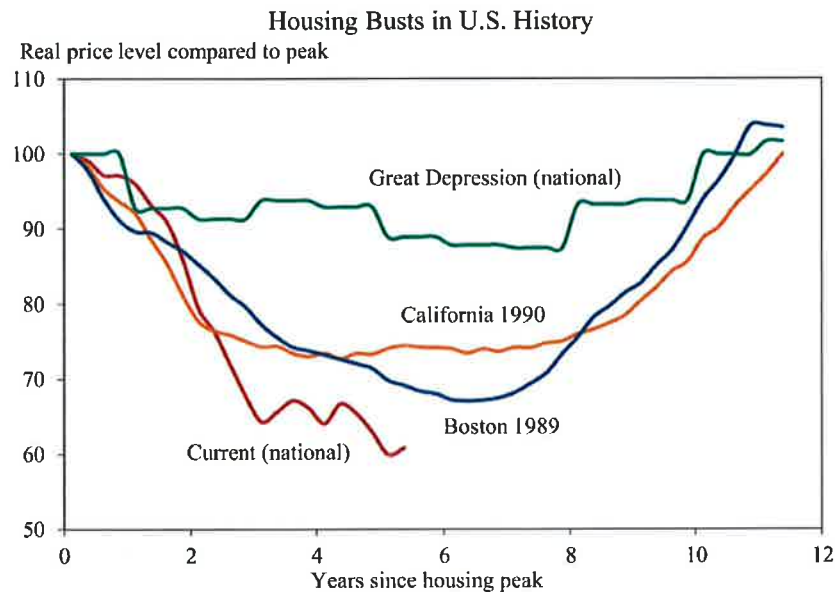
11 This is very different from those who seek to determine the economic impact of financial reform on the biggest banks, which is decidedly not the same as the impact on society as a whole. For example, the rating agency Standard & Poor’s recently estimated that financial reform “could reduce pretax earnings for the eight large, complex banks by a total of \$22 billion to \$34 billion annually.” S&P, TWO YEARS ON, REASSESSING THE COST OF DODD-FRANK FOR THE LARGEST U.S. BANKS (Aug. 9, 2012), <http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245338539029>. That is because financial reform is designed to eliminate or limit the activities of systemically significant firms so that they cannot again threaten to crash the financial system or almost cause another Great Depression. However, the pretax earnings loss for those eight biggest banks will become pretax earnings of other financial institutions that will step in and provide these very lucrative services. Therefore, S&P’s estimate of losses to the eight banks is not a loss to the U.S. financial industry, the economy, or our country. Indeed, it is an encouraging sign of activities shifting away from too-big-to-fail banks and, thereby, reducing the risks that the costs of the last crisis will not be repeated in a future crisis.

12 See Report of Better Markets, “Setting the Record Straight on Cost-Benefit Analysis and Financial Reform at the SEC,” as well as two amicus briefs focused on cost-benefit analysis filed in federal court defending CFTC rules, available at <http://bettermarkets.com/blogs/industrys-false-claims-about-cost-benefit-analysis>.

nevertheless continues to relentlessly push them in the legislature, regulatory agencies, and the courts.

Fourth, absent an understanding of the true costs of the financial and economic crises, a sense of complacency can arise and a lack of urgency to take action to prevent such crises from happening again, especially as the memory of these events and their impact fades. Moreover, knowing what preventative measures to take and what expenditures to incur is difficult if not impossible to determine without knowing the costs of the crises. We must never forget how close the country came to a complete collapse of the financial system and a second Great Depression, or how really terrible the Great Recession has been and continues to be for so many American families. Just one chart starkly illustrates this:

Fig. 1



Source: ECONOMIC REPORT OF THE PRESIDENT 2012, at 101 (Feb. 2012).

The decline in **real** housing prices already greatly exceeds the decline witnessed during the Great Depression—and this housing bust is still far from over. We may have avoided a second Great Depression, but the deep and ongoing damage and pain inflicted by the financial crisis Wall Street caused has devastated much of our country and many of our families.

Fifth, many appear to have forgotten in just four short years what actually happened during the financial crisis. Some of this is willful due to the industry's campaign to change the focus from the crisis to false claims about allegedly onerous financial regulation. Some of it is the natural tendency to suppress memories of bad or traumatic

events. Some of it is “crisis” fatigue: hearing so much about something so complicated for so long can simply wear people down. And, yet others are forgetting for political reasons, some to fundraise on Wall Street, others to claim that they have “solved” the problems that lead to or arose as a result of the crises. Finally, others are forgetting and encouraging others to forget to avoid liability and guilt, like bank executives, officers and employees, purchased academics, uncritical industry cheerleaders, and so-called think tanks, policy centers and research organizations, often recipients of generous Wall Street contributions.

3. Wall Street Caused the Financial Collapse and Economic Crisis

One final comment is necessary before we detail the costs of the crisis. Some deny that Wall Street—shorthand for the biggest too-big-to-fail banks and activities primarily but not exclusively located or based on or around Wall Street—caused the crises and that many, if not everyone, was to blame. While it may be accurate that many contributed to the events that led to the financial and economic crises, not all did so equally. Spreading blame as far and wide as possible is a common tactic of the guilty, but any fair and unbiased review of the key events leading up to the crises and the crises themselves demonstrates that Wall Street deserves to be at the top of any list of those responsible for causing the crises. It is not an overstatement to say that without Wall Street’s creation, demand for, packaging, sale, and distribution of worthless securities, largely based on mortgages and related derivatives, there would have been no financial or economic crisis.

Tellingly, Wall Street profited the most by far from these activities—reaping more than \$200 billion in bonuses since 2003. Reaping the most money from an action or activity is historically highly reliable evidence of responsibility for that action, especially when it arises from wrongdoing, if not criminality. Other than claims by Wall Street and those directly or indirectly paid by it, there really is little genuine dispute that Wall Street caused the worst financial crisis since the Stock Market Crash of 1929 and the worst economy the country has suffered from since the Great Depression of the 1930s.

Those crises have cost and continue to cost the American people enormously. Those costs are analyzed in the remainder of this report.

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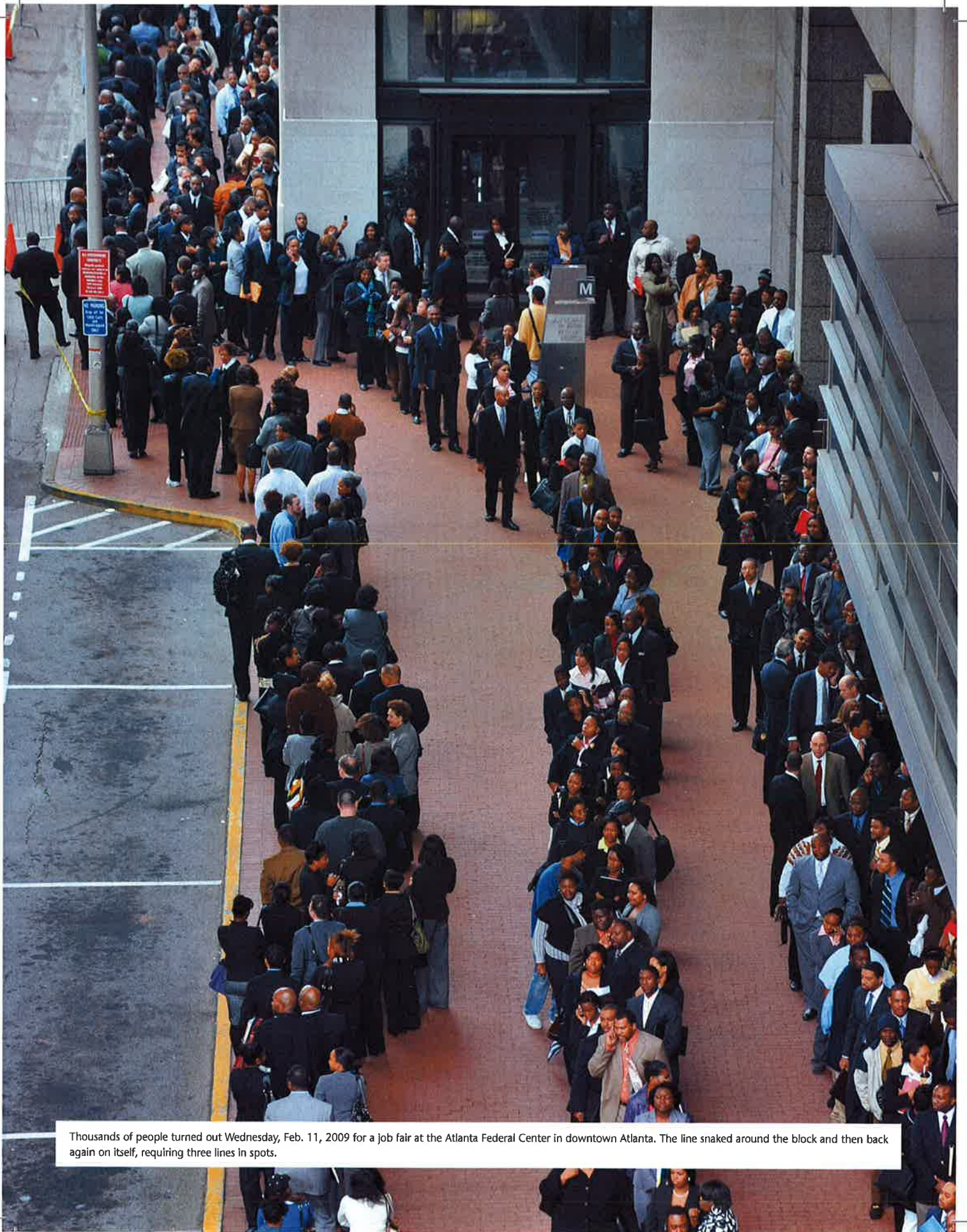
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Thousands of people turned out Wednesday, Feb. 11, 2009 for a job fair at the Atlanta Federal Center in downtown Atlanta. The line snaked around the block and then back again on itself, requiring three lines in spots.

THE WALL STREET-CAUSED FINANCIAL COLLAPSE AND ECONOMIC CRISIS COST THE AMERICAN PEOPLE MORE THAN \$12.8 TRILLION

The financial collapse and economic crisis caused by Wall Street cost the American people over \$12.8 trillion during 2008-2018.¹³ That is a very conservative number and only includes:

- ♦ Estimated actual gross domestic product (“GDP”) loss from 2008 to 2018, of \$7.6 trillion. This is the cumulative difference between potential GDP—what GDP would have been but for the financial and economic crises—and actual and forecast GDP during the period (See Figure 2, shaded area);¹⁴ and
- ♦ Estimated avoided GDP loss from 2008 to 2012 of \$5.2 trillion. This figure is the estimated additional amount of GDP loss that was prevented only by extraordinary fiscal and monetary policy actions. It is derived from the model-based estimate of Alan Blinder and Mark Zandi of \$6.9 trillion, less \$1.7 trillion in adjustments.¹⁵ (Because the Blinder/Zandi simulation ends in 2012, it does not include any avoided losses for the 2013-2018 period. For example, the effects of any ongoing or additional crisis-related monetary policy—such as Federal Reserve purchases of agency mortgage-backed securities—will continue past 2012.)

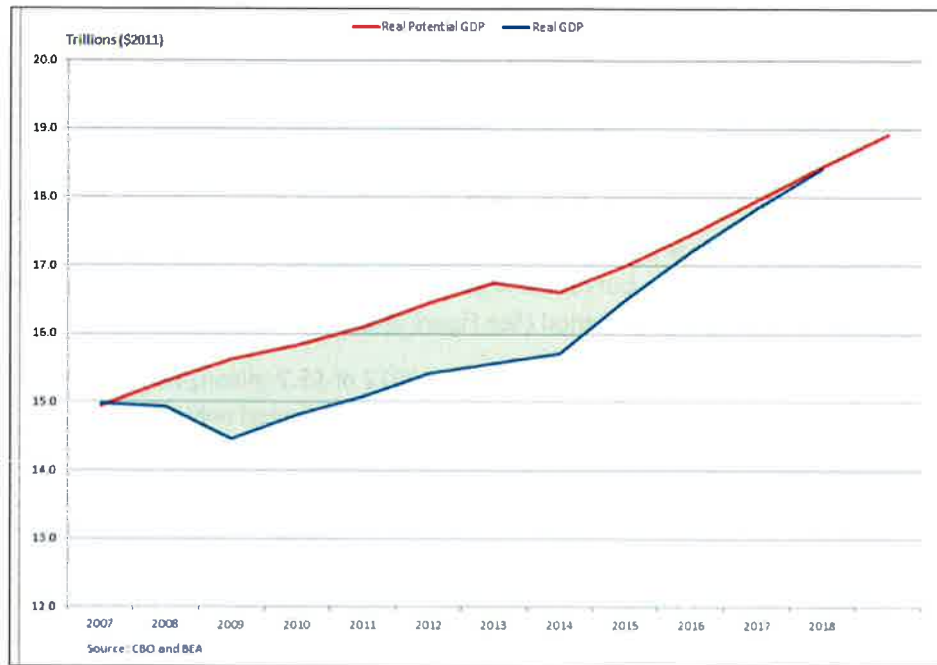
13 Adjusted to 2011 dollars using the chain-type GDP price index.

14 Data on nominal potential and actual GDP, and the GDP chain-type price index, for 2008-2011 were obtained from the St. Louis Federal Reserve Fred database. Forecasts of nominal GDP and the GDP price index were obtained using forecast growth rates for each variable in CONG. BUDGET OFFICE, THE BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2012 TO 2022, Table E-1 (Jan. 2012) (“CBO 2012 to 2022 Outlook”).

15 The model-based estimates are taken from Alan Blinder & Mark Zandi, *How the Great Recession Was Brought to an End* (July 27, 2010), available at <http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf>. The authors estimate that crisis-related monetary and fiscal policy measures will increase GDP by \$6.9 trillion (in 2011\$) during 2008-2012, relative to a baseline GDP without that policy response. Their forecast value for 2011 GDP is replaced with the actual value of 2011 GDP, reducing their estimated total GDP increase by \$.63 trillion. Their forecast value for 2012 GDP is replaced with the lower CBO forecast, reducing their total by an additional \$1.1 trillion. Substituting the lower CBO forecast value prevents double counting when adding observed and avoided losses.

