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Blinder, Zandi Say U.S. Bailouts Likely Averted a Depression

By Ian Katz - Jul 28, 2010

The U.S. response to the financial crisis probably prevented a depression, slowed a decline in gross domestic product and saved about 8.5 million jobs, economists Alan Blinder and Mark Zandi said.

Policies including the government fiscal stimulus, bailouts of financial companies, bank stress tests and the Federal Reserve's purchase of mortgage-backed securities to lower interest rates "probably averted what could have been called Great Depression 2.0," Blinder and Zandi said in a report dated yesterday. Without those measures, the U.S. would have deflation, they said.

Lawmakers are debating the costs and benefits of measures taken by the Bush and Obama administrations including the 2008 taxpayer bailouts of Citigroup Inc. and Bank of America Corp. Obama officials say bailouts helped stabilize the economy while Republicans, ahead of this year's midterm elections, have criticized the program as benefiting Wall Street bankers instead of ordinary Americans.

"Eighteen months ago, the global financial system was on the brink of collapse and the U.S. was suffering its worst economic downturn since the 1930s," Blinder and Zandi said in their report. "The Great Recession gave way to recovery as quickly as it did largely because of the unprecedented responses by monetary and fiscal policymakers."

Blinder, 64, a former Fed vice chairman, is a Princeton University economics professor and vice chairman at Promontory Interfinancial Network LLC, a Washington-based banking consultant. Zandi, 51, is chief economist at New York-based Moody's Analytics Inc.

GDP's Decline

If the Bush and Obama administrations hadn't acted, GDP would have fallen 7.4 percent in 2009 instead of 2.4 percent, the economists said in the report, titled "How We Ended the Great Recession."

"By the time employment hits bottom, some 16.6 million jobs are lost in this scenario -- about twice as many actually were lost," they wrote.

The government's fiscal stimulus alone will boost 2010 GDP by about 2 percent and add almost 2.7 million jobs to U.S. payrolls, Blinder and Zandi said.

Congress authorized $700 billion for the Troubled Asset Relief Program in October 2008 to prevent a collapse of the U.S. financial system. The program has been criticized by lawmakers from both parties, including Senator Maria Cantwell, a Democrat from Washington state, and Representative Jeb Hensarling, a Texas Republican, for helping big banks more than average citizens.

The TARP "has been a substantial success, helping to restore stability to the financial system and to end the freefall in housing and auto markets," Blinder and Zandi wrote. The cost to taxpayers will be "a small fraction" of the amount initially granted by Congress, probably less than $100 billion, with the bank-bailout portion of TARP "probably turning a profit," they said.

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