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Analysis of the Impact of Covid-19 on the U.S. Economy

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ABSTRACT
At the beginning of 2020, Covid-19 swept the world and caused serious damage to the economic development of the United States. The U.S. economy is in its worst recession since the Great Depression. Now, with the help of Pfizer, Johnson & Johnson and Modena vaccines, people's lives have mostly returned to normal, and the US economy has begun to slowly recover. This paper discusses the impact of Covid-19 on employment rate and financial market, and analyzes the short-term and mid- to long-term interest of the U.S. economic stimulus policy. Through analysis, the author finds that: the US government's rescue policies have reduced the damage to the US economy from the Covid-19 epidemic and effectively stabilized the US financial market in the short term. However, the U.S. government's premature ignoring of the epidemic and promoting economic recovery prematurely made epidemic prevention and control very difficult. In the long run, the unprecedented rescue policy may further deteriorate the relationship between the real economy and the financial system, increase the risk of government debt, and limit the growth potential of the economy in the medium and long term.

Keywords*: Covid-19, US Economic Stimulus Policy, Unemployment, Stock Market*

1. INTRODUCTION

In the first half of 2020, the Covid-19 epidemic broke out globally. It spreads to all parts of the world at a very fast speed. As of December 2021, a total of 217.15 million people have been infected worldwide, resulting in 4.51 million deaths and a mortality rate of 2.08%. In order to better control the spread of the Covid-19 epidemic, many countries in the world have closed their borders, restricted the entry and exit of people from home and abroad, and effectively isolated them. Covid-19 has also led to a crisis in the world economy, and many companies have closed down or went bankrupt due to the epidemic. Not only has the physical industry been hit by the epidemic, but the financial industry has also not been spared.

The Covid-19 epidemic has made great impacts on the unemployment rate and financial market in the United States, and then the US government has quickly used multiple rounds of rescue policies. For example, the the US government promulgate the Economic Aid Act on March 27, 2020, which is known as The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) in response to the economic fallout of the COVID-19 pandemic in the United States [1]. In this act, the US government takes relevant measures, such as investing a large amount money, to solve the problems of market unemployment rate and financial economy, thereby stabilizing the financial market. Therefore, the main purpose of this paper is mainly analyzing the pros and cons of the plan by studying the short-term and long-term benefits of the Economic Aid Act.

2. THE UNEMPLOYMENT RATE IN THE UNITED STATES DURING COVID-19

2.1. The impact of Covid-19 on the unemployment rate in the United States

In the first half of 2020, Covid-19 spread rapidly in the United States, the upward trend of the U.S. economy was interrupted by the epidemic, and stock prices fell. Data from the U.S. Bureau of Economic Analysis shows that the full-year GDP of the United States in 2020 has fallen by 2.3% compared to 2019 [2]. In terms of stocks, it has ushered in 4 consecutive blowouts in a year in history. At the same time, the epidemic has also shut down many companies and businesses, which has led to a rising unemployment rate in the United States.

According to data from the US Bureau of Labor Statistics (BLS), the economic expansion in the United States lasted 128 months before the outbreak, which was the longest economic expansion in the history of the United States. However, after the outbreak, according to the current population survey (CPS), from the fourth quarter of 2019 to the second quarter of 2020, the unemployment rate more than tripled, rising from 3.6% to 13.0% and the total number of employed people has decreased by 21 million [3]. With the popularization of vaccines, the labor market began to recover and continued at the end of the second quarter. The unemployment rate fell from 13.0% to 8.8% in the third quarter, and even dropped to 6.7% in the fourth quarter. Even so, this is still 3.1% higher than the unemployment rate in the same period in 2019 [3]. That is, the number of unemployed persons in the fourth quarter of 2020 was 10.8 million, an increase of 4.9 million over the same period in 2019.

According to data from the US Bureau of Labor Statistics (CPS), the total number of US employees increased by 8.6 million in the third quarter of 2020 and 3.6 million in the fourth quarter. The total number of employees at the end of 2020 averaged 149.8 million, which is still a decrease of 8.8 million (5.5%) from the same period in 2019. The unemployment rate of the five major occupational categories will increase in 2020. Among them, the transportation industry has a relatively high unemployment rate, an increase of 5.9% from 4.3% in 2019, and the unemployment rate in 2020 will reach 10.2%. However, the industry with the largest increase in unemployment rate is the service industry, which will reach 13.0% in 2020, an increase of 8.6% year-on-year. The Covid-19 epidemic and prevention and control work have a great impact on these industries. In order to avoid close contact, many physical service industries choose to close their doors. Among occupations related to food production and services, the unemployment rate in 2020 is four times that of 2019. The unemployment rate for construction, maintenance and natural resources is 8.9%. Unemployment rates in many other occupations have also risen sharply [4].