The sum of these two values is an estimate of the actual and avoided reduction in the flow of goods and services caused by the financial crisis and the subsequent collapse of the real economy.¹⁶

Fig. 2



The \$12.8 trillion estimated loss is conservative because, as mentioned above and discussed further below, estimated actual and avoided GDP loss from 2008 to 2018 does not include many unquantifiable—but very real—costs inflicted on the American people. Not only does it omit the incalculable cost of preventing the collapse of the financial system and avoiding a second Great Depression; all the measures necessary to avoid that outcome; and the human suffering that accompanies unemployment, foreclosure, homelessness, and related damage, it also fails to account for the destruc-

16 The U.S. Bureau of Economic Analysis defines GDP as “the market value of the goods and services *produced by labor and property located in the United States*. Because the labor and property are located in the United States, the suppliers (that is, the workers and, for property, the owners) may be either U.S. residents or residents of the rest of the world.” EUGENE P. SESKIN & ROBERT P. PARKER, BUREAU OF ECON. ANALYSIS, U.S. DEPT. OF COMMERCE, A GUIDE TO THE NIPAS, https://www.bea.gov/scb/account_articles/national/0398niw/maintext.htm (original emphasis). This measure is equal to “the sum of personal consumption expenditures, gross private domestic investment (including change in business inventories and before deduction of charges for CFC), net exports of goods and services (exports less imports), and government consumption expenditures and gross investment. GDP excludes intermediate purchases of goods and services by business.” GDP is also equal to the sum of “the costs incurred and the incomes earned in the production of GDP,” which is called Gross Domestic Income, or GDI. *Id.*

tion of human capital on a widespread basis. There are millions of Americans and perhaps tens of millions of Americans who will never regain their earnings, educations, skills, and trainings that they lost during and as a result of the crises. This is, obviously, terrible for those individuals, but it also damages the entire country as our potential GDP is far lower than it otherwise would be if this human capital had not been destroyed. And, it is not simply a matter of lost long-term productivity. Lower growth means, among other things, less innovation and, therefore, less technological progress. The consequences of such losses to a society are indeterminable, but potentially very far-reaching and long-lasting.

That is why aggregating the estimated actual and avoided GDP loss from 2008 to 2018—\$12.8 trillion—is an appropriate, albeit very conservative, measure of the cost of the Wall Street-caused financial collapse and economic crisis

In the balance of this report, we turn to a detailed review of the many costs of the crises, those that should have been reflected in GDP and were not (because they were either lost or avoided), as well as those that cannot be measured (either as accurately or at all). Those costs all deserve a thorough consideration in any analysis of the financial and economic crises because they have profoundly affected the quality of life for all Americans—and will continue to do so for many years. Moreover, those costs should all also be included in any complete, unbiased, and genuine cost-benefit analysis.¹⁷

17 See Report of Better Markets, “Setting the Record Straight on Cost-Benefit Analysis and Financial Reform at the SEC,” as well as two amicus briefs focused on cost-benefit analysis filed in federal court defending CFTC rules, available at <http://bettermarkets.com/blogs/industrys-false-claims-about-cost-benefit-analysis>.



Stewart Kern waits to apply for food stamps at the Cooperative Feeding Program on February 10, 2011 in Fort Lauderdale, Florida. Recent statistics show that nationwide, one in seven Americans receives help from the Federal government with buying food. The food stamp program was used by 43.6 million people in November 2010. Before the recession, the program was serving 26 million.

DETAILED ANALYSIS OF THE COSTS OF THE WALL STREET-CAUSED FINANCIAL COLLAPSE AND ECONOMIC CRISIS

Before detailing the costs of the crises that can be quantified or monetized, it is critical to remember that, for a number of reasons, it is impossible to quantify **all of** the costs and consequences of the still-unfolding economic crisis that Wall Street inflicted when it caused the financial collapse:

First, of course, many costs of this crisis cannot be monetized, as they include the widespread human suffering that inevitably comes with financial hardship and in many cases, financial ruin.

Second, many actions taken by the government to stop the financial collapse also cannot be quantified, including for example:

- ♦ the unprecedented conversion of investment banks Goldman Sachs and Morgan Stanley into bank holding companies with full access to the federal support for regulated banks in October 2008;
- ♦ the guarantee of money market funds on September 29, 2008,¹⁸ which stopped a run on the funds; and, most important,
- ♦ the effective nationalization of the entire financial system on February 23, 2009 by the Treasury, Federal Reserve Bank, and other regulators.¹⁹

Third, even the more purely economic effects are difficult to measure precisely, and many of those will play out over years in ways that are difficult to determine at this point. For example, the massive and prolonged unemployment we are now witnessing not only directly lowers GDP, it also destroys human capital (of the unemployed themselves, their families, and others who directly and indirectly depend on them) on a long-term basis, further suppressing GDP over time.

Fourth, many actions taken in response to the crisis have both advantages and disadvantages, some of which offset each other and some of which do not—and most of which are decidedly unclear at this point. For example, the Federal Reserve Board's near-zero interest rate policy may have eased the consequences of the financial and economic crises, but it also has caused the return on savings

18 U.S. DEPT. OF THE TREASURY, TREASURY ANNOUNCES TEMPORARY GUARANTEE PROGRAM FOR MONEY MARKET FUNDS (Sept. 28, 2008), available at <http://www.treasury.gov/press-center/press-releases/Pages/hp1161.aspx>.

19 JOINT STATEMENT BY THE TREASURY, FDIC, OCC, OTS, AND THE FEDERAL RESERVE (Feb. 23, 2009), available at <http://www.federalreserve.gov/newsevents/press/bcreg/20090223a.htm>.

and many investments to be negative or marginal. While one can see the benefit to the biggest banks, which can borrow money from the Fed at zero interest rates and then invest it at higher rates making massive amounts of often risk-free returns, the benefits to Main Street have been difficult to discern given the lack of increase in lending.

Nevertheless, many costs of the crisis are clearly quantifiable, and this section of the report provides a detailed and documented analysis of costs that we have grouped into four major categories.

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In this March 7, 2012, file photo shows job seekers standing line during the Career Expo job fair, in Portland, Ore. Oregon employers shed thousands of jobs in February, surprising state economists who said there was little optimistic news in a monthly report on unemployment and jobs. Weakness in construction and retailing stood out in the state Employment Department's report. On a seasonally adjusted basis, the state lost 6,400 jobs. That means, overall, employers didn't hire on as many workers as they usually do in February.

1. UNEMPLOYMENT: The number of unemployed reached 15.7 million, and the figure still stands at 12.8 million Americans as of July 2012

Unemployment is one of the most significant measures of the crisis because it so profoundly affects the financial, physical, and emotional well-being of a society. The unemployment rate peaked at 10.2 percent in October 2009,²⁰ which, “[a]fter adjusting for changes in the demographic composition of the labor force, . . . represents the highest unemployment rate reached since the Great Depression.”²¹

At this peak, 15.7 million Americans were out of work.²² Unemployment is now still 8.3 percent, representing 12.8 million American workers, 40.7 percent of whom have been jobless for 27 weeks or more.²³ (See Figures 3 and 4). The average number of weeks of unemployment peaked at 40.9 weeks in November 2011. Although this figure has declined to 38.8 weeks, it remains far above the level of 16.4 weeks in December 2007 (the official start of the recession).²⁴

Confirming the severity of the economic downturn caused by Wall Street’s near collapse of the financial system, unemployment is expected to remain at 8 percent through 2013 and remain above 7 percent until 2015.²⁵

20 BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, NEWS RELEASE, THE EMPLOYMENT SITUATION – OCTOBER 2009 (Nov. 6, 2009), available at http://www.bls.gov/news.release/archives/empsit_11062009.pdf.

21 MARY DALY ET AL., FEDERAL RESERVE BANK OF SAN FRANCISCO, A RISING NATURAL RATE OF UNEMPLOYMENT: TRANSITORY OR PERMANENT?, WORKING PAPER 2011-05, at 2 (Sept. 2011); see also BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, SPOTLIGHT ON STATISTICS: THE RECESSION OF 2007-2009 (Feb. 12, 2012), available at <http://www.bls.gov/spotlight/2012/recession/> (October 2009 peaked at a level not witnessed since 1983 on an unadjusted basis).

22 BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, NEWS RELEASE, THE EMPLOYMENT SITUATION – OCTOBER 2009 (Nov. 6, 2009).

23 BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, NEWS RELEASE, THE EMPLOYMENT SITUATION – JULY 2012 (Aug. 3, 2012), available at <http://www.bls.gov/news.release/pdf/empsit.pdf>.

24 *Id.* at Table A-2.

25 CBO 2012 TO 2022 OUTLOOK, *supra* note 14, at XIV.

Fig. 3

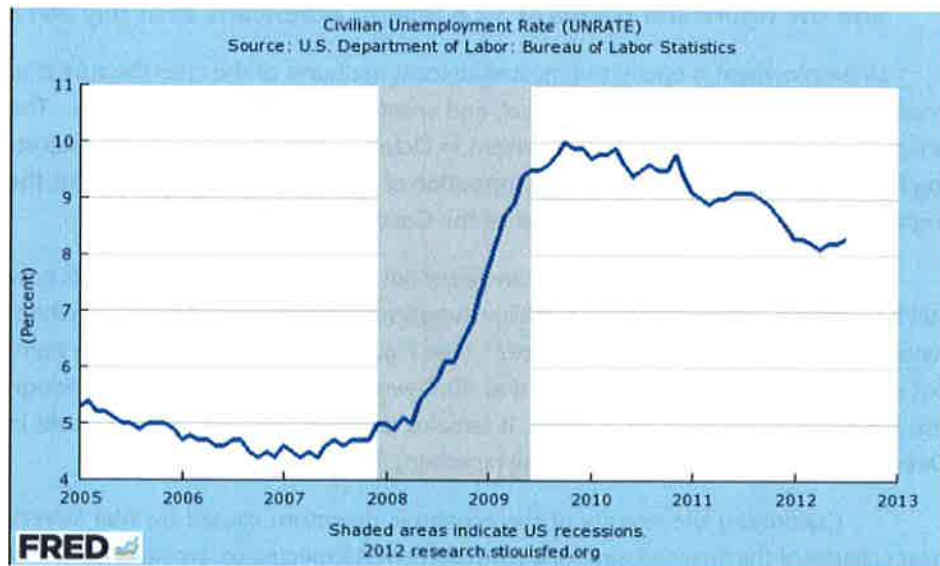
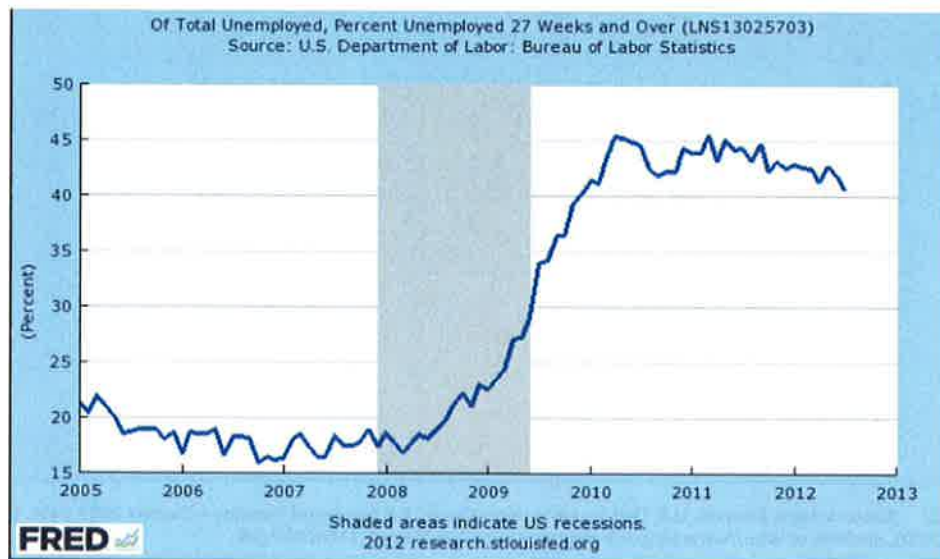
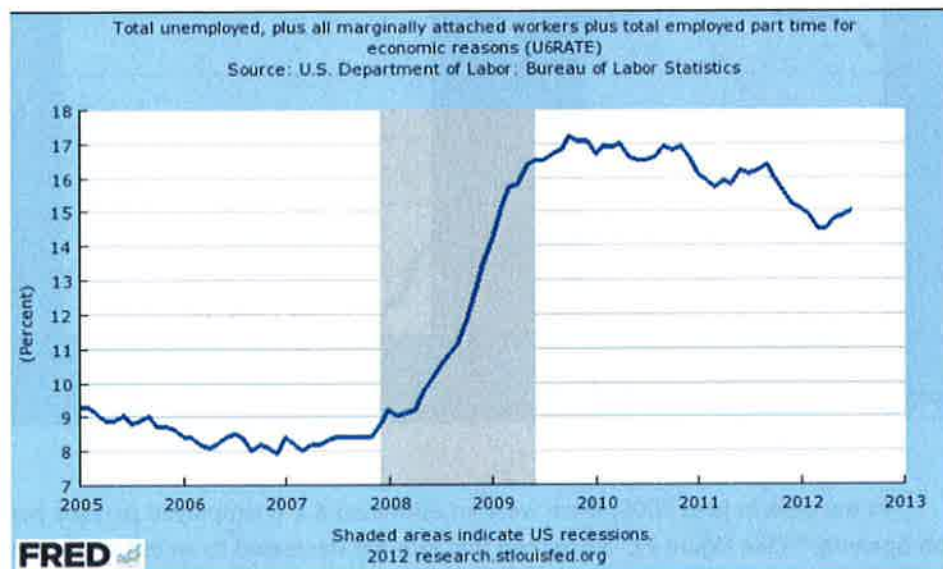


Fig. 4



More telling is the broadest measure of unemployment, the U-6 rate, which counts unemployed, marginally attached workers, and those employed part time because they cannot find full-time employment (known as the under-employed).²⁶ In October 2009, the U-6 rate peaked at 17.5 percent, representing 26.9 million Americans.²⁷ As of July 2012, the U-6 rate was still extraordinarily high at 15.0 percent, representing 23.1 million Americans. (See Figure 5).

