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The Inertia of Post-Pandemic Policies in the US: A Comparative Analysis of Three Pandemics in History

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Abstract: The US has a long history of combating global pandemics, leading to the development of various macro-policies over the years. These commonalities serve as a guide not only for academic researchers but also for economic agencies. Utilizing the IS-LM model, this essay elucidates the phenomenon of post-pandemic policy inertia and forecasts the future trajectory of policies in the aftermath of COVID-19. Significantly, the essay thoroughly examines the challenges confronting current US macro-policies and offers valuable reference points for improvement. Its contribution lies in emphasizing that policies implemented by US governments may prioritize the predictability and certainty of the economy over its recovery, providing insights relevant to a diverse range of stakeholders. Furthermore, the concept of policy inertia introduced in the essay can serve as a foundation for subsequent academic exploration and policy analysis, contributing to the expansion of knowledge in the field.

Keywords: Inertia of policy; AD-AS model; IS-LM model; US policies

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1. Background

The COVID-19 pandemic has had a significant impact on the global economy, with various sectors experiencing disruptions and downturns. The aviation industry, in particular, faced unprecedented challenges due to travel restrictions and reduced passenger demand. These disruptions resulted in economic losses for airlines, airports, and associated businesses, leading to lay-offs, financial difficulties, and overall negative effects on aggregated demand and employment rate. The pandemic has inflicted significant economic losses and led to widespread unemployment. At the onset of the pandemic, there was a monthly deficit of approximately 70 billion and a three-month moving average deficit of around 65 billion [1]. Additionally, the unemployment rates in the US had been gradually decreasing before 2020. However, by the end of 2020, the unemployment rate surged to its highest point, reaching 15% [2].

Indeed, the US government has a long history and a wealth of experience in combatting global infections.

It can be argued that the success of prevention and intervention efforts against the spread of diseases significantly shapes subsequent policies. The 1918 influenza pandemic stands out as one of the most severe outbreaks in history, leading to millions of deaths [3]. The virus is believed to have originated from an avian influenza virus and underwent genetic recombination to transform it into a highly lethal influenza virus. Furthermore, the Centers for Disease Control and Prevention (CDC) reported cases of swine flu in Southern California in 2009, offering comprehensive information on the transmission, symptoms, and treatment of the virus. This emphasized the significance of regular public health interventions [4]. While the number of deaths was relatively low, it drew public attention. A study summarizing the characteristics of 72,314 COVID-19 cases in China highlighted the importance of early epidemic control measures and personal protective measures in controlling the virus' spread [5].

These experiences led to the development of government policies, leading to policy inertia in the areas of public health infrastructure, training and education, and tax schedules. Besides, the experiences also led to a heightened awareness of preventive measures, emergency preparedness plans, and the coordination of resources and agencies during public health crises.

2. Literature review

Much research has been done on subjects spanning from historical pandemics to macroeconomic policies, delivering valuable insights into infectious diseases, policy inertia, government institutions, monetary and fiscal policies, and economic data analysis.

Some papers provide a general description of pandemic-related issues, covering causes, consequences, and insights into diseases [3,4]. Wu and McGoogan provided an overview of the COVID-19 outbreak in China, presenting key characteristics of the disease and lessons learned from the Chinese CDC report [5]. These works revealed the similarity between similarities between the policies implemented by the US government in response to the disease.

Meanwhile, some scholars focus on analyzing economic identifying policy inertia and discussing the consequences of implementing those policies. Volcker addressed policy inertia and its impact on economic growth in a speech before the Economic Club of New York. Niskanen delved into bureaucracy and public economics, exploring the role and functioning of government institutions. Taylor compared discretion versus policy rules in practice, analyzing the benefits and drawbacks of discretionary monetary policy [6]. Svensson examined inflation forecast targeting and its implementation, monitoring, and effectiveness as a monetary policy framework [7]. Orphanides and Williams studied inflation scares and how forecast-based monetary policy can address them [8]. While the literature above uses theoretical methods to explain the causes of policy inertia, the U.S. Census Bureau provides valuable economic data through the U.S. Bureau of Economic Analysis and U.S. International Trade reports, demonstrating, to some extent, the effectiveness of policy inertia.

Moreover, the policies implemented by the US have been discussed in detail. Bernanke and Gertler delved into the credit channel of monetary policy transmission and its impact on consumption and employment [9]. The effects of fiscal policy on consumption and employment have also been studied, presenting theoretical frameworks and empirical evidence [10]. In contrast, supply-side policy seemed to have a more favorable effect on stabilizing the economy without causing inflation. Roberts provided insights into policy-making in Washington, specifically addressing supply-side economics and its influence on policy decisions [11].

