Attendee Q&A

The Fed's Response to COVID-19 | June 18, 2020

Loretta J. Mester, Ph.D., the President and CEO of the Federal Reserve Bank of Cleveland, spoke on U.S. monetary policy, the shape of the economic recovery, and the outlook for inflation through a fireside chat during a GIC Executive Briefing. The below are her responses to two questions during the audience Q&A.

1. **Fed purchases of Treasury debt this year are running close to net issuance, a massive amount. Are the Fed and Treasury coordinating? Do you see another version of the 1951 Fed-Treasury Accord rebuilding the economy after WWII?**

   Stresses arose in the financial markets in March amid rising concerns and uncertainty surrounding the coronavirus pandemic. Dysfunction emerged even in the U.S. Treasury market, one of the most important foundational markets in the world. The Federal Reserve took strong action by purchasing sizable quantities of Treasury securities and agency mortgage-backed securities in order to ensure there was adequate liquidity in the markets so that trades could be made and credit continued to flow. As market functioning has improved, the Fed has gradually lowered the amounts it is buying. The Fed took these actions given its role to promote stability in the financial system. It did not coordinate the actions with Treasury. This is unlike during WII and the following years when the Fed did coordinate its monetary policy with the Treasury, which then led to the 1951 Fed-Treasury Accord which reestablished the independence of monetary policy decisions.

2. **How is the success or lack therefore of contact tracing a factor in economy? Is contact tracing a big factor, small or other?**

   With states relaxing stay-at-home restrictions, I expect economic activity to pick up in the second half of the year. But there is considerable uncertainty about what the recovery will look like after the economy reopens. The shape of the recovery will depend on the path of the virus and our ability to handle its spread through testing, contact tracing, treatment, and risk-focused restrictions on activity. It will also depend on the behavior of households and businesses and how comfortable they feel in re-engaging in economic activity. Even if states do not reinstate restrictions, people and businesses could restrict their own activity if they don't feel safe. And the recovery will depend on policy actions.

   While the virus determines the timeline, we can affect the outcomes. Increased investment would speed up the progress on testing, contact tracing, and treatments, and help ensure that the healthcare system has adequate capacity. Better adherence to the guidelines on social distancing, mask wearing, and hygiene would help to control the virus's spread. These actions would make it safer for people to re-engage in activity and would allow for interventions to become more focused on helping those at highest risk from the disease, thereby supporting the recovery.

Resource:

Mester, Loretta. The Federal Reserve Bank of Cleveland, 2020.