Fig. 5



Although unemployment rates have declined somewhat since their crisis highs in October 2009, the civilian employment population ratio is barely above its 2009 lows. This indicates that job growth has barely kept up with growth in the working age population. (See Figure 6). The influx of new workers into the job market keeps the unemployment rate high because job growth is insufficient to absorb those workers **along with** the many un- and under-employed people looking for work. This has a particularly negative impact on the unemployed older workers because they have a difficult time competing for job openings with young and usually less costly workers just entering the labor force. As a result, unemployment lasts longer, the number of

26 "Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule." BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, ECONOMIC NEWS RELEASE, TABLE A-15, ALTERNATIVE MEASURES OF LABOR UNDERUTILIZATION, last modified Aug. 3, 2012, <http://www.bls.gov/news.release/empsit.t15.htm>.

27 BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, NEWS RELEASE, THE EMPLOYMENT SITUATION – OCTOBER 2009, at Table A-12 (Nov. 6, 2009).

discouraged workers increases, and the number of unemployed who take part time work for failure to find full time work increases.

Fig. 6

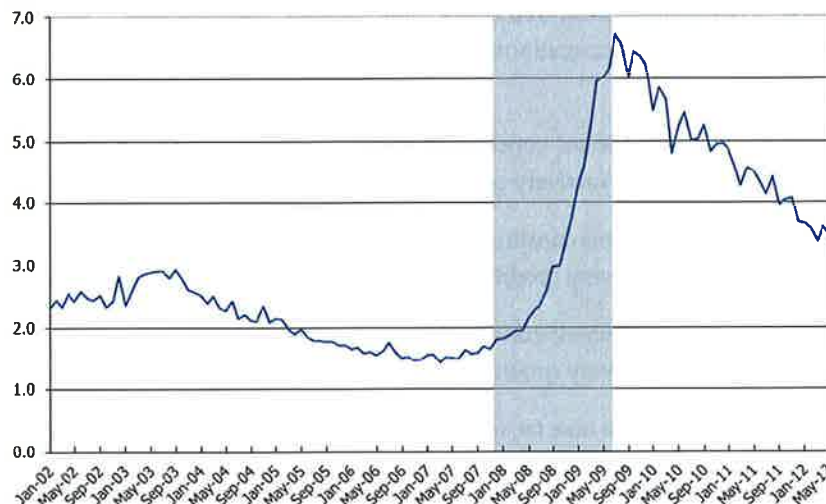


At the peak in June 2009, there were an estimated 6.2 unemployed persons per job opening.²⁸ (See Figure 7). Since then that rate has decreased to an estimated 3.4 unemployed persons for every job opening, as of June 2012, but it still remains almost 100% higher in comparison to the 1.8 unemployed persons per job opening at the start of the recession in December 2007. Not only does this job-competition make it more difficult for the unemployed to get a job, it usually means that the jobs they get pay less and provide fewer benefits.

²⁸ BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, JOB OPENINGS AND LABOR TURNOVER SURVEY HIGHLIGHTS: JUNE 2012, 1 (Aug. 7, 2012).

Fig. 7

Number of unemployed persons per job opening
Seasonally adjusted



Source: Bureau of Labor Statistics, Current Population Survey and Job Openings and Labor Turnover Survey, August 7, 2012.

Note: Shaded area represents recession as determined by the National Bureau of Economic Research (NBER).

The number of workers quitting their jobs also sheds light on the employment situation since “[q]uits tend to rise when there is a perception that jobs are available and tend to fall when there is a perception that jobs are scarce.”²⁹ For most of the 11-year history of the Department of Labor’s Job Openings and Labor Turnover Survey, the number of quits exceeded the number of layoffs. However, “[d]uring the latest recession, this relationship changed as layoffs and discharges outnumbered quits from November 2008 through March 2010.”³⁰ Thus, the public’s perception of the job market has weakened. In June 2012, there were still only 2.1 million quits, compared with 2.9 million quits in December 2007, the start of the recession.³¹

Moreover, out of the nation’s 363 metropolitan areas, less than 10% (only 26) have completely recovered jobs lost in the recession.³² While another 26 are expected

29 BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, JOB OPENINGS AND LABOR TURNOVER SURVEY HIGHLIGHTS: MARCH 2012, 4 (May 8, 2012).

30 *Id.*

31 BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR, JOB OPENINGS AND LABOR TURNOVER SURVEY HIGHLIGHTS: JUNE 2012, 1 (Aug. 7, 2012).

32 IHS GLOBAL INSIGHT, STUDY PREPARED FOR THE US CONFERENCE OF MAYORS AND THE COUNCIL FOR THE NEW AMERICAN CITY, U.S. METRO ECONOMIES: 2012 EMPLOYMENT FORECAST AND THE IMPACT OF EXPORTS, at 4 (Jan. 2012).

to fully recover job losses by the end of 2012, the balance will not experience full recovery for five or more years.

In addition, job loss has disproportionately affected the middle class. Unemployment losses have been concentrated in all mid-wage occupations, which, in comparison to high- and low-wage occupations, have experienced less recovery growth. According to a recent report:

- ♦ *Lower-wage occupations* constituted 21 percent of recession job losses, but fully 58 percent of recovery growth.
- ♦ *Mid-wage occupations* constituted 60 percent of recession job losses, but only 22 percent of recovery growth.
- ♦ *Higher-wage occupations* constituted 19 percent of recession job losses, and 20 percent of recovery growth.³³

Thus, Americans are now facing a “good jobs deficit” where the unbalanced recession and recovery shows that the long-term rise in inequality will continue,³⁴ damaging the middle class the most.

This has been exacerbated by the slashing of state, local, and national government employment. For example, since July 2009, total government employment has declined by over 580,000 jobs, “the largest decrease in any sector since the recovery began in July 2009.”³⁵ “[S]teep cuts in state and local governments have hit mid- and high-wage occupations the hardest.”³⁶ “In raw numbers, the largest cuts were to teachers, but of these occupations, the largest percentage decline was among emergency responders.”³⁷ (See Table 1).

33 NAT'L EMPLOYMENT LAW PROJECT, THE LOW-WAGE RECOVERY AND GROWING INEQUALITY 2 (Aug. 2012), available at http://www.nelp.org/page/-/Job_Creation/LowWageRecovery2012.pdf?nocdn=1.

34 *Id.* at 1.

35 MICHAEL GREENSTONE & ADAM LOONEY, BROOKINGS, A RECORD DECLINE IN GOVERNMENT JOBS: IMPLICATIONS FOR THE ECONOMY AND AMERICA'S WORKFORCE (Aug. 3, 2012), available at <http://www.brookings.edu/blogs/jobs/posts/2012/08/03-jobs-greenstone-looney>.

36 NAT'L EMPLOYMENT LAW PROJECT, THE LOW-WAGE RECOVERY AND GROWING INEQUALITY 1 (Aug. 2012), available at http://www.nelp.org/page/-/Job_Creation/LowWageRecovery2012.pdf?nocdn=1.

37 MICHAEL GREENSTONE & ADAM LOONEY, BROOKINGS, A RECORD DECLINE IN GOVERNMENT JOBS: IMPLICATIONS FOR THE ECONOMY AND AMERICA'S WORKFORCE (Aug. 3, 2012).

Table 1

Declining Unemployment in the Public Sector Workforce

<i>Occupation</i>	<i>Employment (2009)</i>	<i>Employment (2011)</i>	<i>Change in Employment</i>	<i>Percent Change in Employment</i>
Teachers	3,942,700	3,721,938	-220,762	-5.6%
Policemen	666,579	610,427	-56,125	-8.4%
Fire fighters	233,051	277,158	44,107	18.9%
Emergency responders	69,370	39,170	-30,200	-43.5%
Air-traffic controllers	23,959	17,128	-6,831	-28.5%

Source: The Brookings Institution

In addition to the loss of purchasing power and decrease in the quality of life, which is reflected in the GDP, the high number of unemployed Americans leads to other socially undesirable costs. The emotional suffering from losing a job can take a high toll on workers, even resulting in a loss in life expectancy. For example, for male workers in high-seniority jobs, mortality rates in the year following mass layoffs are "50% - 100% higher than would otherwise have been expected."³⁸ Although this mortality rate declines over time, an estimated 10 percent to 15 percent of annual death hazards remain twenty years after job loss.³⁹ "If these increases lasted beyond the 25-year window . . . they would imply a loss in life expectancy of 1.0–1.5 years for workers displaced in middle age."⁴⁰

Prolonged and large-scale unemployment also destroys human capital. This loss in human capital will have a lasting effect, resulting in a future loss in potential GDP and income to affected workers. Sustained job loss diminishes the capacity of a worker to re-enter the work force at the same level or at all. Moreover, new entrants cannot gain

38 Daniel Sullivan & Till von Wachter, *Job Displacement and Mortality: An Analysis Using Administrative Data*, QUARTERLY J. OF ECON., 1265, 1265 (Aug. 2009).

39 *Id.* at 1302.

40 *Id.* at 1266.

skills and experience when there are no jobs. Such an impaired workforce necessarily results in lower future GDP than otherwise.⁴¹

“Mass layoff events” result in large, long-term earnings losses for affected workers.⁴² Research shows that workers who lose their jobs in mass layoffs when the unemployment rate is higher lose more of their pre-job-loss earnings than those who lose their jobs in mass layoffs when the unemployment rate is lower.⁴³ For example, when the national unemployment rate is below 6 percent, affected workers lose on average 1.4 years’ worth of earnings.⁴⁴ In contrast, when the unemployment rate is above 8 percent, which it has been since 2009 (more than 40 months), affected workers lose an average of 2.8 years of pre-job-loss earnings.⁴⁵

A CLOSER LOOK AT THE SPECIAL CHALLENGES FACING UNEMPLOYED SENIORS

One subset of the population, seniors, has been particularly affected by the prolonged and large-scale unemployment plaguing the nation. For those age 55 and over, the unemployment rate, as with the rest of the population, rose sharply “increase[ing] from 3.1 percent in December 2007 to a high of 7.6 percent in February 2010, before it decreased to 6.0 percent in December 2011.”⁴⁶

Unique to older Americans, however, is the drastic increased duration of unemployment. Since 2007, “individuals age 55 and over have consistently experienced longer durations of unemployment than younger workers,” with 55 percent of older Americans unable to find work for over half a year.⁴⁷ Such long-term unemployment puts seniors at risk of deferring medical care, accumulating debt, reducing their standard of

41 CONG. BUDGET OFFICE, AN UPDATE TO THE BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2012 TO 2022 at 40-41, Box 2-2 (Aug. 2012) (estimating that “potential output will be about 1.5 percent lower in 2022 than it would have been without the recession and ensuing economic weakness”).

42 STEVEN J. DAVIS & TILL VON WACHTER, BROOKINGS, RECESSIONS AND THE COSTS OF JOB LOSS, BROOKINGS PAPER ON ECONOMIC ACTIVITY (Nov. 23, 2011).

43 *Id.*

44 *Id.* at 1.

45 *Id.*

46 U.S. GOV’T ACCOUNTABILITY OFFICE, UNEMPLOYED OLDER WORKERS: MANY EXPERIENCE CHALLENGES REGAINING EMPLOYMENT AND FACE REDUCED RETIREMENT SECURITY, GAO-12-445, at 9-10 (Apr. 25, 2012), available at <http://www.gao.gov/products/GAO-12-445>.

47 *Id.* at 14.

living, experiencing long-term financial hardship, reducing their sense of self-worth, and losing their homes.⁴⁸

Seniors risk using a substantial portion of their retirement savings to cover living expenses, reducing future retirement income.⁴⁹ Indeed, one recent survey of workers age 50 and over reported that almost a quarter had used all their savings since the beginning of the financial crisis.⁵⁰ Even when seniors “do find a job, it is often at a lower salary than the one they had lost.”⁵¹

Furthermore, the long-term effects of unemployment are not limited to the affected worker. As of December 2009, 8.1 million children—or 1 out of every 9—were living with unemployed parents.⁵² Over 2.3 million more were living with other unemployed family members. The adverse impact of unemployment on children is startling, ranging from an increased likelihood of homelessness to future poverty and educational challenges. Indeed, “[s]ince the recession began, 19 States collectively report a 49 percent increase in homeless children.”⁵³ And, the recession is expected to have caused an estimated 5 million increase in the number of children in poverty, who in turn, “are three times more likely to be poor as adults than their affluent peers.”⁵⁴ These same children are “15 percentage points less likely to complete high school and 20 percentage points less likely to complete college than those who were not poor.”⁵⁵

Unemployment outside of the household also affects children. Since 2009, American teachers have experienced massive layoffs, resulting in 220,000 fewer teachers in the classroom in 2011 than 2009 and an increase in the student-teacher ratio of 5.9

48 *Id.* at 27.

49 *Id.* at 42.

50 SARA E. RIX, AARP PUBLIC POLICY INSTITUTE, *RECOVERING FROM THE GREAT RECESSION: LONG STRUGGLE AHEAD FOR OLDER AMERICANS* (May 2011).

51 LORI TRAWINSKI, AARP PUBLIC POLICY INSTITUTE, *NIGHTMARE ON MAIN STREET: OLDER AMERICANS AND THE MORTGAGE CRISIS*, AARP PUBLIC POLICY INSTITUTE, at 4 (July 2012), *available at* http://www.aarp.org/content/dam/aarp/research/public_policy_institute/cons_prot/2012/nightmare-on-main-street-AARP-ppi-cons-prot.pdf.

52 PHILLIP LOVELL & JULIA B. ISAACS, CENTER ON CHILDREN AND FAMILIES, *FAMILIES OF THE RECESSION: UNEMPLOYED PARENTS & THEIR CHILDREN*, ECONOMIC STUDIES 1 (revised June, 2010), *available at* <http://www.brookings.edu/research/papers/2010/01/14-families-recession-isaacs>.

