

# Economic Policy Changes in the Great Depression of the United States and the Great Depression of COVID-19

Jianyu Wang\*

School of The Smeal College of Business, The Pennsylvania State University, University Park,  
United State

\*Corresponding author: jkw5732@psu.edu

**Abstract.** Since the COVID-19, the U.S. domestic economy has been hit hard, causing currency devaluation and a dramatic increase in unemployment. Economic policy during the Great Recession and COVID-19 had the impact of stabilizing the economy and saving the unemployment rate. It is of great significance to study the enormous positive and negative effects of these policies on the U.S. and global economies at that time and later. This paper analyzes and contrasts these effects with the support of literature and data. The Fed first changed its stance on rate hikes to cushion economic pressures, and then turned to rate cuts because of escalating trade frictions to sound recession alarms in the market. The spillover effect of U.S. macroeconomic policy adjustment is comprehensive. Affected by the financial hegemony of the United States, not only emerging economies are unable to resist the impact, developed countries are also difficult to escape the 'tail effect'. At present, many countries have government banks in order to avoid devaluation of their currencies, to prevent capital outflows, had to follow the Federal Reserve to make the decision to raise interest rates. The policies aimed at easing have all had a different impact on the U.S. economy and society.

**Keywords:** Roosevelt's Employment policy; The federal government's loose monetary policy.

## 1. Introduction

Economic policies can be influenced by the general environment and are a response to the reality of the crisis. The unemployment rate and the loss of social infrastructure security for the people generated by this epidemic reminded me of the Great Depression. The great crisis of 1929-1933 that originated in the United States brought the entire American national economy to the brink of collapse. President Roosevelt adopted a series of new economic policies to mitigate the effects of the Great Depression. The employment policies proposed by Roosevelt include direct relief policies, cash-for-work policies and social security measures [1].

The outbreak of the epidemic in 2019 severely affected the real economy of the United States, resulting in high unemployment, which in turn blocked the development of the American economy. The U.S. stock market has been blown out successively, and the market panic continues to spread. In order to stabilize the economy, the Federal Reserve implemented a series of loose monetary policies to stimulate the economy, including cutting interest rates, restarting quantitative easing and using new liquidity support tools. On March 3, 2020, the Federal Reserve cut interest rates by 50 basis points in an emergency, reducing interest rates to a range of 1%-1.25%. On March 15, 2020, the Federal Reserve cut interest rates by 100 basis points to between 0% and 0.25%, the largest single rate cut in the history of U.S [2-3]. In addition, the Federal Reserve announced unlimited purchases of long-term U.S. Treasury bonds and MBS as needed. In order to ease inflation, the Fed began a monetary policy tapering cycle in November 2021. The specific manifestations are raising interest rates and shrinking the balance sheet, and releasing signals of continued interest rate hikes in the future.

Both government measures to save the economy have had a huge impact. Roosevelt's employment-related policies had significant positive and negative effects on American society. In addition, such a drastic change in the Fed's attitude during COVID-19 also has a huge impact on the US economy and society, and whether inflation is under control remains to be verified. The question to be examined in this article is what impact these policies had on the U.S. economy at the time and the global

economy in the future. Analyzing these impacts is important because citizens and businesses can take appropriate steps to safeguard their own interests by knowing the impact to them. [4-5].

## **2. Influence**

### **2.1 The Impact of Roosevelt's Employment Policy**

#### **2.1.1 The social employment situation has improved markedly**

In the face of extreme social unrest caused by the collapse of the financial market, the employment policy implemented in the early days of the Great Depression was mainly to formulate emergency relief laws and build emergency relief agencies. These emergency services provide employment to half a million young people. In the second phase, Roosevelt was no longer overly sensitive to the interests of the big monopoly capitalists and shifted the focus of employment policy to finding jobs directly for all the public. Organizations with different goals play significant roles in organizing the unemployed to achieve cash-for-work. The Civil Works Administration and the Public Works Administration played an important role in this process. The Civil Works Administration has created 4 million jobs in a relatively short period of time. The Public Works Administration assisted 4.264 million unemployed people and their families. Together, the two employed 23 million people, nearly half of the nation's workforce at the time. Between 1933 and 1939, relief administrations spent about \$18 billion to gradually improve unemployment in society and ultimately achieve the goal of liberating people from the plight of unemployment [1].

