

Covid 19 Crisis and Policy Responses in the U.S.

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- ▶ One goal of the course is to analyze monetary and fiscal policy using macroeconomic models.
- ▶ By reviewing monetary and fiscal policy responses in the most recent economic crisis, I would like to set the tone for what the course will be ultimately about.
- ▶ This lecture will also provide a context for the SIR model that we will be studying in the next lecture.
- ▶ The materials covered in this lecture will NOT be asked in any of the problem sets and midterm/final exams.

Outline

- ▶ Covid 19 Crisis
- ▶ Monetary Policy Responses
- ▶ Fiscal Policy Responses

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- ▶ I will chronicle the development of the Covid 19 crisis in the United States.
 - ▶ Focus on one country to make the discussion manageable.

January and February 2020: Calm before the storm

- ▶ First cases in late January.
- ▶ On January 31st, the U.S. Department of Health and Human Services announced the Covid-19 is officially a public health emergency.
- ▶ Various international travel restrictions during February. Some school closures.
- ▶ but, the number of reported cases were still very low.

March 2020: Storm arrives.

- ▶ Most universities and schools closed. Many office workers started teleworking.
- ▶ National emergency declared in March 15th. Shelter-in-place orders in many states.
- ▶ The number of cases exploded in the second half of March.

April 2020: The first full month after the shelter-in-place.

- ▶ The number of new cases remained high throughout the month. Hospital capacity exceeded.
- ▶ A historic increase in the unemployment rate.
- ▶ Bankruptcy jumped.
- ▶ Hope for the V-shaped recovery diminished.

May 2020: Start thinking about re-opening the economy.

- ▶ The number of new cases seems to have come down a bit. The peak seems to be over.
- ▶ Desire for re-opening the economy increases.

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January and February:

- ▶ U.S. economy relatively unaffected by the Covid-19.
- ▶ The main effects on the U.S. economy were anticipated to be through supply chains and reduced demand for the U.S. goods from affected countries (i.e. lower exports).
- ▶ The Federal Reserve did not take any action, except issuing the following statement.

March:

- ▶ By early March, it became clear that the cases in the U.S. were about to explode and that the government will need to shut down the economy for a while.
- ▶ March 3rd, a 50 basis-points intermeeting cut
- ▶ In March 10th, ZLB.

Figure of FFR

Forward guidance on the interest rate (March 10th):

“In light of these developments, the Committee decided to lower the target range for the federal funds rate to 0 to 1/4 percent. **The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.**”

From March 15th FOMC statement:

<https://www.federalreserve.gov/newsevents/pressreleases/monetary>

In the second half of March, the Federal Reserve announced, and started, implementing a series of emergency lending facility (“lender of last resort”).

- ▶ Standard ones.
 - ▶ Discount window.
 - ▶ U.S. Treasury securities.
 - ▶ Agency-backed securities.
- ▶ Under 13(3) authority.
 - ▶ CPFF and PDCF on March 17th.
 - ▶ MMLF on March 18th, State and municipal money markets on March 20th.
 - ▶ PMCCF, SMCCF, TALF, Intention to establish MSBLP on March 23rd.

- ▶ CPFF: Commercial paper funding facility.
- ▶ PDCF: Discount window to primary dealers.
- ▶ PMCCF: Primary Market Corporate Credit Facility.
- ▶ SMCCF: Secondary Market Corporate Credit Facility.
- ▶ MMLF:
- ▶ PMCCF:
- ▶ SMCCF:
- ▶ TALF:
- ▶ MSBLP: Main Street Business Lending Program

Except on the term sheet.

Figure an increase in the Fed's balance sheet.
From Fred.

April March:

- ▶ Polishing the details of emergency lending programs.
- ▶ No change in the forward guidance in the April FOMC meeting.

Main policy responses afterwards:

- ▶ June FOMC meeting:
- ▶ July FOMC meeting:
- ▶ September FOMC meeting:

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Key legislations:

- ▶ Coronavirus Preparedness and Response Supplemental Appropriations Act (March 6th)
- ▶ HR6201 Families First Coronavirus Response Act (March 18th)
- ▶ Coronavirus Aid, Relief, and Economic Security Act/CARES Act (March 27th)
- ▶ Paycheck Protection Program and Health Care Enhancement Act (April 24th)

CARES Act:

- ▶ 2T
- ▶ Direct payments to households: 300B
- ▶ Expansion of UI. Broader eligibility, longer duration, additional 600 per week.
- ▶ Loans to small businesses through the Federal Reserve: 454B.
- ▶ Paycheck Protection Program: 350B
- ▶ Rescuing airlines, public transit.
- ▶ Student loans
- ▶ Aid to state governments.

Takeaways:

- ▶ U.S. monetary policy responses provided various emergency lending facilities.
 - ▶ Lowered the policy rate (federal funds rate) quickly to the zero lower bound.
 - ▶ Provided various emergency lending programs.
 - ▶ It took some time for the Fed to design the details of some of the new programs. (Main Street Lending Facility).
- ▶ U.S. fiscal policy responses were also bold and rapid.
 - ▶ The size of CARES Act was unprecedented.
 - ▶ But, uncertainty about efficacies of some programs.
 - ▶ Some programs are more controversial than others.