53 *Id.* at 2 (citing Phillip Lovell and Barbara Duffield, *Creating Jobs and Supporting Homeless Students*, Washington, DC: First Focus Campaign for Children and National Association for the Education of Homeless Children and Youth, 2010. [Forthcoming]).

54 *Id.*

55 *Id.*

percent.⁵⁶ The long-term effect of this increased ratio is lower future wages for American children—"a per-student, per-year loss of nearly \$1,000 in future earnings" or a total present value of \$49.3 billion in foregone earnings.⁵⁷

Unemployment can also reduce educational achievements generally "by threatening early childhood nutrition; reducing families' abilities to provide a supportive learning environment (including adequate health care, summer activities, and stable housing); and by forcing a delay or abandonment of college plans."⁵⁸ Also, a delay or reduction in college attendance forgoes the benefits of a college education, such as higher earnings, lower unemployment, better health, and lower incarceration rates.⁵⁹

⁵⁶ MICHAEL GREENSTONE & ADAM LOONEY, BROOKINGS, A RECORD DECLINE IN GOVERNMENT JOBS; IMPLICATIONS FOR THE ECONOMY AND AMERICA'S WORKFORCE (Aug. 3, 2012).

⁵⁷ *Id.*

⁵⁸ JOHN IRONS, ECON. POLICY INST., ECONOMIC SCARRING: THE LONG-TERM IMPACTS OF THE RECESSION, EPI BRIEFING PAPER 243 at 1 (Sept. 30, 2009).

⁵⁹ *Id.* at 5.

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A Jan. 10, 2009 photo shows "bank repo" and "foreclosure for sale" signs outside a foreclosed home in Houston. Foreclosure sales plunged 25 percent in the July-September quarter versus the April-June period and tumbled 31 percent from the third quarter last year, foreclosure listing firm RealtyTrac Inc. said Thursday, Dec. 2, 2010.

2. DESTROYED HOUSEHOLD WEALTH: There has been a steep decline in household wealth, including massive losses in real estate value and retirement accounts

Another profoundly important measure of the financial crisis is the vast amount of accumulated household wealth that was simply destroyed. Household wealth or household net worth is the difference between the value of assets and liabilities held by U.S. households. Assets fall into two categories, financial and non-financial. The largest class of financial assets is retirement accounts, and the largest class of non-financial assets is homes. Together, they represent approximately 43% of all household assets.⁶⁰

Data on household wealth provides a useful insight to the economic circumstances of the population. It “indicates the extent to which households have savings to draw on in the event of unemployment or illness;” “sheds light on the question of how well prepared today’s working households will be to finance consumption during retirement;” and “provides indications of households’ ability to service their debts, including their potential vulnerability to default or bankruptcy.”⁶¹

Following its approximately \$74 trillion peak in July 2007, real household wealth declined to approximately \$55 trillion in January 2009.⁶² Accordingly, households lost **\$19 trillion** in wealth during the peak crisis years. (See Figure 8). As a result, real median family net worth fell 38.8 percent, “erasing almost two decades of accumulated prosperity.”⁶³

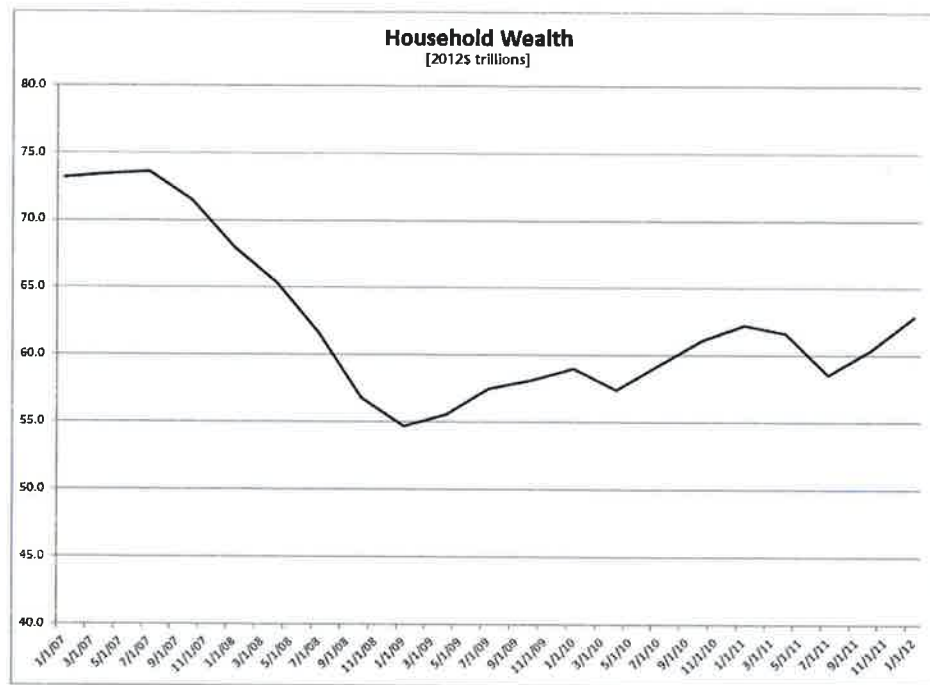
60 BOARD OF GOVERNORS OF THE FED. RESERVE SYS., FED. RESERVE BULLETIN VOL. 99 NO. 2, CHANGES IN U.S. FAMILY FINANCES FROM 2007 TO 2010: EVIDENCE FROM THE SURVEY OF CONSUMER FINANCES 23-24, 42 (June 2012).

61 GERHARD FRIES ET AL., FED. RESERVE BOARD OF GOVERNORS, THE MEASUREMENT OF HOUSEHOLD WEALTH USING SURVEY DATA: AN OVERVIEW OF THE SURVEY OF CONSUMER FINANCES, at 1 (Mar. 1998); *see also* JESSE BRICKER ET AL., FED. RESERVE BOARD, SURVEYING THE AFTERMATH OF THE STORM: CHANGES IN FAMILY FINANCES FROM 2007 TO 2009, FRB FINANCE AND ECONOMICS DISCUSSION SERIES, No. 2011-17 (2011) (discussing changes to household wealth from 2007-2009).

62 FEDERAL RESERVE FLOW OF FUNDS (Adjusted to 2012 dollars using the personal consumption expenditures chain price index).

63 BOARD OF GOVERNORS OF THE FED. RESERVE SYS., FED. RESERVE BULLETIN VOL. 99 NO. 2, CHANGES IN U.S. FAMILY FINANCES FROM 2007 TO 2010: EVIDENCE FROM THE SURVEY OF CONSUMER FINANCES 1, 17 (June 2012), *available at* http://www.federalreserve.gov/econresdata/scf/scf_2010.htm; Binyamin Appelbaum, *Family Net Worth Drops to Level of Early '90s*, *Fed Says*, N.Y. TIMES, June 11, 2012 (emphasis added).

Fig. 8



Source: Board of Governors of the Federal Reserve System (adjusted to 2012 dollars using the personal consumption expenditures chain price index)

One component of total household wealth—equity investments—saw a dramatic fall during the crisis: The stock market fell by more than 50 percent in just 18 months, from October 2007 until March of 2009, representing \$11 trillion in evaporated wealth.⁶⁴ Although the stock market has regained some lost ground, even including the stock market increases since the crisis lows, the total loss in household wealth today remains at no less than \$11 trillion.

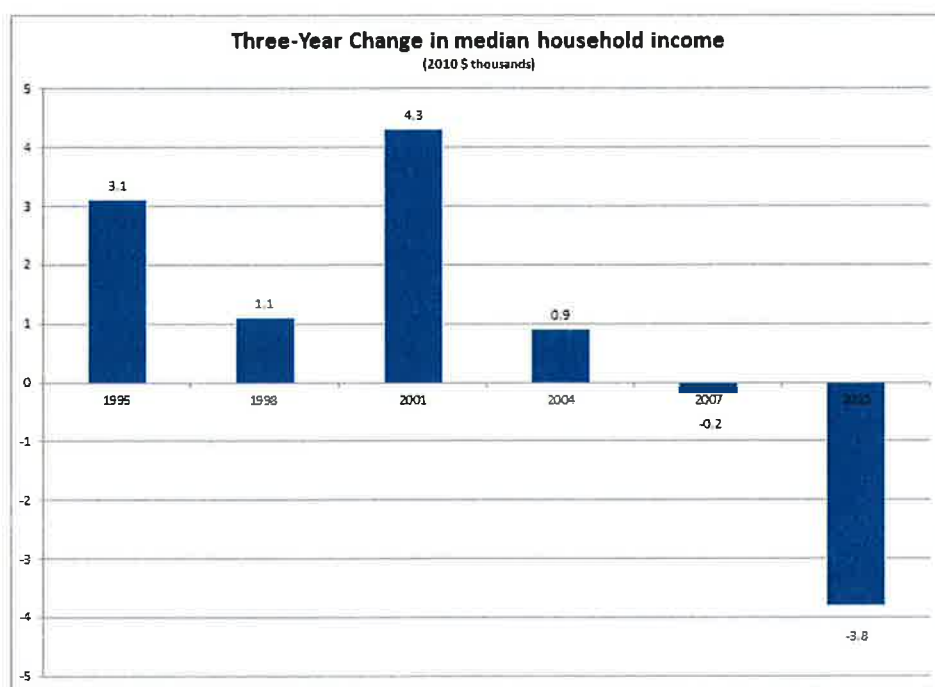
Moreover, the rebound in equities is small comfort to the millions of investors who liquidated their positions during the crisis out of sheer panic, the need for funds due to retirement, or the flight to safer investments such as bonds. Whatever the reason, these investors sustained permanent loss of wealth, notwithstanding the more recent upward trend in the market. Finally, the recovery in the market has been fragile at best, marked by volatility and fears that it may suffer major reverses any day. This in

⁶⁴ FED. RESERVE BANK OF ST. LOUIS, FRED ECONOMIC DATA, DOW JONES INDUSTRIAL AVERAGE (DJIA) (2011), available at <https://research.stlouisfed.org/>; Peter A. McKay, *US Stocks Slip As Early Rally Evaporates; DJIA Down 7*, MARKETWATCH, Mar. 6 2009, <http://www.marketwatch.com/story/us-stocks-slip-as-early-rally>.

turn has discouraged many investors from attempting to recoup losses they sustained upon exiting the market during the height of the crisis.

In addition, from 2007-2010, median family income fell 7.7 percent, from \$49,600 to \$45,800.⁶⁵ (See Figure 9, showing, in the last two data bars, the dramatic fall in medium family income from 2007-2010). With less income, families are less able to save for their futures and pay down their debts, which in turn lowers household wealth. Indeed, "from 2007 to 2010, the proportion of families that reported that they had saved **anything** in the preceding year fell substantially, from 56.4 percent to 52.0 percent."⁶⁶

Fig. 9



The damage done by the drop in household wealth and income is difficult to overstate. Not only is the reduction in income and wealth damaging on an absolute basis, it is also happening at the very worst time. Just as un- and under-employment have surged, home values have dropped, making access to equity lines difficult if not impossible; savings and investments have decreased (many dramatically and some

65 *Id.*

66 BOARD OF GOVERNORS OF THE FED. RESERVE SYS., FED. RESERVE BULLETIN VOL. 99 No. 2, CHANGES IN U.S. FAMILY FINANCES FROM 2007 TO 2010: EVIDENCE FROM THE SURVEY OF CONSUMER FINANCES 15 (June 2012).

entirely); and yields on what is left are minimal.⁶⁷ Thus, trends have combined to rob the middle class of economic lifelines that might have been otherwise available to help them get through difficult economic times. And, as set forth below, the government's ability to help has been similarly impaired as state and local governments have been forced to slash programs and personnel to balance their budgets. Similarly, the federal government's ability to provide assistance is severely limited due to the deficit and the political impasse over federal spending.

♦ **Home value declines:**

A major component of household wealth in the U.S. is houses. According to the Federal Reserve's analysis of Corelogic data, home values have declined 34 percent since their 2006 peak through the end of 2011,⁶⁸ representing \$7 trillion in lost homeowner equity.⁶⁹ Additionally, this is the fourth consecutive year with a decrease in home prices,⁷⁰ which are now at 2002 levels.⁷¹ Although home values have improved slightly since the end of 2011, as of June 2012 the peak-to-current change was negative 29 percent.⁷²

Highlighting just how historically bad the state of housing is, the decline in real housing prices greatly exceeds the decline witnessed during the Great Depression.⁷³ According to the 2012 Economic Report of the President:

[T]he decline in inflation-adjusted home prices was unprecedented in the post-World War I U.S. economic experience in both its severity and its geographic scope. Some of the regional housing recessions—notably in California and New England in the early 1990s—generated sharp and long-lasting price declines, but neither was as steep and prolonged as the current episode. And during the Great Depression, the only other instance of nationwide price declines since WWI, much of the comparably-sized decline in nominal home prices was offset by a concurrent drop in

67 As briefly mentioned above, one of the often-ignored disadvantages of the Fed's zero interest rate policy is that it produces ultra-low yielding savings and investment opportunities. Thus, although such low rates provide some benefits by lowering the cost of residential mortgages, they actually prevent the middle class from maintaining or rebuilding their depleted financial resources.

68 CORELOGIC, DECEMBER HOME PRICE INDEX GIVES FIRST LOOK AT FULL-YEAR 2011 PRICE CHANGES (Feb. 2, 2012), *available at* <http://www.corelogic.com/about-us/news/corelogic-december-home-price-index-gives-first-look-at-full-year-2011-price-changes.aspx>.

69 BOARD OF GOVERNORS OF THE FED. RESERVE SYS., WHITE PAPER, THE U.S. HOUSING MARKET: CURRENT CONDITIONS AND POLICY CONSIDERATIONS, at 3 (Jan. 4, 2012).

70 CORELOGIC, JUNE HOME PRICE INDEX RISES 2.5 PERCENT—REPRESENTING FOURTH CONSECUTIVE YEAR-OVER-YEAR INCREASE (Aug. 7, 2012), *available at* http://www.corelogic.com/about-us/researchtrends/asset_upload_file480_16164.pdf.