#### **2.1.2 The governance concept of the government has been changed**

In the United States at the beginning of the twentieth century, laissez-faire was pursued by capitalists. They believe that poverty is a natural phenomenon of survival of the fittest. The consequences of this attributable to individual laziness should not be of concern to society and governments. The social consensus at the time was that it was the responsibility of charities to relieve the unemployed, and the government and society had no obligation to pay for people's laziness. Roosevelt's employment policy shattered this outdated conventional wisdom of capitalism. The success of his policy proves that the crisis cannot be solved only by the free adjustment of the market, and only through the intervention and assistance of the government can the whole society overcome difficulties. This ruling principle of safeguarding people's right to obtain employment and pursue happiness is also the spirit pursued by the current government [1].

#### **2.1.3 Promoted the establishment of the social security system in the United States**

Roosevelt's employment policy drove the enactment of the US Social Security Act. The Social Security Act was the first real social security system established in American society. It mainly includes the following contents:

(1) Shorten the working hours of workers. Capitalists have to hire more workers and pay more per unit because workers are limited in hours. The increasing number of job opportunities provided by society has aroused the enthusiasm of people to look for jobs.

(2) Invested in employment, pension and medical insurance. Insurance stabilizes people's expectations for the future. Roosevelt dealt with capitalists and employees, trying to gain more benefits and protection for employees who worked hard. After eliminating worries, employees can concentrate on ensuring efficient production.

(3) Increased social savings. After the society is fully employed and the interests of the unemployed and retirees are guaranteed, the aggregate demand and savings of the society are maintained at a stable level.

(4) Accelerated industrial adjustment. After the promulgation of the Act, many institutions and state-owned enterprise departments related to social system security have emerged in the United States, which has resulted in a large number of human resource needs. Affected by this, the service industry in the United States has developed rapidly [6].

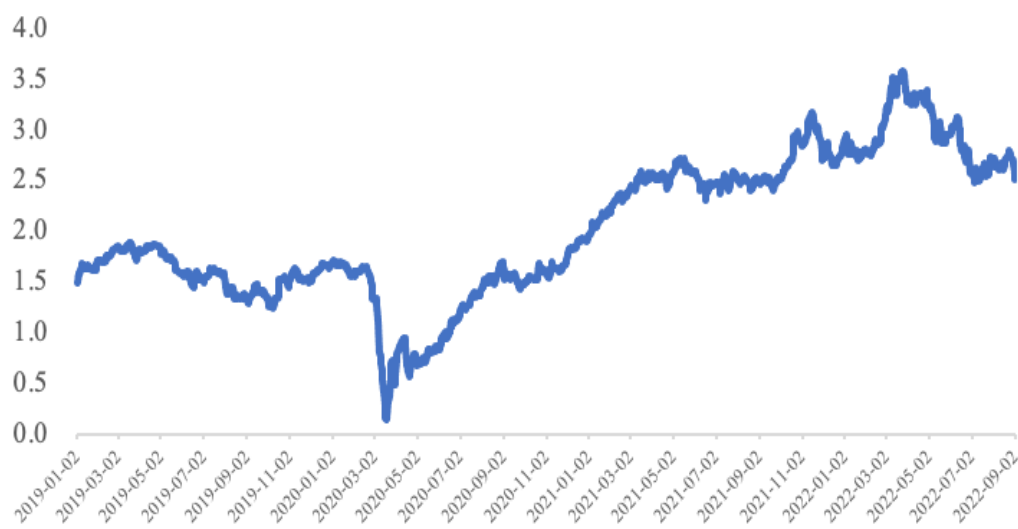
### 2.1.4 Caused huge budget deficits

The Roosevelt administration actively adopted aggressive monetary policy to deal with the social unemployment crisis. That includes \$500 million in direct unemployment benefits, \$500 million in civil resource protection spending, and \$4 billion public construction program. While these measures have saved employment rate, the budget deficit has widened. Huge budget deficits bring hidden dangers of inflation and fiscal imbalances. In addition, in order to redistribute national income, Roosevelt reformed the U.S. tax system, implementing the highest peacetime tax rate in history. Roosevelt stipulated that the personal income tax was up to 75%, the property tax was up to 70%, and the corporate tax was up to 15%. High earners are a core source of private investment. When three-quarters of the income of high earners is taken away by the government, society as a whole will inevitably turn to low investment rates. Too low investment rates led to a reduction in accumulation, which in turn hindered economic development and adversely affected future social industries [6].

