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Measuring the Cost of Bailouts

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Summary

This review develops a theoretical framework that highlights the principles governing economically meaningful estimates of the cost of bailouts. Drawing selectively on existing cost estimates and augmenting them with new calculations consistent with this framework, I conclude that the total direct cost of the 2008 crisis-related bailouts in the United States was on the order of \$500 billion, or 3.5% of GDP in 2009. The largest direct beneficiaries of the bailouts were the unsecured creditors of financial institutions. The estimated cost stands in sharp contrast to popular accounts that claim there was no cost because the money was repaid, and with claims of costs in the trillions of dollars. The cost is large enough to suggest the importance of revisiting whether there might have been less expensive ways to intervene to stabilize markets. At the same time, it is small enough to call into question whether the benefits of ending bailouts permanently exceed the regulatory burden of policies aimed at achieving that goal.

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