

Impact of the Policies Implemented by the United States in Response to the COVID-19

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Abstract. The global and American economies have been completely upended by the coronavirus disease pandemic, which has killed a sizable number of people and forced the closure of vital industries. As a result of the pandemic, there have been more business failures, less private investment, less value chain integration, and a loss of both human and productive capital. Even though there is uncertainty surrounding the outlook for U.S. economic growth, the outbreak has had a significant impact. As a result, the US has released numerous policies in response to COVID-19 to support the country's economic recovery. In addition to research data from some books and websites, this study analyzes data from the Federal Reserve's forecast of the US gross domestic product. The primary focus of this study is on the economic policies implemented by the United States to promote economic recovery following the outbreak of the COVID-19 pandemic. At the same time, research how these policies impact the recovery of the US economy. Research has shown that the COVID-19 pandemic has hampered both the production and consumption capacities of consumers and businesses. The American government has implemented a significant fiscal stimulus in response to the economic unrest. Given the effectiveness of these policies in increasing consumption and the relative supply inelasticity, supply chain bottlenecks and elevated prices may result. However, it should be acknowledged the beneficial impact that the government's generous assistance has had on this historically significant crisis. The US government's CARES Act, which it passed in response to the recent crown epidemic, and the Federal Reserve's monetary policy tools have started to influence the US economy's recovery.

Keywords: CARES ACT; Policies introduced by the Fed; Influence.

1. Introduction

2020 is predicted to experience a severe recession as a result of the pandemic. In Figure 1, the Fed's median forecast from June 2020 GDP declined to be considerably greater than in 2009. The final estimate for the first quarter of 2020 (a 5% decline), as well as employment and manufacturing output figures, already show the COVID-19 and containment measures. According to early projections, the growth of the gross domestic product (GDP) for the second quarter is anticipated to have decreased by 32.9%. The pandemic has resulted in an increase in business failures, a decrease in private investment, a reduction in value chain integration, and a decline in both human and productive capital. The length and severity of the recession are both unknown. Whether there will be long-term harm and the type of recovery that will take place after containment measures are relaxed are also unknown [1].

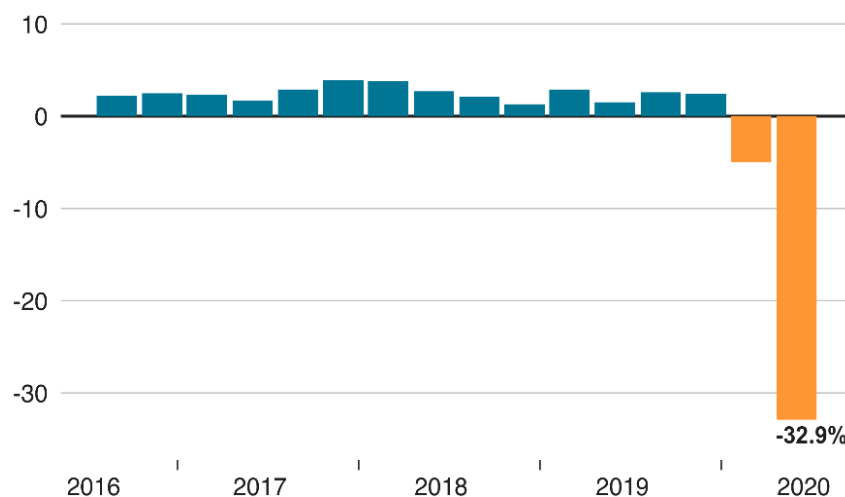


Figure 1. GDP change in the US in the previous quarter [2].

