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The Fed and the Pandemic Response

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The Marriner S. Eccles Federal Reserve building is seen in Washington, D.C., on March 14, 2022. Stefani Reynolds/AFP via Getty Images

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Commentary

One hopes that this remarkable document does not get overlooked: After Action Review of the COVID-19 PANDEMIC: The Lessons Learned and a Path Forward by the House Special Subcommittee on the Coronavirus Pandemic.

To date, it is the most comprehensive report by any government source in the world. It should serve as a model for every government at all levels. Coming in at 500 pages with 2,000-plus footnotes, it is a mighty and deeply alarming treatise and seemingly comprehensive (though I can think of plenty of points that are overlooked).

Among other fully documented points, it demonstrates a scandalous relationship between the World Health Organization (WHO) and the Chinese Communist Party (CCP):

“While the WHO is supposed to support the entire world, during the COVID-19 pandemic, it appeared to protect its relationship with the CCP. The WHO was misinformed, denied access to China, and was used as cover for CCP’s reckless actions. At a time when the globe was turning to the WHO for leadership and advice, the WHO’s actions showed that it did not support all its members equally. What was seen was an organization that, rather than serving all of humankind, became beholden to and entrapped in politics.”

One of the more surprising pieces of the report concerns the economic element and that which pertains to inflation itself. The report is singular in leaving no doubt: the Federal Reserve is the cause of the loss of purchasing power and real income over four years. In that sense, it is absolutely marvelous. With so much confusion out there about this topic, this is a much welcome relief.

What it contains bears some reprinting and discussion.

“The Federal Reserve’s aggressive and unprecedented response to the COVID-19 pandemic involved using all monetary policy tools available to it,” says the report. “These actions were essential in preventing a more severe economic downturn, though they also may have set new precedents for the Federal Reserve’s role in future crises.”

Jan. 2020: The Federal Reserve began monitoring the emerging COVID-19 outbreak, assessing potential risks to the U.S. economy. During this period, it maintained its monetary policy stance, with no immediate changes to interest rates.

Feb. 28, 2020: In response to increasing concerns about the economic impact of COVID-19, Chair Jerome Powell issued a statement indicating that the central bank was prepared to “use our tools and act as appropriate to support the economy.”

March 3, 2020: The Federal Reserve made an emergency 50 basis-point cut to the federal funds rate, lowering it to a range of 1.00 percent to 1.25 percent. This marked the first emergency rate cut since the 2008 financial crisis and was aimed at addressing the growing economic risks from the pandemic.

March 15, 2020: The Federal Reserve made another emergency rate cut, this time by 100 basis points, bringing the federal funds rate down to a range of 0 percent to 0.25 percent. This move effectively returned rates to the near-zero levels seen during the financial crisis. The Federal Reserve also launched a new round of quantitative easing (QE), pledging to purchase at least $700 billion in Treasury securities and mortgage-backed securities .

March 17, 2020: The Federal Reserve established the Commercial Paper Funding Facility [hereinafter “CPFF”] to support the flow of credit to households and businesses by providing liquidity to the commercial paper market.

March 18, 2020: The Federal Reserve created the Money Market Mutual Fund Liquidity Facility [hereinafter “MMLF”] to enhance the liquidity and functioning of money markets, ensuring that money market mutual funds could meet investor redemption demands.

March 23, 2020: The Federal Reserve announced extensive measures to support the economy, including open-ended purchases of Treasury securities and MBS (essentially unlimited QE). Additionally, it introduced several new facilities: 1. Primary Market Corporate Credit

Facility: to support corporate bond issuance. 2. Secondary Market Corporate Credit Facility [hereinafter "SMCCF"]: to support trading in corporate bonds. 3. Term Asset-Backed Securities Loan Facility: to support the issuance of asset-backed securities. 4. Expanded CPFF and MMLF: to provide further liquidity to financial markets.

April 6, 2020: The Federal Reserve announced the Paycheck Protection Program (PPP) Liquidity Facility to support the Small Business Administration's PPP by providing liquidity to participating financial institutions.

April 9, 2020: The Federal Reserve further expanded its interventions, introducing the Main Street Lending Program to provide up to $600 billion in loans to small and medium-sized businesses. It also established the Municipal Liquidity Facility to purchase short-term debt directly from state and local governments, providing them with essential liquidity.

May—June 2020: Implementation and Adjustments.