71 Les Christie, *Home prices fall to 2002 levels*, CNNMONEY, Mar. 27, 2012, http://money.cnn.com/2012/03/27/real_estate/home-prices/index.htm.

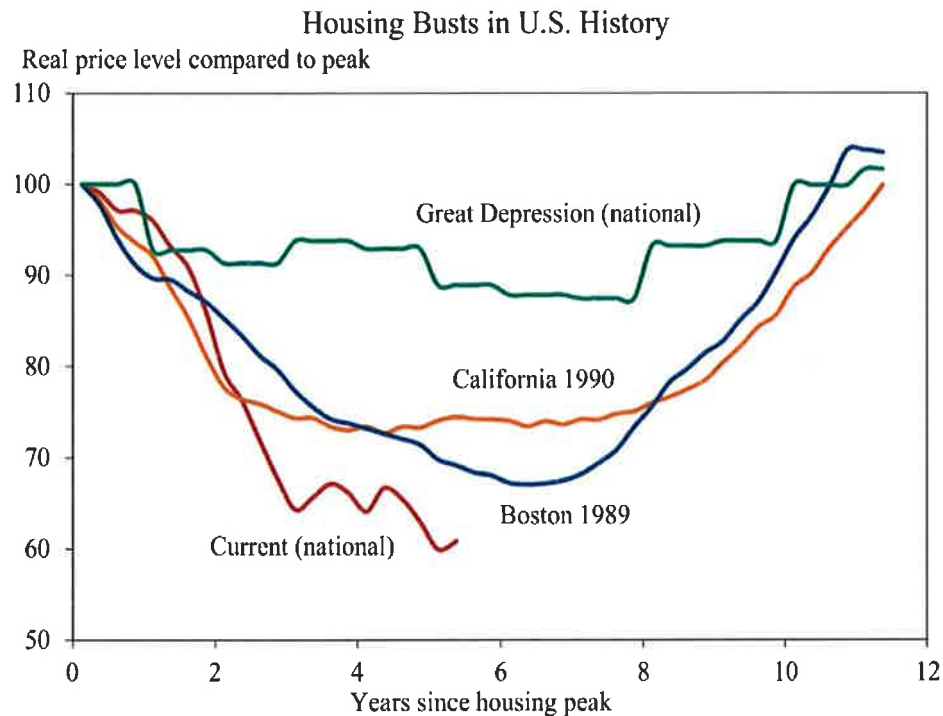
72 *Id.*

73 ECONOMIC REPORT OF THE PRESIDENT 2011, at 33-34 (Feb. 2011).

general price levels, so the decline in *real* housing values was only about one-quarter as large as the one we recently experienced.⁷⁴

The comparison of these housing “busts,” based on S&P/Case-Shiller data, is set forth in Figure 10:

Fig. 10



SOURCE: ECONOMIC REPORT OF THE PRESIDENT 2012, at 101 (Feb. 2012).

This sharp decline in housing prices coupled with poor lending practices led to increased debt to asset ratios, resulting in numerous foreclosures and delinquencies. Over 11 million homeowners own homes worth less than their mortgages, or about 22.8 percent of all residential properties with a mortgage.⁷⁵ Since 2008, at least 3.7 million homes—and by some accounts 5 million homes—have been foreclosed.⁷⁶ The

⁷⁴ ECONOMIC REPORT OF THE PRESIDENT 2012, at 101 (Feb. 2012).

⁷⁵ CORELOGIC, CORELOGIC REPORTS NEGATIVE EQUITY DECREASES IN FIRST QUARTER OF 2012 (July 12, 2012), available at http://www.corelogic.com/about-us/researchtrends/asset_upload_file912_15196.pdf; JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY, THE STATE OF THE NATION'S HOUSING 11 (2011).

⁷⁶ CORELOGIC, CORELOGIC REPORTS 60,000 COMPLETED FORECLOSURES IN JUNE (July 31, 2012); *Still Depressed, After All These Years*, N.Y. TIMES, June 23, 2012, at SR12.

average duration of delinquencies on loans that are 90 or more days delinquent was 374 days as of April 2011.⁷⁷ In contrast, in early 2008, the average was 192 days.

The loss of household wealth from housing-related debt and declines in house prices also affects GDP since consumer spending decreases as home values fall.⁷⁸ Thus, research shows that because of the negative effect on aggregate demand, higher levels of household debt are proving to be a substantial obstacle to overall economic recovery.⁷⁹

Additionally, homeowners whose mortgages are underwater, with negative equity and rising interest rates, are less socially mobile over time.⁸⁰ Mobility rates for homeowners with negative equity in their homes are almost 50 percent lower than those who have positive equity.⁸¹ Less social mobility exacerbates unemployment, employment, and re-employment problems because of “inefficient matching in the labor market, as some households will not be able to move to access better jobs in alternative labor markets.”⁸²

Although believed to be more housing secure than younger people, home foreclosures have also negatively impacted older Americans. From 2007 to 2011, more than 1.5 million Americans over the age of 50 lost their homes to foreclosure because of the crisis.⁸³ Another 3.5 million home loans made to older Americans were underwater as of December 2011. Unsurprisingly, older Americans recovering from a foreclosure have a much more difficult time “as a result of fewer working years remaining in which to rebuild their financial security.”⁸⁴

Moreover, an estimated 8 million American children are directly affected by the ongoing foreclosures: 2.3 million children have already lost their homes to foreclosure, 3 million children are at serious risk of foreclosure, and 3 million children have either

77 RAJDEEP SENGUPTA & BRYAN J. NOETH, FED. RESERVE BANK OF ST. LOUIS, *SOME CLOSURE ON FORECLOSURES?* (July 2011).

78 See ATIF MIAN & AMIR SUFI, FED. RESERVE BANK OF SAN FRANCISCO, *CONSUMERS AND THE ECONOMY, PART II: HOUSEHOLD DEBT AND THE WEAK U.S. RECOVERY*, FRBSF ECONOMIC LETTER (Jan. 18, 2011) (measuring differences in auto sales among high household and low household debt countries to illustrate the relationship between residential investment and durable consumption).

79 *Id.*

80 FERNANDO FERREIRA ET AL., FED. RESERVE BANK OF N.Y., *HOUSING BUSTS AND HOUSEHOLD MOBILITY*, No. 350 (Aug. 28, 2008), available at http://www.newyorkfed.org/research/staff_reports/sr350.html.

81 *Id.*

82 *Id.* at 18-19.

83 LORI TRAWINSKI, AARP PUBLIC POLICY INSTITUTE, *NIGHTMARE ON MAIN STREET: OLDER AMERICANS AND THE MORTGAGE CRISIS 1* (July 2012), available at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/cons_prot/2012/nightmare-on-main-street-AARP-ppi-cons-prot.pdf.

84 *Id.*

been evicted or face eviction from rental property.⁸⁵ As a result, these children face “harsher and less supportive parenting;” a negative impact on their mental and physical health; and relocation, which frequently leads to a decline in academic performance, yet additional destruction of human capital leading to lower future GDP.⁸⁶

♦ **Drop in retirement accounts**

Retirement accounts are another form of lost household wealth, which has had an especially significant and painful impact on seniors. As of March 2009, retirement accounts had lost \$3.4 trillion, or 40 percent in value.⁸⁷

Although accounts may rebound for relatively young adults, with negligible consequences, for those at or near retirement age during the crisis, irreversible harm was inflicted. Such social harms included the inability to meet basic needs, the need to return to the workforce in a low wage job, and an overall loss of quality of life during retirement.

According to survey published in 2010, “[m]any people approaching retirement suffered substantial losses in their retirement accounts.”⁸⁸ Twenty-five percent of the respondents between the ages of 50 and 59 reported losing more than 35 percent of their retirement savings, and “some of them locked in their losses prior to the partial recovery in the stock market by selling out.”⁸⁹ Because of unemployment, some people retired early, leading to reduced economic resources for their futures.⁹⁰

85 JULIA B. ISAACS, BROOKINGS, THE ONGOING IMPACT OF FORECLOSURES ON CHILDREN 2 (Apr. 2012), available at http://www.brookings.edu/~media/research/files/papers/2012/4/18%20foreclosures%20children%20isaacs/0418_foreclosures_children_isaacs.

86 *Id.* at 4-6.

87 MAURICIO SOTO, URBAN INSTITUTE, HOW IS THE FINANCIAL CRISIS AFFECTING RETIREMENT SAVINGS? (Mar. 10, 2009).

88 MICHAEL D. HURD & SUSAN M. ROHWEDDER, NAT’L BUREAU OF ECON. RESEARCH, EFFECTS OF THE FINANCIAL CRISIS AND GREAT RECESSION ON AMERICAN HOUSEHOLDS, NBER WORKING PAPER NO. 16047, at 21 (Sept. 2010).

89 *Id.*

90 *Id.*



3. GOVERNMENT BAILOUTS AND SUPPORT: In response to the crisis, the U.S. government has spent, lent, guaranteed, pledged, committed, or otherwise used trillions of dollars to prevent a complete financial collapse and second Great Depression, and these expenditures have resulted in, among other things, a substantial increase in government debt

In response to the crisis, the U.S. government took unprecedented actions—representing trillions of dollars—in an attempt to stop the complete collapse of the financial system and a second Great Depression. Most significantly, the federal government, on February 23, 2009, announced that the full faith and credit of the United States would stand behind the financial system, as set forth in this historic policy statement:

A strong, resilient financial system is necessary to facilitate a broad and sustainable economic recovery. The U.S. government stands firmly behind the banking system during this period of financial strain to ensure it will be able to perform its key function of providing credit to households and businesses. The government will ensure that banks have the capital and liquidity they need to provide the credit necessary to restore economic growth. Moreover, we reiterate our determination to preserve the viability of systemically important financial institutions so that they are able to meet their commitments.⁹¹

In addition to effectively nationalizing the U.S. financial system, the U.S. government spent, lent, guaranteed, pledged, committed, or otherwise used trillions of dollars in bailouts of Wall Street and the broader financial system as well as emergency programs to respond to the economic crisis. The value of the government's total commitment of support, provided through some 50 separate programs, is estimated at not less than **\$23.7 trillion**.⁹² This government spending, coupled with losses in revenue resulting from the economic crisis, has cost trillions of dollars and produced large increases in government debt. Specifically, the actual spending to respond to these crises is estimated to increase the national debt by **\$8 trillion** as of 2018.⁹³

One result of all these emergency actions is a substantial loss of fiscal capacity. Fiscal capacity measures a country's ability to finance larger fiscal deficits without nega-

91 JOINT STATEMENT BY THE TREASURY, FDIC, OCC, OTS, AND THE FEDERAL RESERVE (Feb. 23, 2009) (full statement available at <http://www.federalreserve.gov/newsevents/press/bcreg/20090223a.htm>).

92 OFFICE OF THE SPECIAL INSPECTOR GEN. FOR THE TROUBLED ASSET RELIEF PROGRAM, QUARTERLY REP. TO CONGRESS, 137 (July 21, 2009).

93 SIMON JOHNSON & JAMES KWAK, WHITE HOUSE BURNING: THE FOUNDING FATHERS, OUR NATIONAL DEFENSE, AND WHY IT MATTERS TO YOU, 99 (Pantheon Books 2012) (citing CONG. BUDGET OFFICE, THE BUDGET AND ECONOMIC OUTLOOK (Jan. 2008); CONG. BUDGET OFFICE, THE BUDGET AND ECONOMIC OUTLOOK: AN UPDATE (Aug. 2009)).

tively impacting its macroeconomic performance or standing in financial markets.⁹⁴ With adequate fiscal capacity, a country can borrow to deal with cyclical downturns or crisis developments. However, with less fiscal capacity, such as the level we now have as a result of large increases in government debt caused by fighting the crises, the government is, and will be for some time to come, less able to deal with future cyclical downturns or crises.

The measures adding to government debt include:

- ♦ **Economic Stimulus Act of 2008:** One of the first responses to the looming financial disaster was the Economic Stimulus Act of 2008 signed by President Bush on February 13, 2008.⁹⁵ Among other things, the act provided individuals with tax rebates and businesses with tax breaks, but cost American taxpayers \$152 billion in 2008.⁹⁶
- ♦ **TARP:** In an attempt to prevent the complete collapse of the financial system in 2008, Congress authorized \$700 billion for the Troubled Asset Relief Program (“TARP”) to “restore liquidity and stability to the financial system of the United States.”⁹⁷ In July 2010, the Dodd-Frank Act reduced this authority to \$475 billion. As of July 2012, Treasury estimates that \$416.38 billion in TARP funds have been disbursed.⁹⁸

[A]s of June 30, 2012, [Treasury] had written off or realized losses of \$15.6 billion that taxpayers will never get back, leaving \$93.5 billion in TARP funds outstanding. These amounts do not include \$4.5 billion in TARP funds spent on housing programs, which are designed as a Government subsidy, with no repayments to taxpayers expected.⁹⁹

94 Fiscal capacity is the potential to use the government budget to achieve a goal without damaging its overall financial position, including its ability to meet its obligations and borrow when necessary. See, e.g., PETER S. HELLER, IMF, UNDERSTANDING FISCAL SPACE, IMF POLICY DISCUSSION PAPER, PDP/05/4 (2005).

95 Pub. L. No. 110–185, 122 Stat. 613 (2008).

96 See CONG. BUDGET OFFICE, COST ESTIMATE: H.R. 5140 ECONOMIC STIMULUS ACT OF 2008 (Feb. 11, 2008), available at <http://www.cbo.gov/doc.cfm?index=8973&zzz=36540>.

97 See The Emergency Economic Stabilization Act of 2008, Pub. L. No. 110–343, 122 Stat. 3765 (2008).

98 U.S. DEPT. OF TREASURY, TARP MONTHLY 105(A) REP.–JULY 2012, Figure 2 (Aug. 10, 2012).

99 OFFICE OF THE SPECIAL INSPECTOR GEN. FOR THE TROUBLED ASSET RELIEF PROGRAM, QUARTERLY REP. TO CONGRESS, 37 (July 25, 2012).