The 2008 Global Financial Crisis (GFC), which has been extensively researched in the literature on interconnectivity, contagion, and spillover, is frequently compared to the financial media when discussing the effects of COVID-19. However, the U.S. economy had numerous structural issues prior to the global financial crisis, and the spread of COVID-19 during the COVID-19 crisis was clearly a unique crisis shock. The COVID-19 pandemic channel is the direct cause of all other governmental restrictions and actions [3]. The economic policies adopted by the United States to support the nation's economic recovery after the COVID-19 pandemic, which caused a very severe economic recession in the country, are the focus of this study. At the same time, research how these policies impact the recovery of the US economy. The importance of this study is that it will help the US government and the Federal Reserve more effectively promulgate and implement new policies if the same epidemic virus spreads in the future. There are many studies on COVID-19, some of which focus primarily on the economy and many of which focus primarily on policy; however, this study focuses primarily on the role of policy and its effects on the U.S. economy. The study will then go into detail about the economic policies that were put in place in the US after COVID-19 broke out and examine how these policies have affected the US economy's recovery.

2. The Implemented Economic Policies

2.1 CARES Act

The \$2.2 trillion economic stimulus program known as the CARES Act, was approved by the 116th Congress of the United States and signed into law by President Donald Trump in March. A law addressing the financial impacts of the covid disease will take effect on February 27, 2020. The CARES Act offers significant cash that the Treasury can utilize to support larger enterprises in addition to giving small businesses with significant resources to help them retain personnel.[4]

2.2 The Fed implemented new policies to support the American economy

2.2.1 Quantitative Easing Plan

In a type of monetary policy known as quantitative easing (QE), Federal Reserve buys securities on the open market to lower interest rates and increase the amount of available money. QE increases bank liquidity, generates new bank reserves, and promotes borrowing and investing. In addition to expanding the issuance of base money, obtaining seigniorage, and supporting the government's expansion of fiscal spending, the Fed's quantitative easing policy has helped the US economy recover [5].

2.2.2 Primary Dealer Credit Facility

All financial firms that have repurchase agreements, sometimes known as "repo" loans, in which brokers exchange assets for cash through the Federal Reserve's discount window and are designated as principal dealers are regarded as eligible borrowers. The Fed will charge rates equal to its prime credit rate in return for utilizing the securities in question as collateral. The product is designed to make it simpler for brokers to access the overnight lending market's liquidity, which banks utilize to meet their reserve requirements. The PDCF was reopened by the Federal Reserve on March 17, 2020, to lessen the COVID-19 pandemic's negative economic effects [6].

2.2.3 Commercial Paper Funding Facility

Qualifying issuers will receive financial assistance from CPFF in order to issue regular CPs. A \$10 billion equity investment from the Treasury Department will be used by the Fed to create an SPV and give it a recourse loan secured by all its assets under the terms of this credit facility. The SPV will acquire from qualified issuers 90-day USD-issued CPs, which typically call for a credit rating of at least A1/P1/F1. Local governments and corporate entities are examples of eligible issuers [7].

2.2.4 Money Market Mutual Fund Liquidity Facility

Money market mutual funds will receive liquidity support from the MMLF. The Federal Reserve Bank of Boston will offer eligible financial institutions non-recourse loans under this credit facility in exchange for high-quality assets they have acquired from money market mutual funds, without valuing the collateral [8].

2.2.5 Term Asset-Backed Securities Loan Facility

TALF which is a program to promote consumer borrowing was developed by the Federal Reserve (Fed). According to TALF, the New York Federal Reserve Bank (NY Fed) approved non-recourse loans from freshly issued consumer and small business credit assistance up to \$200 billion for the holders of ABSs with AAA ratings. A bill by lawmakers requires the Fed to explain how it lent the money, even though the program does not require legislative approval to distribute funds because TALF funding does not come from the U.S. Treasury. The TALF's operations ran from March 2009 to June 30, 2010. TALF 2 was introduced in 2020, during the COVID-19 pandemic [9].

