

## Macro Roundup Article

**Headline:** [The Puzzling Persistence of Financial Crisis](#)

**Article Link:** <https://www.nber.org/papers/w32213>

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**Tweet:** Calomiris and Jaremski review ten famous financial crises from ancient Rome through the present and find four common factors: politically motivated subsidies, changes in investor preferences towards risk, unsophisticated investors, and fraud.

**Summary:** Charles Calomiris and Matthew Jaremski note that financial crises are very costly to the economy, involving average declines of 5.5% of real GDP and much larger declines when financial distress culminates into a full scale crisis, as well as median fiscal costs of 16% of real GDP associated with resolution of distressed banks. Why is it so hard for us to learn from the past and avoid the severe costs that attend these events? The authors find four broad categories of causal factors: 1) politically motivated risk subsidies that skew incentives such as government subsidizing risks related to housing credit. 2) changes in investor preferences towards risk. It may be that the financial system and economy as a whole benefit from taking the risks that sometimes lead to crises. 3) learning by more and less sophisticated investors and 4) fraud.

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**Primary Topic:** Business Cycle

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