Recently revised estimates suggest the lifetime, out-of-pocket cost of TARP will be between \$32 and \$78 billion,¹⁰⁰ but, as discussed further below, the real cost to U.S. taxpayers was substantially higher.

- ♦ **Supplemental Appropriations Act of 2008:** Title IV of the Supplemental Appropriations Act of 2008,¹⁰¹ created the Emergency Unemployment Compensation (“EUC08”) program, a new temporary unemployment insurance program to extend unemployment insurance for an additional 13 weeks for those who exhaust their regular benefits.¹⁰² The Act increased projected outlays by \$13 billion through 2009.¹⁰³
- ♦ **ARRA:** As the economic calamity resulting from the financial crisis continued to worsen, the American Recovery and Reinvestment Act of 2009 (“ARRA”) provided a stimulus package and tax relief in the amount of \$787 billion.¹⁰⁴ According to the Congressional Budget Office (“CBO”), ARRA will increase the federal budget deficit by \$831 billion over the 2009-2019 period.¹⁰⁵
- ♦ **Worker, Homeownership, and Business Assistance Act of 2009:** To build on ARRA, Congress passed the Worker, Homeownership, and Business Assistance Act of 2009,¹⁰⁶ which extended and expanded the Homebuyers Tax Credit, cut taxes for struggling businesses, and provided 20 additional weeks of unemployment insurance.¹⁰⁷ The Congressional Budget Office (“CBO”) estimated that the Act would increase direct spending by \$6.6 billion over the 2010-2019 period and “reduce revenues by \$39.0 billion in 2010, but yield a net increase in revenues of \$6.7 billion over both the 2010-2014 and 2010-2019 periods.”¹⁰⁸ Accordingly, the CBO projected that the Act would increase the deficit in 2010 by \$44.7 billion, and that thereafter, the Act would reduce the deficit by \$37 million over the 2010-2019 period.

100 *Id.* at 42, Table 2.3.

101 Pub. L. No. 110- 252, 122 Stat. 2323 (2008).

102 CONG. BUDGET OFFICE, THE BUDGET AND ECONOMIC OUTLOOK: AN UPDATE, at 56 (Sept. 2008).

103 *Id.*

104 Pub. L. No. 111-5, 123 Stat. 115 (2009). MICHAEL GRUNWALD, THE NEW NEW DEAL: THE HIDDEN STORY OF CHANGE IN THE OBAMA ERA (Simon & Schuster) (2012).

105 CBO 2012 to 2022 Outlook, *supra* note 14, at 8-9.

106 Pub. L. No. 111-92, 123 Stat. 2984 (2009).

107 OFFICE OF THE PRESS SECRETARY, THE WHITE HOUSE, FACT SHEET: THE WORKER, HOMEOWNERSHIP, AND BUSINESS ASSISTANCE ACT OF 2009 (Nov. 6, 2009), *available at* <http://www.whitehouse.gov/the-press-office/fact-sheet-worker-homeownership-and-business-assistance-act-2009>.

108 CONG. BUDGET OFFICE, COST ESTIMATE: H.R. 3548 (Nov. 25, 2009).

- ♦ **Other Health Insurance Extensions:** Additionally, the Department of Defense Appropriations Act of 2010¹⁰⁹ amended ARRA to extend Consolidated Omnibus Budget Reconciliation Act (“COBRA”) subsidies to continue health insurance coverage for the unemployed. The COBRA subsidy was later extended by the Temporary Extension Act of 2010,¹¹⁰ and again by the Continuing Extension Act of 2010.¹¹¹ As a result, millions of unemployed workers were able to continue their health care coverage.¹¹²
- ♦ **Other Extensions of Unemployment Insurance:** The EUC08 program created by the Supplemental Appropriations Act of 2008 has been repeatedly amended to continue providing unemployment benefits beyond the normal period. The first amendment was the Unemployment Compensation Extension Act of 2008.¹¹³ According to CBO estimates, the Act increased spending by \$5.7 billion in 2009 and decreased revenues by \$8 million over the 2009-2018 period.¹¹⁴ Likewise, ARRA; the Worker, Homeownership, and Business Assistance Act of 2009; the Department of Defense Appropriations Act of 2010; the Temporary Extension Act of 2010; and the Continuing Extension Act of 2010, mentioned above, contained provisions to continue the EUC08 program. The Unemployment Compensation Extension Act of 2010¹¹⁵ also extended the length of time unemployed persons could receive benefits. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010¹¹⁶ again extended unemployment insurance for an additional 13 months. According to the White House, this extension “provides crucial economic security to American families,” and “while 14 million people received federally supported unemployment insurance benefits through October 2010, an additional 26 million people living in their households benefitted

109 Pub. L. No. 111-118, 123 Stat. 3409 (2009).

110 Pub. L. No. 111-144, 124 Stat. 42 (2010).

111 Pub. L. No. 111-157, 124 Stat. 1116 (2010).

112 An estimated “9.3 million adult Americans . . . lost health insurance due to a higher unemployment rate alone during the 2007-09 recession.” JOHN CAWLEY ET AL., NAT’L BUREAU OF ECON. RESEARCH, THE IMPACT OF THE MACROECONOMY ON HEALTH INSURANCE COVERAGE: EVIDENCE FROM THE GREAT RECESSION, WORKING PAPER No. 17600 (Nov. 2011), available at <http://www.nber.org/papers/w17600>.

113 Pub. L. No. 110-449, 122 Stat. 5014 (2008).

114 CONG. BUDGET OFFICE, COST ESTIMATE OF H.R. 6867 (Dec. 2008), available at <http://www.cbo.gov/doc.cfm?index=9951&zzz=38396>.

115 Pub. L. No. 111-205, 124 Stat. 2236 (2010).

116 Pub. L. No. 111-312, 124 Stat. 3296 (2010).

indirectly.”¹¹⁷ The Act also included a tax cut package, and provided for a reduced payroll tax, all intended to stimulate the economy.

- ♦ **Payroll Tax Cuts:** The Temporary Payroll Tax Cut Continuation Act of 2011¹¹⁸ continued for two months the reduced payroll tax provided under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.¹¹⁹
- ♦ **Additional Job Creation Legislation:** In light of rising unemployment, Congress passed the Hiring Incentives to Restore Employment Act of 2010,¹²⁰ which provided tax breaks and incentives for businesses to hire and retain previously unemployed workers. Additional job creation legislation was passed under the FAA Air Transportation Modernization and Safety Improvement Act,¹²¹ which provided \$10 billion for education jobs. The Act also included a \$16.1 billion extension of the Federal Medical Assistance Percentages program.
- ♦ **Small Business Assistance:** To further combat rampant unemployment and assist small businesses, the Small Business Jobs Act of 2010¹²² created the State Small Business Credit Initiative (“SSBCI”) and the Small Business Lending Fund (“SBLF”), which are currently being administered by Treasury. SSBCI provides federal grants to state programs that support lending to small businesses and was allocated \$1.5 billion from the Jobs Act.¹²³ SBLF is a \$30 billion fund that provides capital to qualified community banks with assets of less than \$10 billion to encourage their lending to small businesses.¹²⁴

117 THE WHITE HOUSE, OFFICE OF THE PRESS SECRETARY, THE TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION, AND JOB CREATION ACT OF 2010: WIN FOR WOMEN, MOTHERS AND WORKING FAMILIES (Dec. 10, 2010), <http://www.whitehouse.gov/the-press-office/2010/12/10/tax-relief-unemployment-insurance-reauthorization-and-job-creation-act-2>.

118 Pub. L. No. 112-78, 125 Stat. 1280 (2011).

119 CBO 2012 to 2022 Outlook, *supra* note 14, at 1.

120 Pub. L. No. 111-147, 124 Stat. 71 (2010).

121 Pub. L. No. 111-226, 124 Stat. 2389 (2010).

122 Pub. L. No. 111-240, 124 Stat. 2504 (2010).

123 U.S. DEPT. OF TREASURY, STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI) (Mar. 2012), <http://www.treasury.gov/resource-center/sb-programs/Pages/ssbci.aspx>.

124 U.S. DEPT. OF TREASURY, OVERVIEW OF THE SMALL BUSINESS LENDING FUND (Mar. 28, 2011), *available at* http://www.treasury.gov/resource-center/sb-programs/Documents/SBLF_Fact_Sheet_03-28-11.pdf.

A CLOSER LOOK AT THE STRUGGLES OF SMALL BUSINESS

As a result of the crisis, businesses—many of them Main Street small businesses—were forced to close because their customers became unemployed, household spending dropped precipitously, and access to credit and capital froze. “Between 2008 and 2009, the number of new businesses founded is estimated to have dropped 11.8 percent, from 626,400 to 552,600, and the number of bankruptcies rose 40 percent, from 43,546 to 60,837.”¹²⁵ This is particularly troubling since small businesses are a large source of job creation. Between 1993 and 2009, small businesses “accounted for 9.8 million of the 15 million net new private sector jobs created . . .—nearly two out of every three of the period’s net new jobs.”¹²⁶ To address this concern, multiple laws were passed to reduce taxes and improve access to capital and credit, including the Small Business Jobs Act, the Hiring Incentives to Restore Employment Act, and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act, and provisions of ARRA.

- ♦ **Homebuyer Tax Credits:** Building on the Worker, Homeownership, and Business Assistance Act of 2009, the Homebuyer Assistance and Improvement Act of 2010¹²⁷ extended the application deadline of the homebuyer tax credit.
- ♦ **Student Loan Purchases:** Under the authority granted by the Ensuring Continued Access to Student Loans Act of 2008,¹²⁸ the U.S. Department of Education has purchased \$219 billion in federally-backed student loans made by private lenders.¹²⁹
- ♦ **Automotive Industry Encouragement:** The Car Allowance Rebate System, also known as “Cash for Clunkers,” provided \$3 billion in federal funds to boost automobile sales and place safer, more fuel-efficient cars on the roads.¹³⁰

125 ECONOMIC REPORT OF THE PRESIDENT 2011, at 143 (Feb. 2011) (emphasis added).

126 *Id.* at 144.

127 Pub. L. No. 111-198, 124 Stat. 1356 (2010).

128 Pub. L. No. 110-350, 122 Stat. 3947 (2008).

129 U.S. DEPT. OF EDUC., LOAN PURCHASE PROGRAM ACTIVITY Reports (Nov. 1, 2010), <http://federalstudentaid.ed.gov/ffelp/reports.html>.

130 See Supplemental Appropriations Act, 2009, Pub. L. No. 111-32, 123 Stat. 1859, Title XIII The Consumer Assistance to Recycle and Save Program (C.A.R.S.) (2009).

- ♦ **GSE Bailouts:** Through Treasury's authority to stabilize the housing market under the Housing and Economic Recovery Act of 2008,¹³¹ signed into law by President Bush on July 30, 2008, the Government Sponsored Enterprises, Fannie Mae and Freddie Mac, were placed into conservership and run by the government. As of March 2011, the cost of this bailout is estimated at \$359 billion.¹³²
- ♦ **Federal Reserve spending:** "Since the beginning of the financial market turmoil in August 2007, the Federal Reserve's balance sheet has grown in size and has changed in composition. Total assets of the Federal Reserve have increased significantly from \$869 billion on August 8, 2007, to well over \$2 trillion as of August 2012."¹³³ (See Figure 11).

Fig. 11

Recent Balance Sheet Trends: Factors Affecting Reserve Balances



Source: Board of Governors of the Federal Reserve System

- To provide liquidity to the mortgage markets, the Federal Reserve purchased a total of \$1.25 trillion of GSE mortgage-backed securities as of March 2010, and purchased \$172.1 billion of GSE debt as of December 2011.¹³⁴ "The Federal Reserve also purchased \$300 billion in longer-term Treasury securities in 2009 to improve interest rate conditions in mortgage and

131 Pub. L. No. 110-289, 122 Stat. 2850 (2008).

132 STATEMENT OF DEBORAH LUCAS, ASSISTANT DIRECTOR FOR FINANCIAL ANALYSIS, CONG. BUDGET OFFICE, THE BUDGETARY COST OF FANNIE MAE AND FREDDIE MAC AND OPTIONS FOR THE FUTURE FEDERAL ROLE IN THE SECONDARY MORTGAGE MARKET, BEFORE THE COMM. ON THE BUDGET U.S. HOUSE OF REPRESENTATIVES, 3, 11 (June 2, 2011).

133 BOARD OF GOVERNORS OF THE FED. RESERVE SYS., RECENT BALANCE SHEET TRENDS, http://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm.

134 OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, ANALYTICAL PERSPECTIVES: BUDGET OF THE U.S. GOVERNMENT, FISCAL YEAR 2013, 35 (2012).

other private credit markets.”¹³⁵ In 2010, the Fed announced its intention to purchase up to \$600 billion of additional long-term Treasury securities to foster economic recovery through its “quantitative easing” program.¹³⁶

- Created in December 2007 and lasting until March 2010, the Term Auction Facility (“TAF”) provided short-term liquidity to banks. “[I]n total, the Federal Reserve disbursed over \$3.8 trillion in TAF loans.”¹³⁷
- Other measures by the Federal Reserve to provide liquidity to banks were the Primary Credit Dealer Facility (“PCDF”) and the Term Securities Lending Facility (“TSLF”). The PCDF was an “overnight loan facility that provided funding to primary dealers in exchange for a specified range of eligible collateral.”¹³⁸ In the wake of the Lehman Brother’s failure, PCDF borrowing reached more than \$140 billion in October 2008.¹³⁹ “Under the TSLF, the [Fed] could lend up to an aggregate amount of \$200 billion of Treasury securities . . . to primary dealers on a secured basis for a term of twenty-eight days.”¹⁴⁰
- To provide “liquidity directly to borrowers and investors in key credit markets,” the Federal Reserve set up the Commercial Paper Funding Facility (“CPFF”),¹⁴¹ the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (“AMLF”),¹⁴² the Money Market Investor Funding

135 *Id.*

136 *Id.*

137 *Id.*

138 FED. RESERVE BANK OF N.Y., PRIMARY DEALER CREDIT FACILITY, <http://www.newyorkfed.org/markets/pdcf.html>.

139 TOBIAS ADRIAN ET AL., FED. RESERVE BANK OF N.Y., THE FEDERAL RESERVE’S PRIMARY DEALER CREDIT FACILITY, CURRENT ISSUES IN ECONOMICS AND FINANCE, VOL. 15, NO. 4, at 7 (Aug. 2009).