2.2. Measures taken by the government

In response to the unemployment rate and stimulating the economy, US President Donald Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27,2020, providing more than US$2 trillion in economic assistance to the US society [5]. This includes items for businesses, medical care, salary protection plans, etc. For individuals, each adult can receive an stimulus check of 1,200 US dollars and each dependent child can also receive 500 US dollars in assistance [5]. At the end of 2020, every eligible adult and dependent child will receive another round of assistance, amounting to US$600. Less than a year later, on March 11, 2021, U.S. President Joe Biden signed the American Rescue Plan Act into law, which once again provided a third stimulus check for every eligible family. It’s $1,400. The total amount of assistance this time is 1.9 trillion US dollars, and many provisions in the CARES Act have been extended or modified in the new bill. In the salary protection plan, the Small Business Administration grants companies more than US$500 billion in financial assistance to ensure that companies can provide workers with wages [5].

3. THE FINANCIAL MARKET IN THE UNITED STATES DURING COVID-19

3.1. The impact of Covid-19 on the financial market in the United States

At the same time, due to the rising unemployment rate, the financial economy of the United States has also experienced a decline. The stock has experienced four consecutive blowouts in the history of the United States in a year [4][11].

In March 2009, the U.S. stock market started a bull market for nearly 11 years. However, with the spread of the U.S. epidemic, market confidence was frustrated, causing the U.S. stock market to experience four circuit breakers on March 9-18, 2020. Among them, Dow Jones The industrial index fell on the 16th and reached the largest single-day drop in history, at 12.9%. The S&P 500 index also fell into a bear market [4][11].

Figure 1. United States Stock Market Index (US30)

3.2. Measures taken by the government

In order to save this phenomenon, the US government quickly introduced rescue measures. In terms of monetary policy, the Fed's balance sheet is expanding at an unprecedented rate. Among them, the Fed has adopted three policies. One is to exhaust the traditional monetary policy, the other is to restart the dormant monetary policy, and the third is to establish a new special monetary policy. Traditional monetary policies include interest rate cuts, repurchases, and lower primary credit rates. Among them, half a month before parliament in March 2020, the Fed cut interest rates by 50 basis points in an emergency, and 15 people cut interest rates by 100 basis points again in March. This was the largest single-day rate cut in U.S. history, which reduced the federal funds interest rate to 0%-0.25%. The restart dormant policies include Commercial Paper Funding Facility (CPFF), Primary Dealer Credit Facility (PDCF), Money Market Mutual Fund Liquidity Facility, (MMLF) and other policies created during the 2008 financial crisis. New special monetary policies include Primary Market Corporate Credit Facility (PMCCF), Secondary Market Corporate Credit Facility (SMCCF), Paycheck Protection Program Liquidity Facility (PPPLF), etc [4]. Subsequently, the Fed expanded the scope of application of some policies, striving to cover more subjects. The implementation of the above policies caused the Fed's balance sheet to rise from 4.24 trillion U.S. dollars in early March to 7.16 trillion U.S. dollars in early June, an increase of 3 trillion U.S. dollars in just three months. The volume of the financial crisis that broke out in 2008 was only one-third of this time [5].

In order to better cooperate with monetary policy, the United States has also introduced four rounds of fiscal stimulus policies with a total amount of US$2.8 trillion. It accounts for nearly 13.3% of US GDP. The first round of Coronavirus Preparedness and Response Supplemental Appropriations Act (CPRSAA) was signed on March 6. This bill is mainly used to support the medical sector to respond to and control the Covid-19 epidemic and develop vaccines and other technologies. The total amount is 8.3 billion US dollars [5]. The second round of the Families First Coronavirus Response Act (FFCRA) was signed on March 18. This bill mainly provides family subsidies, including free testing, increased food subsidies, and expanded unemployment benefits. The total amount is US$192 billion. The third and fourth rounds provided financial support and additional funds for residents and enterprises, with a total of US$2.2 trillion and US$484 billion respectively [6].

4. ANALYSIS OF THESE ECONOMIC POLICIES AND STIMULUS BILLS

4.1. Benefits of U.S. Relief Policy

The rescue policy and the economic bill have effectively eased the economic pressure of enterprises and households, and reduced the large-scale bankruptcies of enterprises and households due to economic problems. Data from the U.S. Census Bureau show that in 2018, the number of people living in poverty in the United States was 38.1 million. Before the outbreak of covid-19, about 40% of Americans could not come up with the $400 emergency expenses without debt [7]. Therefore, with the help of the Economic Aid Act [1], the cash issued can effectively help some families to reach the minimum living expenses.

At the same time, for some small businesses, the suspension of production caused by the Covid-19 epidemic is a fatal blow. Some businesses can only support 27 days of operation, and the catering industry can only last for 16 days. Through the Main Street Lending Program (MSLF), the Federal Reserve not only reduces the pressure on these companies, but also eases the bank's lending system. Under the implementation of the rescue policy, the panic in the financial market was effectively eliminated, the liquidity crisis was eased, and the complete collapse of the financial market successfully avoided the devastating blow to the real economy.