May 12, 2020: The Federal Reserve began purchasing corporate bond exchange-traded funds through the SMCCF, marking the first time it had intervened in the corporate bond market in this manner.

June 8, 2020: The Federal Reserve expanded the Main Street Lending Program to allow more businesses to qualify for support by adjusting loan terms and eligibility criteria.

July 29, 2020: The Federal Open Market Committee (FOMC) reaffirmed its commitment to using its full range of tools to support the U.S. economy, maintaining the federal funds rate at 0 percent to 0.25 percent and continuing its asset purchases.

Aug. 27, 2020: The Federal Reserve amended its policy framework under its "Statement on Longer-Run Goals and Monetary Policy Strategy," adopting a flexible form of average inflation targeting. This allowed inflation to run moderately above 2 percent for some time to make up for periods when it had been below that target.

Sept. 16, 2020: The Federal Reserve reiterated its commitment to maintaining accommodative monetary policy, signaling that rates would remain near zero until labor market conditions had reached levels consistent with the FOMC's assessments of maximum employment and inflation had risen to 2 percent and was on track to moderately exceed that rate for some time.

Dec. 16, 2020: The Federal Reserve announced that it would continue purchasing at least $120 billion of Treasury securities and agency mortgage-backed securities per month until substantial further progress had been made toward the Committee's goals of maximum employment and price stability.

Jan. 27, 2021: The Federal Reserve maintained its accommodative stance, keeping interest rates near zero and continuing its asset purchase program, emphasizing that the economic recovery was still uneven and far from complete.

March 17, 2021: The Federal Reserve reiterated its commitment to supporting the economy, signaling that it would not raise interest rates until 2023 at the earliest, and that asset purchases would continue until substantial progress was made.

April 28, 2021: The Federal Reserve maintained its policy stance but began discussing the potential for tapering asset purchases as the economy showed signs of recovery.

June 16, 2021: The Federal Reserve indicated it might begin to taper asset purchases sooner than previously anticipated, acknowledging that inflation was running higher than expected.

Nov. 3, 2021: The Federal Reserve announced it would begin tapering its asset purchases, reducing the pace of its monthly bond-buying by $15 billion each month, with the goal of ending the program by mid-2022.

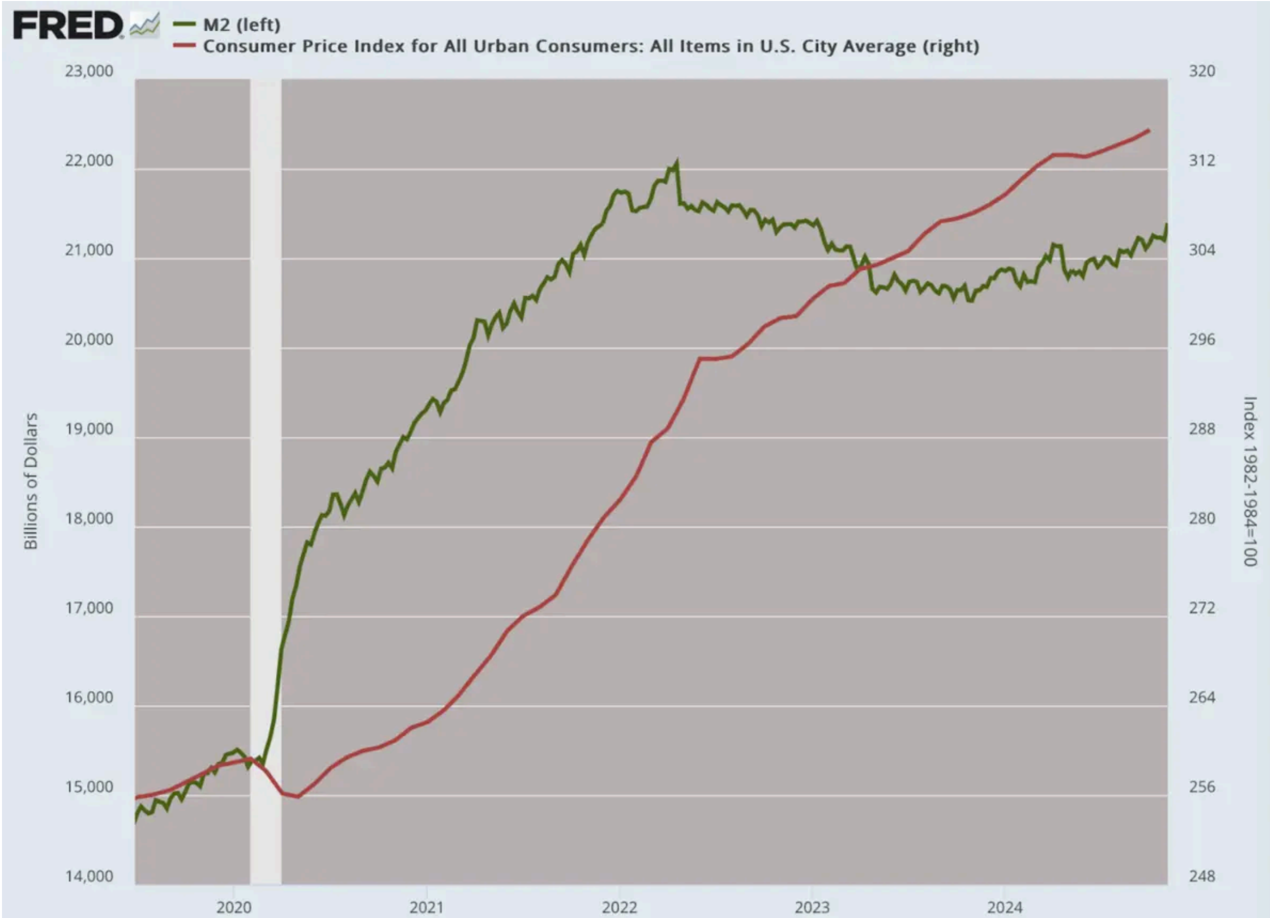
Dec. 15, 2021: The Federal Reserve accelerated its tapering process, doubling the pace of asset purchase reductions to $30 billion per month, and signaled that interest rate hikes could begin in 2022 in response to rising inflation.

