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How the Coronavirus Changed Everything about Economic Policy

This month, as we switch gears from July and mid-year planning, we want to focus a little closer on how the COVID pandemic has changed the world around us. However, as our discussion of mid-year planning comes to an end, don't forget to think about your financial life goals, and consider how they are reflected in your investment strategy.

Since March, our bipartisan congress and the Federal Reserve have developed fiscal and monetary policy to try and mitigate the damages caused by the pandemic, as well as continue to support the nation and its citizens. Indeed, the specific characteristics of the COVID-19 outbreak give it the power to change economic policy forever. In this article, we will look at the details of some policies, how they helped keep the economy afloat throughout the pandemic, as well as how they differ from policies in the past.

Fiscal policy response

There were three major fiscal policy responses to the seemingly overnight development and surge of the COVID-19 pandemic. Congress came together to create bipartisan legislation in order to keep all aspects of the economy afloat.

On April 21, 2020 the $483 billion Paycheck Protection Program and Health Care Enhancement Act was passed. The legislation includes forgivable Small Business Administration loans and guarantees to help small businesses that retain workers continue to provide paychecks and make payments to keep their businesses open (rent, bills, etc). There are also funds set aside to help hospitals and expand virus testing.

An estimated $2.3 trillion (around 11% of GDP) makes up the Coronavirus Aid, Relief and Economy Security, or CARES, Act. The Act includes a one-time stimulus check, expands unemployment benefits and funds to provide a food safety net for the most vulnerable, allocates $100 billion for hospitals and $150 billion in transfers to state and local governments, and provides international assistance, among many other provisions.

The Coronavirus Preparedness and Response Supplemental Appropriations Act and Families First Coronavirus Response Act provide virus testing, transfers to states for Medicaid funding, development of vaccines, therapeutics, and diagnostics, support for the Centers for Disease Control and Prevention responses, 2 weeks paid sick leave, up to 3 months emergency leave for those infected (at 2/3 pay), food assistance, and much, much more.

A typically divisive congress came together to deliberate and develop a necessary response to the pandemic – that's quite a change.

Monetary policy response

The Federal Reserve has deployed all the tools developed during the liquidity crunch 12 years ago—including facilities to support banks, companies, and currency swaps with other central banks. Crucially, this comes amid a wave of spending pledges by governments—the biggest shift in economic policy since the 1970s, when fiscal stimulus was abandoned as a primary tool to stabilize employment.

To support the US economy and financial markets, the Fed implemented policies to support: near-zero interest rates, financial market functioning, encouraging banks to lend, corporation and small business assistance programs, policies to help households and consumers, along with supporting state and municipal borrowing and cushioning US money markets from international pressures.

Arguably, the coronavirus cash crunch isn't nearly as strong a challenge to officials' understanding of economics as 2008 was. Yet the global financial crisis only truly shifted the reach of what central banks could do, not governments. Now, almost all officials and economists seem united in pushing for a new mind-set. What has changed?

What makes this series of policy different than before?

Together, fiscal and monetary policy have helped keep the financial markets propped up throughout the COVID pandemic. Without policies in place, the markets were starting to experience extreme volatility and bear-market trends. Instead, markets have been able to globally sustain the effects of the pandemic. With the policies in place, the bond markets stabilized within a few weeks, interest rates were kept low, and consumer spending rose after the sudden crash in March.

But the change also has to do with what Polish economist Michał Kalecki wrote in his famous 1943 essay "Political Aspects of Full Employment:" A reason why

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subsidizing consumers is resisted by businesses against their own self-interest is because it goes against the moral principle of "you shall earn your bread in sweat." The coronavirus crisis is special, though, in that it is an external, amoral force that has hit the "real" economy first. Damage to financial markets and indebted consumers—two groups often seen as questionable by business leaders—has been a consequence of the crisis, not its cause as in 2008.

Looking to the future

A lot can be said for how our bipartisan Congress and The Federal Reserve worked to produce policies that would help Americans through the crisis. There are still plans in the process of deliberation and approval, though at the end of the day, we can see already how economic policy will be changed from here on out. For more information about the CARES Act, assistance for those affected by COVID, and how to Live Well – Feel Well this summer, visit our website www.whzwealth.com/covid19-resources. If you're interested in financial planning and achieving your goals, call us at 860-928-2341 or email us at info@whzwealth.com.

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