140 FED. RESERVE BANK OF N.Y., 2010 ANNUAL REP. at 31 (2010).

141 See FEDERAL RESERVE BANK OF N.Y., COMMERCIAL PAPER FUNDING FACILITY: FREQUENTLY ASKED QUESTIONS (Oct. 19, 2009), http://www.newyorkfed.org/markets/cpff_faq.html (“The Federal Reserve will not publicly disclose the individual issuers or the amounts provided to individual issuers by the CPFF.”); see also FED. RESERVE BANK OF N.Y., TERM SECURITIES LENDING FACILITY: FREQUENTLY ASKED QUESTIONS (June 25, 2009), http://www.newyorkfed.org/markets/tslf_faq.html.

142 See FED. RESERVE, DISCOUNT WINDOW, ASSET BACKED COMMERCIAL PAPER (ABCP) MONEY MARKET MUTUAL FUND (MMMF) LIQUIDITY FACILITY (AMLF OR “THE FACILITY”) (Feb. 5, 2010), <http://www.frbdiscountwindow.org/mmmf.cfm?hdrID=14#f1> (expired Feb. 1, 2010).

Facility (“MMIFF”),¹⁴³ and the Term Asset-Backed Securities Loan Facility (“TALF”).¹⁴⁴

- Additionally, the Federal Reserve played a key role in several bailouts. For example, the Federal Reserve “extended a senior loan of approximately \$28.8 billion” to finance the acquisition of assets by Maiden Lane LLC (“Maiden Lane I”) to facilitate the merger between Bear Stearns Companies, Inc. and JPMorgan Chase & Co. in March 2008.¹⁴⁵ Through the use of TARP and non-TARP funds, the Treasury and the Federal Reserve committed \$182 billion in government support to AIG, purchasing preferred AIG shares and extending credit through Maiden Lane II LLC and Maiden Lane III LLC.¹⁴⁶ Moreover, the Federal Reserve, the Treasury, and the Federal Deposit Insurance Corporation, in January 2009, set aside funds to support Citigroup Inc. for possible losses up to \$301 billion.¹⁴⁷
- To increase global liquidity, among other things, the Federal Reserve entered into currency swap agreements with foreign central banks, namely the Bank of Canada, Bank of England, Bank of Japan, European Central Bank, and Swiss National Bank.¹⁴⁸ Via these swap lines, the Fed bailed out the foreign exchange markets with more than \$2.9 trillion in October 2008 alone and with more than \$5.4 trillion of foreign exchange swaps in the three months following the Lehman Brothers bankruptcy.¹⁴⁹ In fact, in October of 2008, the Fed explicitly announced that it would effectively guarantee the entire dollar swaps market by removing all limits on the ability of foreign central banks to access the Fed for foreign exchange

143 The MMIFF, authorized under section 13(3) of the Federal Reserve Act, provided liquidity to money market investors through Special Purpose Vehicles (“SPVs”). The SPVs were authorized “to purchase a maximum amount of \$600 billion in eligible assets,” with the Federal Reserve Board having exposure to \$540 billion. FED. RESERVE BANK OF N.Y., MONEY MARKET INVESTOR FUNDING FACILITY: FREQUENTLY ASKED QUESTIONS (June 25, 2009), http://www.newyorkfed.org/markets/mmiff_faq.html.

144 See FED. RESERVE BANK OF N.Y., TERM ASSET-BACKED SECURITIES LOAN FACILITY: TERMS AND CONDITIONS (July 21, 2010), http://www.newyorkfed.org/markets/talf_terms.html; OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, ANALYTICAL PERSPECTIVES: BUDGET OF THE U.S. GOVERNMENT, FISCAL YEAR 2013, 35 (2012).

145 FED. RESERVE BANK OF N.Y., 2010 ANNUAL REP. at 33 (2010).

146 *Id.* at 34-35; see also U.S. DEPT. OF TREASURY, TARP MONTHLY 105(A) REP.- JULY 2012, 1 (Aug. 10, 2012).

147 *Id.* at 37 (Having publicly announced the federal support, no actual funding was necessary under this agreement. However, the commitment lasted a full year, until December 2009.).

148 See FED. RESERVE BANK OF N.Y., CENTRAL BANK LIQUIDITY SWAPS, http://www.newyorkfed.org/markets/liquidity_swap.html.

149 See Comment Letters from Better Markets to the Department of the Treasury, dated Nov. 29, 2010; Feb. 25, 2011; and Mar. 23, 2011, available at <http://bettermarkets.com/sites/default/files/TREAS-Comment%20Letter-%20ForEx%20Swaps-11%E2%99%A229%E2%99%A210.pdf>; [http://bettermarkets.com/sites/default/files/Treas-%20Comment%20Letter%20\(followup\)-%20Forex%20Swaps%202-25-11.pdf](http://bettermarkets.com/sites/default/files/Treas-%20Comment%20Letter%20(followup)-%20Forex%20Swaps%202-25-11.pdf); and <http://bettermarkets.com/sites/default/files/Treas-%20CL-%20meeting%20followup-%20FX%20exemption%203-23-11.pdf>.

transactions: “Accordingly, sizes of the reciprocal currency arrangements (swap lines) between the Federal Reserve and the [European central banks] will be increased to accommodate whatever quantity of U.S. dollar funding is demanded.”¹⁵⁰

The CBO has forecast that there will be no cash losses from these programs to aid banks.¹⁵¹ However, because Federal Reserve asset holdings are now riskier, it is exposed “to a considerably greater possibility of losses than its usual holdings of Treasury securities” and “there is also a small chance that it will remit much less—or even nothing—if serious problems reemerge in the financial markets or the economy greatly weakens again.”¹⁵² Bearing these risks raises the economic cost of the Federal Reserve actions. The impact of these risks is estimated by calculating the “fair value” subsidies conferred on participants in the Federal Reserve rescue programs. The CBO projects that “the economic cost of the Federal Reserve System’s actions to stabilize the financial markets—which incorporates the risks to taxpayers”—totals about \$21 billion.¹⁵³

Taking into account these same risks in supplying federal guarantees and emergency credit support for troubled banks, it is clear that the TARP program in particular created a large loss for taxpayers. TARP aid was provided on highly subsidized terms, which did not take into account the substantial risk to taxpayers.¹⁵⁴ Indeed, many of the banks that received TARP funding were in such distress that they could **not** have obtained credit through normal commercial channels without paying an exorbitant interest rate—if they could have secured financing at all. This high risk should have been reflected in an appropriately high rate of return to the government.

Yet, based on estimates that TARP will cost somewhere between \$32 and \$78 billion in actual dollars,¹⁵⁵ the actual out of pocket rate of return to the U.S. government on the program is obviously negative. In stark contrast, financier Warren Buffett invested \$5 billion in Goldman Sachs on September 23, 2008 through the purchase of preferred shares **after** the Fed rapidly approved its application to become a bank holding company fully backed by the federal government. Mr. Buffet extracted a reported

150 FED. RESERVE BOARD, PRESS RELEASE (Oct. 13, 2012), *available at* <http://www.federalreserve.gov/newsevents/press/monetary/20081013a.htm>; *see also* FED. RESERVE BOARD, PRESS RELEASE (Oct. 14, 2012), *available at* <http://www.federalreserve.gov/newsevents/press/monetary/20081014d.htm> (making same announcement with respect to the Bank of Japan).

151 CONG. BUDGET OFFICE, THE BUDGETARY IMPACT AND SUBSIDY COSTS OF THE FEDERAL RESERVE’S ACTIONS DURING THE FINANCIAL CRISIS, at 4-5 (May 2010).

152 *Id.* at 5.

153 *Id.* at 5-7.

154 *See generally* NEIL BAROFSKY, BAILOUT (Free Press) (2012).

155 OFFICE OF THE SPECIAL INSPECTOR GEN. FOR THE TROUBLED ASSET RELIEF PROGRAM, QUARTERLY REP. TO CONGRESS, 42, Table 2.3 (July 25, 2012); U.S. DEPT. OF TREASURY, TARP MONTHLY 105(A) REP.- JULY 2012, 4 (Aug. 10, 2012).

10% rate of return while being exposed to negligible risk.¹⁵⁶ Thus, the U.S. government should have received **at least** a 10% return on TARP funds,¹⁵⁷ plus a significant risk-based interest rate premium. The difference between the actual negative rate of return from TARP and the much higher risk adjusted rate of return that the government should have obtained serves as one measure of the substantial costs and risks to the U.S. taxpayer of these programs.¹⁵⁸

Moreover, the deterioration in the economy since 2008, with decreased tax revenues and increased outlays for ongoing unemployment insurance, food stamps, and other safety-net programs is estimated to account for \$3.5 trillion in extra deficits in 2009 through 2018.¹⁵⁹ The deficit attributable to TARP, Fannie, and Freddie from 2009-2019 is \$276 billion. Furthermore, ARRA and many of the other recovery measures described above are estimated to “account for \$1.4 trillion of the nearly \$13 trillion in deficits over the 2009-2019 period.”¹⁶⁰ According to CBO projections, 2012 marks the fourth consecutive year the budget deficit will have exceeded \$1 trillion.¹⁶¹ In total, the economic downturn and all of the government bailouts and rescue measures will increase the nominal federal deficit from 2009 through 2019 by \$5 trillion.

Along with a reduction in revenues, these government expenditures and legislative responses to the crisis result in a loss of fiscal capacity. This in turn has broader implications.

First, there is a drop in discretionary spending, which is much worse than the numbers tell because this is occurring at the same time that the need for such spending is increasing. (See Figure 12). As a result, those who benefit from such spending (from

156 Dean Baker, *Buffett Tells Country, TARP Gave Over \$1 Billion To Goldman Sachs*, BUS. INSIDER, Mar. 18, 2011, available at http://articles.businessinsider.com/2011-03-18/wall_street/30072402_1_goldman-sachs-goldman-tarp-money; *Buffett boosts Goldman Sachs with \$5-billion investment*, LA TIMES, Sept. 23, 2008, available at http://latimesblogs.latimes.com/money_co/2008/09/warren-buffett.html.

157 One could argue that the Buffet 10% return was the risk free rate given that the government had already made the implicit guarantee of the financial system explicit.

158 See also CHARLES W. CALOMIRIS & EDWARD J. KANE, SHADOW FINANCIAL REGULATORY COMMITTEE, STATEMENT OF THE SHADOW FINANCIAL REGULATORY COMMITTEE ON TREASURY MISEASUREMENT OF THE COSTS OF FEDERAL FINANCIAL STABILITY PROGRAMS (May 7, 2012).

159 KATHY A. RUFFING & JAMES R. HORNEY, CENTER ON BUDGET AND POLICY PRIORITIES, ECONOMIC DOWNTURN AND BUSH POLICIES CONTINUE TO DRIVE LARGE PROJECTED DEFICITS: ECONOMIC RECOVERY MEASURES, FINANCIAL RESCUES HAVE ONLY TEMPORARY IMPACT, at 7 (May 10, 2011).

160 *Id.* at 3

161 CBO 2012 to 2022 Outlook, *supra* note 14, at 4.

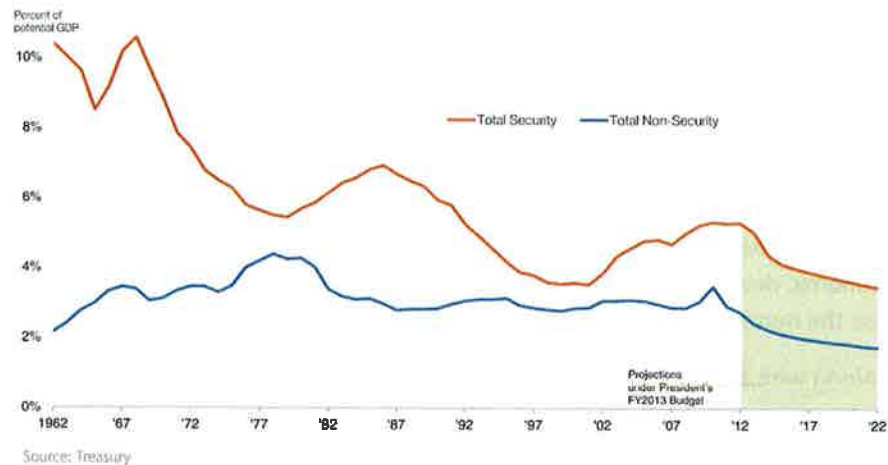
schools and hospitals to poor families and others in need) will not receive the funds necessary to help maintain, let alone improve, their quality of life.

Fig. 12

Discretionary Spending

Discretionary spending is now on a path to its lowest level since the Eisenhower Administration.

Security and non-security discretionary outlays as a share of potential GDP, historical and under the President's FY 2013 Budget.



Second, a loss in fiscal capacity translates into a loss of the ability of the U.S. to head off or absorb the consequences of a future crisis, thus placing the economy at higher risk of (1) another crisis and (2) one that is worse than the current crisis.



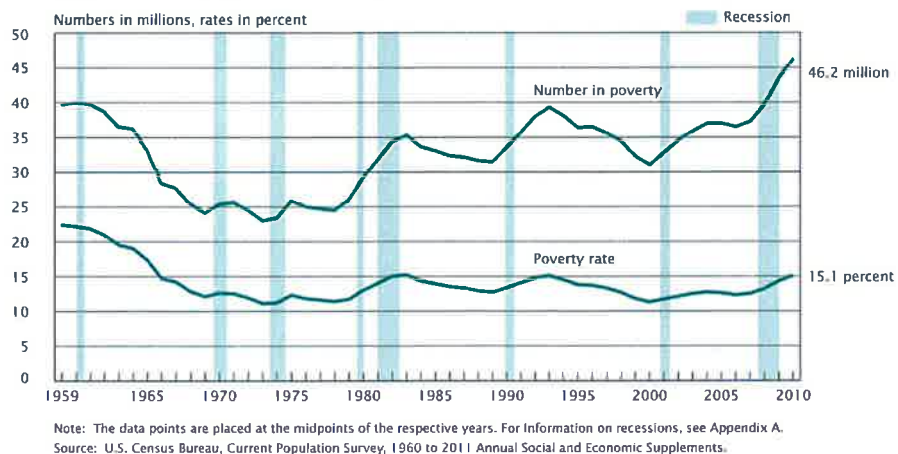
Parents and their babies wait for a newborn care class to begin on February 23, 2010 in Aurora, Colorado. The Metro Community Provider Network (MCPN), which treats low-income patients, has seen more than a doubling of patients during the last year of recession, as more people have lost their jobs and traditional health insurance.