March 16, 2022: The Federal Reserve raised interest rates by 25 basis points, marking its first rate hike since 2018, and signaled a series of rate increases to combat inflation and begin the process of normalizing monetary policy.

“Within two weeks of COVID-19 being declared a pandemic, the Federal Reserve threw every tool at its disposal to blunt the economic impact of the pandemic,” the report concludes. “The Fed quickly slashed the federal funds rate to near zero to increase liquidity and cushion the economic impact of the pandemic. The Federal Reserve embarked on an aggressive QE program, initially purchasing large $500 billion U.S. Treasury and $200 billion mortgage-backed securities to provide liquidity to the financial system.”

The report argues that the response “helped the economy recover more rapidly than many expected.” However, “the combination of the aggressive monetary policy and fiscal stimulus fueled a surge in demand as businesses reopened and consumers spent their savings and stimulus checks. ... By late 2021 and into 2022, inflation had accelerated to levels not seen in decades. The Consumer Price Index and other inflation measures indicated significant price increases across a broad range of goods and services.

“The Federal Reserve’s early actions, while crucial in preventing economic collapse, also contributed to the inflationary pressures seen later. The prolonged period of low interest rates and large-scale asset purchases, combined with supply chain issues and labor market dynamics, created an environment where inflation could take hold ... it also played a role in the inflationary pressures that emerged later.”



(Data: Federal Reserve Economic Data (FRED), St. Louis Fed; Chart: Jeffrey A. Tucker)

On the one hand, we have to be grateful for this documentation. But there is every reason to observe that the praise for keeping the economy going is misplaced. The Fed's response also kept the lockdowns in place much longer than they would have otherwise been. States would have opened much sooner without stimulus checks and helicopter money, and American living standards would have been spared.

Rather than keeping the economy afloat, the Fed's response caused exactly the opposite. It printed up a fake prosperity that turned to inflation in short order. Indeed, one should speculate on whether and to what extent there would have been any lockdowns in absence of the money printing. Maybe without the Fed there never would have been a misbegotten pandemic response.

This period of our history has left the government in unsustainable debt and the American people are still struggling to survive the resulting price increases. As much as this report deserves attention and praise for its documentation, it actually understates the damage of the pandemic response generally speaking. There is much more to stay, even if this is an excellent beginning.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

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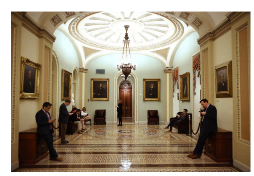

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