## 2.2 The impact of the federal government's loose monetary policy during COVID -19

### 2.2.1 Inflation intensifies

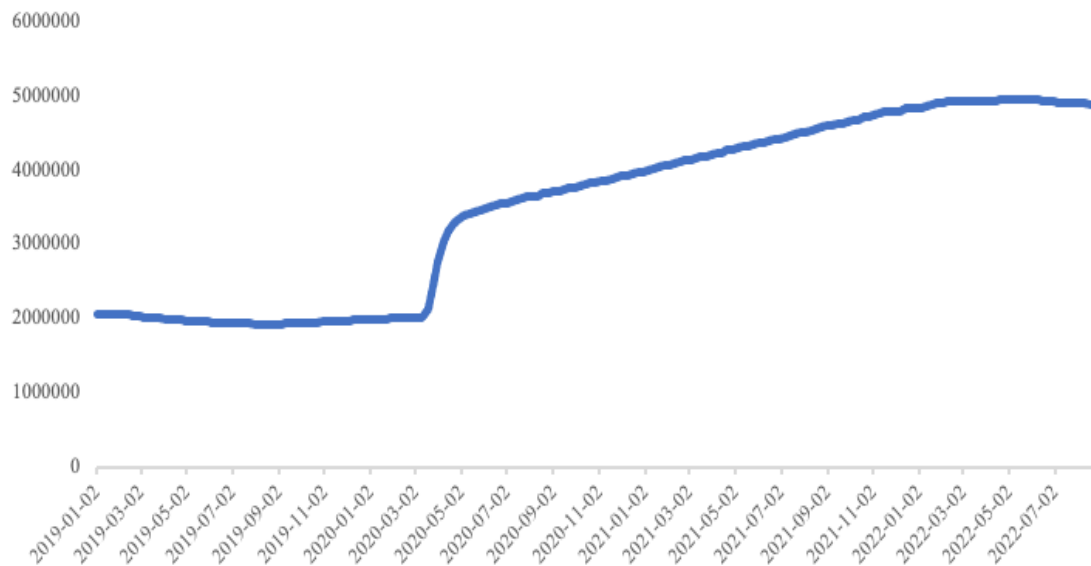
The promulgation of the Statement on Longer-Run Goals and Monetary Policy Strategy marks that the monetary policy decision-making basis has shifted from the deviation from the maximum level, that is, the employment gap, to the assessment of the maximum level of underemployment. The ultimate goal of monetary policy has changed from a dual-target system to a flexible average inflation targeting system with employment priority. The Fed's monetary policy is skewed toward the employment target and pursues an average inflation rate of 2% over a period of time, further increasing its tolerance for inflation. As can be seen from the figure 1, the U.S. pass-through inflation rate has been above 2% from the beginning of 2021 to date, proving the failure of the government to control inflation [7].



**Figure 1.** U.S. 5-Year Breakeven Inflation Rate [8]

### 2.2.2 Low interest rates push up asset prices

The Federal Reserve provides low-cost funding and liquidity support to various entities through direct interest rate control, hoping to maintain financial market stability. At the same time, low interest rates have created an environment for aggressive fiscal policy by the U.S. government, allowing debt management to continue rolling and pushing asset prices further up through a variety of channels. For example, in the Treasury securities shown in Figure 2, the size of the Fed's assets has increased significantly.



**Figure 2.** U.S. Treasury Securities, Millions of U.S. Dollars [2]

### 2.2.3 Exacerbating the gap between the rich and the poor

Under the epidemic, the unemployment rate in the United States has risen sharply, which has led to an increase in the indebtedness of household residents who rely on wages and salary income as their source of life and exacerbated the income inequality of residents. Labor-intensive industries cannot be done remotely and must rely on contact labor to provide services. This results in high unemployment and low pay in labor-intensive industries where the low-income group is located, and low unemployment and high pay in capital- and technology-intensive industries where the high-income group is located. The loose monetary policy has promoted the overall recovery of the economy, but it is difficult to correct the imbalance in the employment structure [9-10].

