RECESSION REMEDIES

Lessons Learned from the U.S. Economic Policy Response to COVID-19

Edited by Wendy Edelberg, Louise Sheiner, and David Wessel

The COVID-19 pandemic posed an extraordinary threat to lives and livelihoods, triggering a sharp economic downturn in the United States. Yet, the recovery was faster and stronger than nearly any forecaster anticipated due in part to the swift, aggressive, sustained, and creative response of U.S. fiscal and monetary policy.

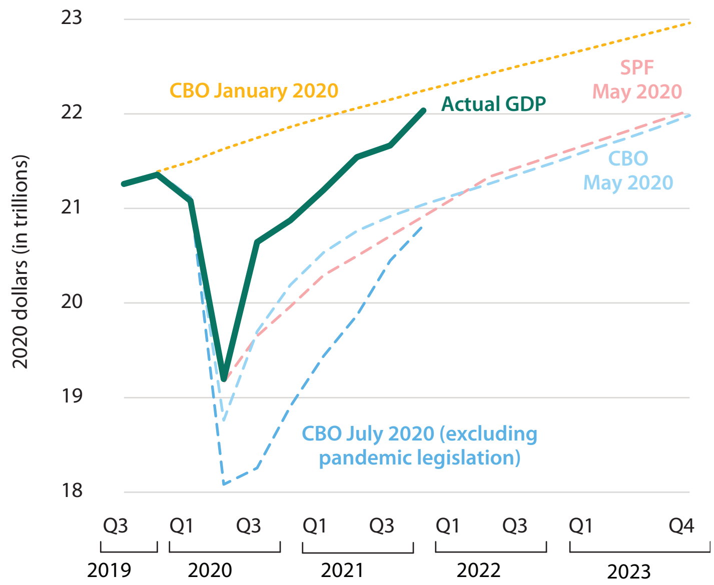
Recession Remedies evaluates the breadth of the economic policy response. Chapters address Unemployment Insurance, Economic Impact Payments, loans and grants to businesses, help for renters and mortgage holders, aid to state and local governments, policies that targeted children, Federal Reserve policy, and the use of nontraditional data to monitor the economy and guide policy.

The Hamilton Project and the Hutchins Center on Fiscal & Monetary Policy at the Brookings Institution gathered scholars with deep expertise to describe specific economic policy responses to the pandemic, summarize the available evidence about the outcomes of those policies, and analyze the lessons learned for future recessions by separating policies that were pandemic-specific from those that were not. Because when the next recession arrives, it most likely won't be triggered by a pandemic.

Lessons Learned

- A strong, broad, and inclusive social insurance system provides effective relief to households as well as macroeconomic stimulus.
- The sizable fiscal and monetary policy response helped stabilize the economy. However, its size, particularly in the spring of 2021, was a factor behind the unwelcome surge in inflation.
- Generous Unemployment Insurance may have smaller disincentive effects than previously thought.
- Support for the business sector should be more targeted.
- Support for households should better reflect the state of the economy and the needs of the households.
- Federal and state governments should improve their administrative capacity now so they can respond quickly to changing economic conditions.
- Policymakers need more reliable, representative, and timely data.

Real Gross Domestic Product (GDP), Actual and 2020 Projections



Source: Bureau of Economic Analysis, Congressional Budget Office (CBO), and Survey of Professor Forecasters (SPF) from Federal Reserve Bank of Philadelphia.

Note: Actual GDP is as reported through the fourth quarter of 2021.

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1. Breadth of Economic Policies during the Pandemic

Wendy Edelberg (The Brookings Institution), Jason Furman (Harvard University), and Timothy F. Geithner (Warburg Pincus)

Reviews the macroeconomic impact of the breadth of the economic policy responses that produced a recovery that, while stronger than generally anticipated and stronger than those of other advanced economies, has also been accompanied by an unwelcome increase in inflation.

2. Expanded Unemployment Insurance

Peter Ganong (University of Chicago-Harris), Fiona Greig (JPMorgan Chase Institute), Noel Pascal (University of Chicago-Booth), Daniel Sullivan (JPMorgan Chase Institute), and Joseph Vavra (University of Chicago-Booth)

Reviews the substantial expansion of UI—supplementing state-provided benefits, expanding eligibility to those not traditionally eligible, and extending the duration of benefits.

3. Economic Impact Payments

Michael Gelman (Claremont McKenna College) and Melvin Stephens Jr. (University of Michigan)

Examines the more than $800 billion in cash that was distributed to all but the highest-income households in the three rounds of Economic Impact Payments (EIPs).

4. Support to Business

Gabriel Chodorow-Reich (Harvard University), Adi Sunderam (Harvard Business School), and Ben Iverson (Brigham Young University Marriott School of Business)

Surveys the newly created federal subsidies and loans provided to businesses in the first year of the pandemic and also examine the additional lending and corporate bond purchases by the Federal Reserve.

5. Housing Policy

Part I: Support for Mortgage-Borrowers

Paul Willen (Federal Reserve Bank of Boston), Kristopher Gerardi (Federal Reserve Bank of Atlanta), and Lauren Lambie-Hanson (Federal Reserve Bank of Philadelphia)

Reviews the aid offered those among the roughly 50 million homeowners with mortgages who struggled to make payments because of the pandemic.

Part II: Support for Renters

Laurie S. Goodman (Urban Institute) and Susan Wachter (The Wharton School of the University of Pennsylvania)

Reviews the aid offered those among the roughly 44 million renters who struggled to make payments.

6. Support for the State and Local Sector

Louise Sheiner (The Brookings Institution)

Looks at the nearly $1 trillion that the federal government provided to state and local governments.

7. Policy Response and Child Well-Being

Anna Aizer (Brown University) and Claudia Persico (American University)

Examines the impact of the pandemic and related policy responses on children.

8. Monetary and Fiscal Policy

Robin Brooks (Institute of International Finance) and Jonathan Pingle (UBS)

Examines the role of monetary policy in keeping interest rates low in the wake of a surge in federal borrowing to assess whether a similar increase in borrowing could be repeated in future recessions.

9. Use of Nontraditional Data

Stacey Tevlin (Board of Governors of the Federal Reserve System), Laura Feiveson (Board of Governors of the Federal Reserve System), Christopher Kurz (Board of Governors of the Federal Reserve System), and Tomaz Cajner (Board of Governors of the Federal Reserve System)

Examines the use and value of nontraditional data sources, such as private payroll service providers and restaurant reservation services.