Under the implementation of the Fed policy, confidence in the US stock market rebounded and the stock market rebounded rapidly. On June 10, the NASDAQ Composite Index closed up 51% to 10020.35, the first time in US history to close 10,000 points. The S&P 500 Index and the Dow Jones Industrials rebounded 46% and 48%, respectively [4].

4.2. Disadvantages of U.S. Relief Policy

The problem with the US rescue policy is also obvious. Taking the third round of economic stimulus plan as an example, the US used about 860 billion U.S. dollars to rescue enterprises, compared with only 130 billion U.S. dollars spent on medical treatment and epidemic prevention and control. Stephen S. Roach said that stimulative monetary policies and fiscal policies should be used more in public health to treat the Covid-19 epidemic. The current policy focuses on the consequences of the epidemic rather than the epidemic itself [4].

Moreover, due to the high unemployment rate caused by the Covid-19 epidemic, many unemployed people even lost their sources of income, which has led to an increase in social crime rates. According to data from the National Commission on COVID-19 and Criminal Justice (NCCCJ), the number of homicides in the first quarter of 2021 has increased by 24% compared to 2020 (an increase of 193 homicides), which is an increase compared to 2019 Increased by 49% (an increase of 324) [8]. At the same time, the number of robberies is constantly rising. These reasons are that the poor people most affected by the Covid-19 pandemic receive very limited assistance. United Nations human rights expert Philip Geoffrey Alston said that because of long-term ignorance, this group of low-income and poor people will face a higher risk of infection, and some people without medical insurance cannot afford medical expenses and make their lives more difficult [8]. In addition, due to the continuous fermentation of social contradictions, the plan for economic recovery has become slower. The Freud incident that took place on May 25 led to a large march, which made the prevention and control of the Covid-19 epidemic even more difficult. The protest march was accompanied by acts of robbery, vandalism, etc., some businesses that had just opened or resumed work, and restaurants had to close again, which once again brought the newly recovered economy faced an impact [4].

In the long run, the policy to deal with the epidemic will significantly worsen the US government's fiscal deficit and debt problems, and widen the gap between the rich and the poor in society. The epidemic has accelerated the US fiscal deficit and debt. Since President Trump took office, the tax reduction policy implemented by the United States has greatly increased the US fiscal deficit [4]. In 2019, the federal budget deficit has reached 984.4 billion U.S. dollars. Under the impact of the Covid-19 epidemic, the U.S. financial and stock markets have been hit hard, and the unemployment rate has continued to rise. In order to respond to the epidemic and save the stock market, the U.S. government introduced A large number of economic stimulus policies have made the federal fiscal deficit even worse [9][10]. According to data from the Congressional Budget Office, the US fiscal deficit in 2020 is 3.1 trillion US dollars, equivalent to 14.9% of US GDP, and the 2021 fiscal deficit is 2.77 trillion US dollars, which is an improvement compared to 2020. On this basis, the public debt of the United States has risen rapidly. In the second quarter of 2020 alone, the federal government will issue debts of US$3 trillion. Since 2017, the federal government’s debt has continued to rise. By the end of 2021, the federal government’s debt was as high as 28.43 trillion U.S. dollars, accounting for 122% of the US GDP in 2021. Due to the continuous rise of federal debt, it is estimated that the total debt will exceed 30 trillion US dollars in the next few years, reaching 140-150% of GDP, which will seriously affect the stable growth of the US economy [9][10].

5. CONCLUSION

Since 2020, the Covid-19 epidemic has spread all over the world, causing a major crisis in the global economy. The United States has also affected by the epidemic, with stocks falling and unemployment increasing. Although the U.S. government has made great effort to save the financial market, the impact caused by Covid-19 has not completely disappeared, and the federal fiscal deficit and debt have increased sharply. The new variant strain Omicron discovered in South Africa now carries a large number of genetic mutations, and the risk of infection is extremely high. Even the existing vaccines are not effective against it. For Western countries where the main method of epidemic prevention and control is injecting vaccines, if the epidemic cannot be controlled, this will interrupt or even reverse the momentum of the economic recovery that has just begun. The author believes that in order to better reduce the unemployment rate and restore the economy, the Covid-19 epidemic should be controlled from the source. Before the Covid-19 epidemic is completely eliminated, all economic stimulus policies will address the symptoms and not the root cause. Businesses and businesses still face greater risks from the pandemic. In terms of economic assistance, more attention should be paid to vaccine research and development, and vaccination should be accelerated, so as to control the epidemic from the root cause, and resume work and production, speed up the economic recovery after the epidemic, thereby increasing the employment rate of people.

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