## 3. Discussion

Most of the economic policies in both periods were changes made for the local economy, and not many economic policies were effective for internationalization. International trade was much less developed during the Great Depression years ago than it is today, i.e., the impact of the international financial crisis was much less severe than it is now. Could we develop an internationally binding agreement on COVID-19. The negative effects of the Fed's aggressive monetary policy legacy are prolonged. Although the unconventional monetary policy of the Federal Reserve this time has a positive effect on economic recovery, it only plays a role in the special stage of the outbreak and is not sustainable. With the recovery of future economic conditions and the gradual recovery of market functions, the Fed's monetary policy is gradually returning to normal, but it is caught in a "dilemma" in the short term. On the one hand, the Fed needs to provide sufficient assurances of market stability to avoid pre-emptively tightening financial policy while the market is recovering, leading to a setback in market confidence. On the other hand, the predictability of the adjustment after extreme monetary policy will limit the Fed's actions to a certain extent. Market expectations may keep the Fed from reaching its goals by expected means. In these dilemmas, the negative effects of ultra-loose monetary policy will continue to affect the economy. It can be expected that the remaining problems such as a sharp rise in public debt, low interest rates and expansion of the central bank's balance sheet will become more apparent.

In addition, the government should be wary of the spillover effects of the Fed's monetary policy shift. The normalization of monetary policies in developed economies will have an impact on global financial markets, capital flows and currency exchange rates, triggering financial market valuation

adjustments, which may increase capital outflows and exchange rate depreciation pressures in some emerging economies, leading to debt repayment and refinancing risks.

#### 4. Conclusion

The difference between the changes in economic policy during the Great Depression and the changes in economic policy during the epidemic is that the policies of the two periods served different purposes. The Great Depression was caused by problems within the economic system, whereas the crisis during the pandemic was caused by external shocks. What the two policy changes have in common is that they both implemented loose policies, and both have had positive and negative impacts on the US economy and society. In the short term, these measures do solve the immediate problem. However, in the long run, the negative effects are expected to continue in the future. The main source of bringing about the current economic situation is the rising prices of food and energy. As far as the economy is concerned, the U.S. government's budget for the epidemic is already clearly inadequate. I think it is more important to do something strong from a macroeconomic point of view: such as increasing taxes or reducing spending to stabilize the economy.

#### References

- [1] John E. Bregger. The Current Population Survey: A Historical Perspective and BLS' Role [J]. *Monthly Labor Review*, 1984, 107: 8 - 14.
- [2] Federal Reserve [OL]. <https://www.federalreserve.gov/>, 2022 - 9 - 2.
- [3] Costa Junior Celso J., Garcia-Cintado Alejandro C., Junior Karlo Marques. Macroeconomic policies and the pandemic-driven recession [J]. *International Review of Economics and Finance*. 2021, 72 (C): 438 - 465.
- [4] Center on Budget and Policy Priorities: Tracking the COVID-19 Recession's Effects on Food, Housing, and Employment Hardships [OL]. [https://www.jstor.org/stable/resrep28464#metadata\\_info\\_tab\\_contents](https://www.jstor.org/stable/resrep28464#metadata_info_tab_contents).
- [5] Michael Karpman, Stephen Zuckerman, Dulce Gonzalez, and Genevieve M. Kenney: The COVID-19 Pandemic Is Straining Families' Abilities to Afford Basic Needs [OL]. Urban Institute, [https://www.urban.org/sites/default/files/publication/102124/the-covid-19-pandemic-is-straining-families-abilities-to-afford-basic-needs\\_2.pdf](https://www.urban.org/sites/default/files/publication/102124/the-covid-19-pandemic-is-straining-families-abilities-to-afford-basic-needs_2.pdf), 2022 - 9 - 3.
- [6] Mitchell Broadus. *Depression Decade: From New Era to New Deal, 1929-1941*, Economic History of the United States [M]. 1962. vol. IX New York: Holt, Rinehart, and Winston.
- [7] Statement on Longer-Run Goals and Monetary Policy Strategy [OL]. [https://www.federalreserve.gov/monetarypolicy/files/FOMC\\_LongerRunGoals.pdf](https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf)
- [8] Federal Reserve Bank of St. Louis [OL]. <https://www.stlouisfed.org/>, 2022 - 9 - 2.
- [9] Carli Friedman PhD: Financial hardship experienced by people with disabilities during the COVID-19 pandemic [OL]. <https://doi.org/10.1016/j.dhjo.2022.101359>.
- [10] JunHo Park: Who is hardest hit by a pandemic? Racial disparities in COVID-19 hardship in the U.S. [OL]. <https://www.tandfonline.com/doi/full/10.1080/12265934.2021.1877566>.