In a virtual meeting of economists, Powell warns of forthcoming risks to the economy if too little is done by the government and calls on the government's support of the economy "until it is out of the woods."

Federal Reserve Board Chairman Jerome Powell spoke with urgency about the need for Congress to continue to enact measures to support the U.S. economy's COVID-19 recovery. Speaking at a virtual meeting of the National Association for Business Economics on October 6, 2020, Powell indicated that the economic downturn did not follow the typical recessionary patterns because of the financial infusions of funds to households and businesses from recent legislative relief packages. Given that there are still great risks, Powell called for more relief: "The recovery will be stronger and move faster if monetary policy and fiscal policy continue to work side by side to provide support to the economy until it is clearly out of the woods."

Powell began by highlighting the expansion in the economy prior to the pandemic—at 128 months of expansion, it was the longest in recorded history—and what had been a generally strong position. Powell noted that the strong economy made the recession spawned from COVID-19 unusual in that, "it was not triggered by a buildup of financial or economic imbalances." Given that the pandemic is what Powell called "essentially a medical emergency," the Fed identified three ways to help limit the economic fallout: "providing stability and relief during the acute phase of the crisis when much of the economy was shut down; vigorously supporting the expansion when it came; and doing what it could to limit longer-run damage to the productive capacity of the economy."

Powell believes the initial fiscal response to the pandemic was extraordinary, and the CARES ACT and the other bills passed have been vital to support U.S. households and businesses. The infusion of funds to households and businesses has lessened the typical downward spiral in a recession. Powell also believes the prompt lawmaking actions were likely responsible for keeping fear out of the financial markets. However, Powell stressed that there is still a long way to go.

Continuing Risks. While acknowledging that the recovery has progressed, Powell indicated that we need to continue to manage the downside risks. Powell discussed the risk of COVID-19 cases increasing in the coming months to a level that would require more limits on economic activity, as well as the risk that the slowing in the pace of the improvements seen before the pandemic trigger recessionary dynamics and could increase income and wealth disparities in the country. Powell had indicated that already the pandemic has caused uneven burden on lower-wage workers, communities of color, and women, who shoulder the burdens of childcare and remote learning disproportionally.

Powell urged that despite the modest recovery in the labor market, a lack of further action and policy support could weaken other areas of recovery. A key takeaway from Powell’s speech was his argument about the asymmetric risks of policy intervention. "Too little support would lead to a weak recovery, creating unnecessary hardship," stressed Powell. Powell suggested that the risks of "overdoing it" are much smaller. "Even if policy actions ultimately prove to be greater than needed, they will not go to waste," he said.

Pelosi’s Comments. House Speaker Nancy Pelosi issued a statement following Powell’s speech. Pelosi concluded that Powell’s warning, "could not be more clear: robust action is immediately needed to avert economic catastrophe from the devastation of the coronavirus pandemic." Pelosi reflected on Powell’s description of the asymmetric approach and concurred that the risk of overacting on relief is the lesser risk. She
concluded, "It is long overdue for Republicans to join us in passing a bill that meets the needs of the American people by protecting our heroes, crushing the virus and putting money in the pockets of workers."

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