4. HUMAN SUFFERING

Last but not least, and pervading the entire analysis, are the many difficult to quantify consequences of a financial crisis and a resulting recession, including hunger, depression, untreated injuries and illnesses, humiliation, crime, breakdowns in families and communities, and a loss of hope and faith in the American Dream. These profound costs of the Great Recession, caused by the Wall Street financial crisis, are to some extent reflected in the following data:

- ♦ **The number of families falling below the poverty line has climbed steadily since 2007, rising from 12.5 to 15.1 percent in 2010.**¹⁶² “The number of people in poverty in 2010 is the largest number in the 52 years for which poverty estimates have been published” by the U.S. Census Bureau. It amounts to 46.2 million Americans living in poverty. Additionally, the poverty rate is expected to rise, with forthcoming data from 2011 predicting levels unseen since 1965, before the institution of war on poverty programs, like Medicaid and Medicare.¹⁶³

Number in Poverty and Poverty Rate: 1959 to 2010



¹⁶² CARMEN DENAVAS-WALT ET AL., U.S. CENSUS BUREAU, INCOME, POVERTY, AND HEALTH INSURANCE COVERAGE IN THE UNITED STATES: 2010, at 14 (Sept. 2011).

¹⁶³ Hope Yen, *U.S. Poverty On Track To Rise To Highest Since 1960s*, HUFFINGTON POST, July 22, 2012, available at http://www.huffingtonpost.com/2012/07/22/us-poverty-level-1960s_n_1692744.html?view=print&comm_ref=false.

- ♦ **Food stamps:** Over 46 million, or about 15 percent, of Americans currently receive food stamps, about a 13 million increase from 2009,¹⁶⁴ as a result of unemployment, loss of savings, and other consequences from the Wall Street-caused Great Recession. The USDA estimated that the cost of food stamps in 2011 was \$71.8 billion. Indeed, “almost 18 million households [or about 1 and 7] had trouble putting food on the table last year, and . . . [in] about 7 million of those households, people didn’t have enough to eat.”¹⁶⁵

A Case Study Morris County, NJ

Middle class Americans have been forced to cope with the lasting and devastating effects of the financial crisis. Those who were once able to make ends meet and put food on their tables for their families are finding it increasingly harder to do so. A recent news story highlights this phenomenon in Morris County, NJ where despite the fact that the median household income is over \$91,000 (83 percent above that of the nation) the number relying on food stamps has nearly tripled since the start of the recession.¹⁶⁶



The residents of Morris County, previously accustomed to living a comfortable life, now struggle to find work, depleting their savings and relying on food stamps to get by. For example, one husband and father of three went from a six-figure job, where he had worked for twenty years, to a shoe salesman earning \$10 an hour. Having spent his 401(k) trying to survive, he still faces imminent foreclosure. He and his family depend on food stamps to live.

Morris County, NJ was founded in 1739. It has a long and distinguished place in our country's history. For example, George Washington and the Continental Army encamped here in 1777 and in 1779 - 1780.

164 USDA, SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (July 26, 2012), <http://www.fns.usda.gov/pd/34snapmonthly.htm>.

165 Pam Fessler, *Recession Still Hurting U.S. Families Trying to Put Food On The Table*, NPR, Sept. 5, 2012, <http://www.npr.org/blogs/thesalt/2012/09/05/160623735/recession-still-hurting-u-s-families-trying-to-put-food-on-the-table>.

166 Adam Reiss & Poppy Harlow, *Living on food stamps in middle-class suburbia*, CNNMONEY, June 12, 2012; see also U.S. CENSUS BUREAU, SMALL AREA INCOME AND POVERTY ESTIMATES FOR THE UNITED STATES (2010), <http://www.census.gov/cgi-bin/saipe/national.cgi?year=2010&ascii=#SA91> (Median household income for the nation was \$50,046 as of 2010, while median household income for Morris County was \$91,403).

- ♦ **School lunches:** The number of children receiving free or low-cost school lunches through the National School Lunch Program has surged in recent years. To be eligible for a free meal, family income must be at or below 130 percent of the poverty line, or \$29,965 for a family of four.¹⁶⁷ To be eligible for a reduced-priced meal, family income must be between 130 percent and 185 percent of the poverty level, or between \$29,965 and \$42,643 for a family of four. An estimated 22 million received free or reduced-price lunch in 2011, a 22 percent increase from the 18 million children who did so in 2006-2007.¹⁶⁸



Children at Wicklow Elementary in Sanford, Florida, get lunch at the cafeteria, October 14, 2011. Every weekday more than 200,000 hungry students in Central Florida public schools line up to get lunch for free or a few cents because their families cannot afford to feed them. In Osceola County the economy is so bad that seven out of every 10 students - 71% - are eligible for free or reduced price meals under the federally subsidized school lunch program.

- ♦ **Suicide:** "Suicide had consistently been the 11th cause of death at least since 1999;" however, in 2008, suicide became the 10th leading cause of death.¹⁶⁹ As of 2010, suicide remains in that ranking.¹⁷⁰

¹⁶⁷ USDA, NATIONAL SCHOOL LUNCH PROGRAM FACT SHEET (June 2012), <http://www.fns.usda.gov/cnd/lunch/AboutLunch/NSLPFactSheet.pdf>.

¹⁶⁸ USDA, NATIONAL SCHOOL LUNCH PROGRAM: PARTICIPATION AND LUNCHES SERVED (July 26, 2012), <http://www.fns.usda.gov/pd/slsummar.htm>.

¹⁶⁹ ARIALDI M. MINIO ET AL., NATIONAL VITAL STATISTICS REPORTS, DEATHS: FINAL DATA FOR 2008, Vol. 59, No. 10, at 9 (Dec. 7, 2011).

¹⁷⁰ SHERRY L. MURPHY ET AL., NATIONAL VITAL STATISTICS REPORTS, DEATHS: PRELIMINARY DATA FOR 2010, Vol. 60, No. 4, at 7 (Jan. 11, 2012).

- ♦ **Homelessness:** The number of families using homeless shelters has increased. In fact, “the number of families with children that used homeless shelters at least once increased by about 30 percent from 2007 to 2009, to more than 170,000.”¹⁷¹

171 | JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY, THE STATE OF THE NATION'S HOUSING 28 (2011).



Izabella Nance, 7, works on a crossword puzzle in her motel room at the Old Town Inn March 5, 2009 in West Sacramento, California. Brittney Nance and her family were evicted from the house they were renting after her husband, Steve Nance, lost his job. The couple and their three children are living in a budget motel while they save enough money for a deposit on a new rental home, but are finding it difficult as they pay nearly \$1200 a month for the motel room. All five live in a small studio sized room with most of their belongings.



Laurie Bowen holds one of the family's cats while her daughter, Christina, chats with her grandson Damiyan. They started out living in tents, but the campground helped them move into this trailer. Her family ended up here after her husband lost his construction job. Some people hit hard by the economic recession have been living at the Timberline Campground for \$325 a month which includes electricity, water, cable, internet, and a swimming pool. Some live in multiple tents, others in trailers.

A REVIEW OF THE FACTS AND WHY THEY MATTER

1. Wall Street Has Inflicted the Worst Financial Crisis and Economic Disaster Since the Great Depression

After almost a decade of financial wilding that generated hundreds of billions of dollars in bonuses, Wall Street brought our financial markets to the brink of total collapse in 2008 and 2009, and very nearly ushered in a second Great Depression. That has cost the American people more than \$12.8 trillion and has inflicted much, much more damage than dollars will ever be able to measure.

During the depths of the crisis, we witnessed an extraordinary decline in our markets and our economy by every measure:

- ♦ **Gross domestic product** entered a dramatic slide. From 2008 to 2011, the cumulative gap between actual and potential GDP rose to \$3.6 trillion and is expected to reach \$7.6 trillion by 2018.
- ♦ **Government deficit spending** to respond to the crises prevented the GDP loss from being even greater, in the estimated amount of \$5.2 trillion. As a result, the estimated actual and avoided GDP loss from 2008 to 2018 totals \$12.8 trillion.
- ♦ **The unemployment rate** skyrocketed to 10.2 percent in October of 2009, representing 15.7 million workers. Including under-employed and discouraged workers, 17.5 percent or 26.9 million Americans were unemployed at the October 2009 peak.
- ♦ **Home values** fell 34 percent from their peak in 2006 through 2011, representing \$7 trillion in lost homeowner equity. A total of at least 3.7 million homes—and by some accounts 5 million—have been lost to foreclosure since the crisis began.
- ♦ **Median family income** fell 7.7 percent, from \$49,600 to \$45,800, during the period from 2007 to 2010, and median family net worth fell 38.8 percent, “erasing almost two decades of accumulated prosperity.”
- ♦ **The stock market** fell by more than 50 percent in just 18 months, from October 2007 until March of 2009, representing \$11 trillion in evaporated wealth. As of March 2009, retirement accounts alone had lost \$3.4 trillion in value.
- ♦ **Federal Reserve Board emergency actions and expenditures**, including corporate bailouts, swap lines, special lending facilities, and extraordinary monetary policies are almost certainly well into the trillions of dollars. The value of the government’s total commitment of support for the financial system, provided through some

50 separate programs, is estimated at \$23.7 trillion, although the actual out-of-pocket and avoided GDP loss are yet to be determined.

- ♦ **The poverty and human suffering** caused by the crisis has been enormous and incalculable, encompassing all of the psychological and physical health effects that come with unemployment, poverty, homelessness, delayed retirements, abandoned college educations, increased crime rates, and lost healthcare. The number of families falling below the poverty line has climbed steadily since 2007, rising from 12.5 to 15.1 percent, representing over 46 million individuals deemed poor. “The ranks of America’s poor are on track to climb to levels unseen in nearly half a century.”

2. The Effects of the Crisis Will Be Felt for Years If not Decades to Come

Almost five years after the Great Recession began, we continue to suffer the many costs of the crisis—a testament to its depth, breadth, and durability. While some elements of our markets and our economy have slowly begun to heal, the effects of the crisis are still intense, and many repercussions will be felt for years if not decades to come. It is impossible to know when the crisis will be deemed “over,” but it is certain that at such time, the cumulative impact will be enormous—far greater in fact than it already is. For example—

- ♦ Today, even though unemployment has dropped somewhat, the broadest measure of unemployment stands at 15%, or 23.1 million workers. Moreover, unemployment is expected to remain at 8 percent through 2013 and remain above 7 percent until 2015.
- ♦ Real GDP is expected to remain below potential GDP until at least 2018 and possibly beyond. At that time, the cumulative shortfall in GDP relative to potential GDP and avoided lost GDP due to fiscal measures is estimated to reach \$12.8 trillion.
- ♦ As of June 2012, home values had recovered only slightly, and they remained 29 percent below their peak. Millions of foreclosures lie ahead and 11 million homes remain underwater with mortgages greater than their values.
- ♦ Although the stock market has regained some ground, many investors—particularly retirees—liquidated their positions during the crisis out of fear, necessity, or both, thereby sustaining permanent loss of wealth. Further, many investors are reluctant to reenter the volatile and unpredictable markets of today.
- ♦ The national debt will have increased by \$8 trillion in 2018 as a result of the crisis, due to the combined effects of government expenditures and reduced revenues. With the annual budget deficit now exceeding 1.1 trillion dollars, the Treasury will have far fewer fiscal tools at its disposal with which to manage another

financial crisis. This vulnerability will persist for years to come, until something approximating a full recovery has been achieved.

3. Thoroughly Reviewing and Understanding the Costs of the Crisis Are Essential Steps for Implementing Meaningful Reform and Preventing a Recurrence, with All the Costs and Fresh Misery It Would Inevitably Bring

The only way to prevent a recurrence of the financial and economic crises is to implement meaningful financial reform. Congress and the President initiated that critical process through enactment of the Dodd-Frank Financial Reform and Consumer Protection Act of 2010. Since then, Wall Street and its allies have waged a battle to kill or weaken reform on every front: advancing new bills to repeal all or part of financial reform; lobbying the regulatory agencies to weaken the rules they must write to implement the financial reform law; challenging the validity of rules in court; and seeking to sway public opinion through a misleading campaign aimed at changing the subject and shifting the focus **away** from the crisis, and their responsibility for it, **to** the financial reform law and the implementing rules.

Opponents of reform are advancing numerous arguments in this battle, but in a fundamental sense, they all relate to the costs of the crisis:

- ♦ They minimize the costs of the crisis to avoid their responsibility, to instill complacency, and to undercut the urgency and importance of financial reform.
- ♦ They obfuscate the true costs of the crisis to make the design of effective and meaningful regulations more difficult.
- ♦ They exaggerate the costs of reform to the financial industry and businesses generally, in an effort to eclipse the costs of the crisis and thereby justify regulatory inaction.
- ♦ They advance the argument that all rules implementing reform must be subject to cost-benefit analysis, focusing exclusively on the costs of regulation to industry and ignoring the overwhelming value of avoiding the costs of another crisis to society.¹⁷²

The best and only way to counter these unsupported claims effectively, and ultimately to save the reform process from defeat, is to remember, in comprehensive and vivid terms, the past, present, and future costs of the financial crisis, as detailed in this report.

¹⁷² See Report of Better Markets, “Setting the Record Straight on Cost-Benefit Analysis and Financial Reform at the SEC,” as well as two amicus briefs focused on cost-benefit analysis filed in federal court defending CFTC rules, available at <http://bettermarkets.com/blogs/industrys-false-claims-about-cost-benefit-analysis>.



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