3. Influence

3.1 Impact of the CARES Act

A significant number of American workers have lost their jobs and had their pay reduced as a result of the initial disruption to business activity brought on by the outbreak and spread of COVID-19. People's spending has already started to slow down as a result of the decrease in employment income. The U.S. economy soon lost 20 million jobs in March 2020, as COVID-19 started to spread aggressively in the country. Federal lawmakers have responded by passing five relief legislation in 2020, delivering an estimated \$3.3 trillion in assistance, and a U.S. rescue package in 2021, adding an additional \$1.8 trillion. The COVID-19 recession was the shortest on record thanks in part to this effective policy response, which also sped up the economic recovery and reduced unemployment from a peak of 14.8% in April 2020 to 4.0% now. However, the rising rate of inflation strains households. The majority of analysts anticipate a fall in 2022, but the rate and degree of the decline are still unknown. An economy affected by a pandemic is different, with shifting levels of supply and demand for labor, goods, and services.

The CARES Act authorized federal aid to help households maintain their standard of living even if their employment-based source of income is destroyed. According to the data, household resilience was increased by the aid by 15 weeks, primarily as a result of increased unemployment insurance benefits. Black and Hispanic families benefited the most from this among racial groups, with a median family resilience increase of 19 weeks. The CARES Act boosts non-employment income to help families make ends meet when there is no employment income. We discovered that median

households' ability to maintain their typical consumption expenditures increased by about 15 weeks as a result of the CARES Act. Additionally, household resilience is supported by the Act's improved unemployment insurance benefits more so than economic impact payments [10].

3.2 The impact of new policies implemented by the Fed

Federal, state, and local governments imposed economic restrictions to stop the virus' spread but doing so resulted in an abrupt and severe recession that cost millions of jobs. The Fed's efforts guarantee that credit is still accessible to both individuals and businesses, preventing the financial markets' instability from worsening the economy. The banking system serves as the primary conduit for credit in many other nations. The Fed works hard to ensure that capital markets function as smoothly as possible because they are a major conduit for credit in the United States. The Treasury market in particular serves as the cornerstone for trading in many other securities markets in the United States and around the world; if it is disrupted, every other market will suffer, according to former Federal Reserve Vice Chairman Don Kohn in March 2020. All market operations will be put in jeopardy. The Fed's purchase of securities is obviously intended to increase liquidity in the Treasury and MBS markets, which have recently been much less liquid than usual. However, given the depth of the Covid-19 recession and the disruption to credit flows in other financial markets, targeting the U.S. Treasury market was insufficient. The Fed directly intervenes in the corporate and municipal debt markets to make sure that the largest actors in the economy can raise capital to pay their employees and avoid bankruptcy. The measures are meant to help businesses weather the crisis and resume hiring and production after the pandemic has passed. In order to keep credit flowing, banks also require assistance. When the financial markets are active, businesses typically use banks' lines of credit, which might drive banks to cut their borrowing or sell Treasuries and other securities. In order to help financial institutions, deal with a credit crunch and make new loans to businesses and households experiencing financial strain, the Fed provided them with limitless liquidity [11].

4. Conclusion

The COVID-19 pandemic has hampered the productive capacity of businesses and the spending power of consumers. In response to the economic turmoil, US governments have resorted to massive fiscal stimulus. These policies success in boosting consumption, coupled with a relatively inelastic supply, could lead to supply chain bottlenecks and tight prices. However, one should also recognize the positive role the government's generous support has played in this unprecedented crisis. Massive spending has been the driving force behind a robust economic recovery, with GDP and employment increasing at an alarming rate. While the spending may lead to price pressures, it may also prevent a worse outcome. As the U.S. government continues to take multifaceted measures against the new crown epidemic, it is necessary to understand how the Federal Reserve's monetary policy tools will work together with the fiscal measures in the U.S. government's recently enacted CARES Act to maximize benefits for affected households and businesses. However, it is undeniable that the CARES Act issued by the US government in response to the new crown epidemic and the monetary policy tools issued by the Federal Reserve have indeed begun to have an impact on the economic recovery of the United States.

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