

## Putting "It" In Perspective

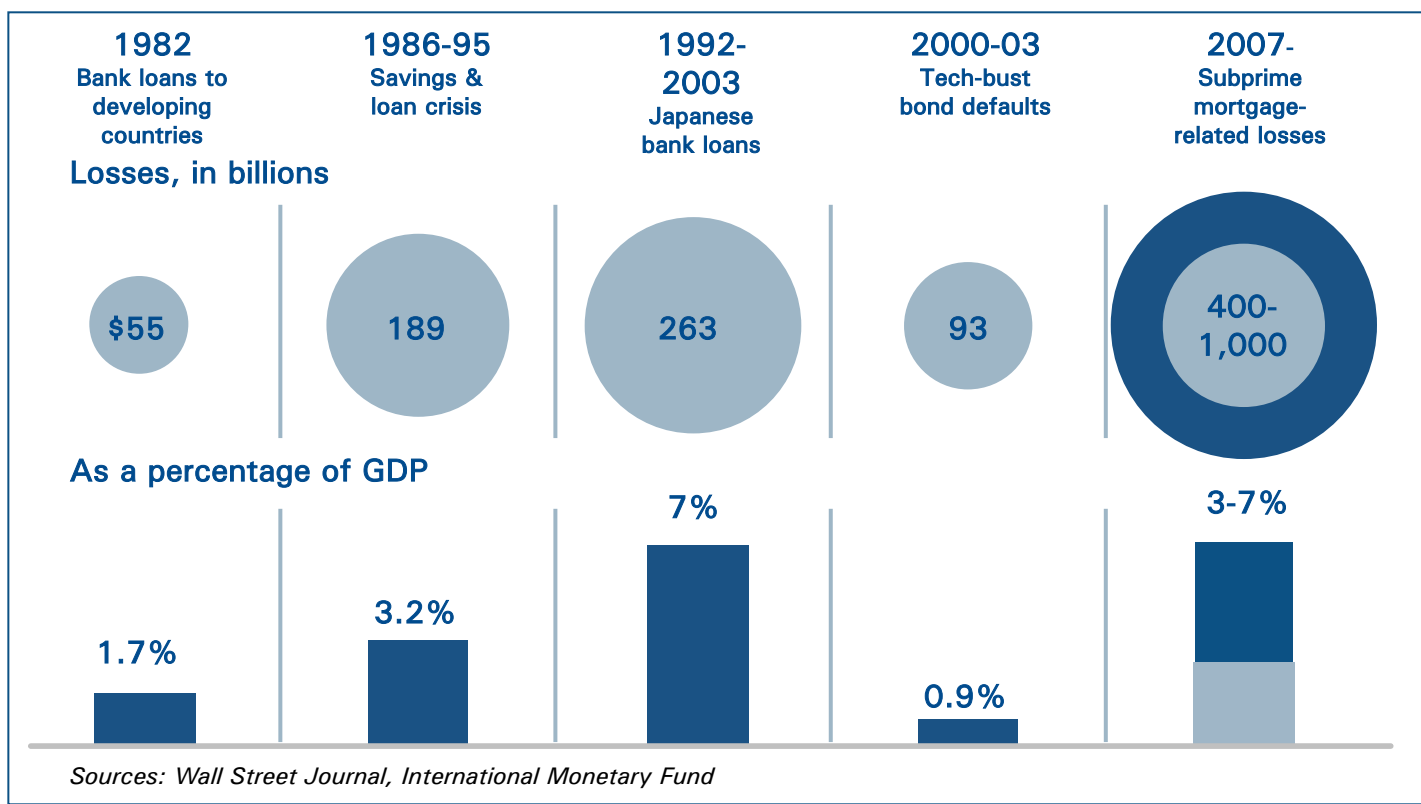
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"It" – the subprime crisis and credit turmoil that erupted last summer – is difficult to quantify. But that hasn't stopped anyone from trying. The urge to quantify stems from the idea that if we can describe its size we can understand it, wrap our minds around it and find a resolution.

Fed Chairman Ben Bernanke famously stated last July before Congress that "estimates are in the order of between \$50 billion and \$100 billion of losses associated with subprime credit problems." Then came August of 2007. By March 2008 the International Monetary Fund's tally of potential financial losses rose to \$1 *trillion*.

But, while putting a number on it seems comforting it still doesn't tell us all that much. It's like reading the temperature of a room without knowing how a thermometer works.

To put numbers in perspective, economists compare figures to the size of annual economic output—how much the economy is able to produce in a year. When compared to the US gross domestic product (GDP) of nearly \$14 trillion, the subprime crisis could add up to between 3% and 7% of GDP. While by no means insignificant, the crisis compares to the 1990s S&L crisis and the Japanese banking crisis (see below).



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