In-depth research and insights have been conducted across various fields, including employment, education, urban planning, and community development, with a connection to the potential drawbacks of

policy inertia. Policy inertia refers to the tendency of governments or organizations to persistently adhere to past practices in policymaking and implementation, often overlooking the need for adjustments and innovations in response to new challenges and changes. Acemoglu and Autor shed light on the impact of skills, tasks, and technological changes on employment and earnings [12]. However, policy inertia may hinder governments from swiftly formulating training and education policies that adapt to the demands of new technologies. This can result in labor supply-demand imbalances and skill mismatches, affecting economic growth and social stability. Secondly, Goldin and Katz highlighted that by investing in education, individuals can better adapt to technological changes, leading to improved job opportunities and income levels [13]. However, due to policy inertia, educational systems may fail to align with the demands of technological advancements, resulting in an inability to adequately train workers for the necessary skills and knowledge. This situation can potentially lead to social discontent, political turnover, and economic instability. Thirdly, some researchers, including Glaeser and Gottlieb, argue that effective urban planning necessitates flexibility and adaptability to address population growth, environmental challenges, and evolving societal needs. Policy inertia might underestimate the current situation, leading to a time lag in urban planning [14].

3. The causes of policy inertia

Policy inertia refers to the phenomenon in policy formulation and implementation where there is a delay in policy change or adjustment. This delay can be caused by various factors, such as resistance from stakeholders, bureaucratic inertia, and political pressures.

It is argued that governments persist in implementing policies to reduce economic uncertainty, which, in turn, can stabilize investment. Volcker believed that policy inertia played a positive role in U.S. decision-making because long-term stable policies can provide expectations and confidence, promoting economic development [6]. Meanwhile, Niskanen pointed out that policy inertia serves as a stabilizer in government decision-making, avoiding the uncertainty and chaos that frequent policy changes may cause [7].

In summary, although policy inertia can play a role in implementing conservative policies for the sake of maintaining economic and social stability, it is suggested that, based on bureaucratic theory, government agencies may not necessarily pursue economic certainty. Instead, they may uphold existing policies to serve their own interests, leading to policy inertia.

4. Understanding post-pandemic policies using the investment-savings-liquidity preference-money supply (IS-LM) model

4.1. Monetary policy inertia

It is argued that the US government uses quantitative easing policy, a special contractionary monetary policy to stimulate the economy. For example, the Federal Reserve System can increase the money supply by purchasing government bonds and other financial assets, which lowers interest rates and increases liquidity.

By buying government bonds, the central bank increases the demand for these bonds. Consequently, the interest rate falls from r_2 to r_1 (**Figure 1**). This increased demand leads to higher bond prices and lower bond yields (interest rates), as bond yield is negatively associated with bond price.

The decrease in bond yields has a spillover effect on other interest rates in the economy, such as mortgage rates, corporate borrowing rates, and consumer loan rates. Consequently, this can lead to a broader reduction in interest rates across various sectors of the economy.

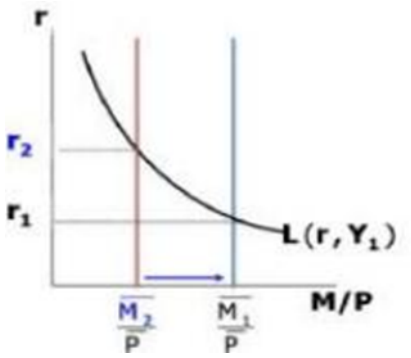


Figure 1. Increase in money supply and decrease in interest rate

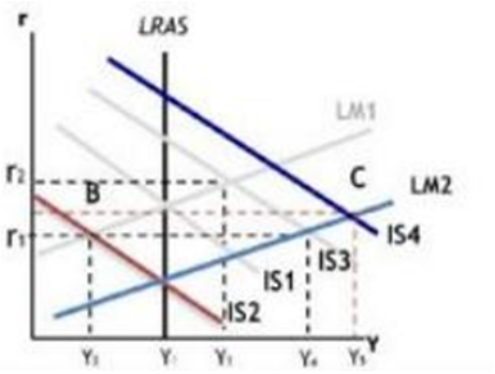


Figure 2. Shift in the IS curve due to an increase in national income

Lower interest rate helps to promote economic growth. Lower interest rates stimulate borrowing and investment, stimulate economic activity, and promote economic growth. Additionally, reduced borrowing costs can make it more affordable for businesses and individuals to take out loans, which can potentially boost consumption and investment, leading to overall economic expansion. As shown in **Figure 2**, the IS curve shifts to the right with the national income increasing from Y_2 to Y_1.

John B. Taylor introduced the Taylor rule in a paper published in 1993. The Taylor rule describes how monetary policymakers adjust interest rates based on economic indicators [15]. Nevertheless, the impact of monetary policy might not be immediate; there can be a time lag because it takes time for businesses and individuals to adjust their investment and consumption decisions in response to the new policy environment. Additionally, financial markets also need time to react and transmit the effects of monetary policy changes [16]. Thus, the policy inertia might worsen economic activity because of the time lag. For example, when an economy undergoing rapid growth and showing signs of overheating, policymakers may implement contractionary measures, such as raising interest rates or reducing money supply to reduce inflationary pressures and prevent excessive investment. In this case, if the effects of the time lag occur simultaneously, it could lead to excessive intervention, potentially resulting in a recession.

4.2. Fiscal policy inertia

Expansionary fiscal policy is a macroeconomic strategy that aims to boost economic activity and address economic downturns. It involves deliberate actions taken by the government, such as increasing government spending on public projects, infrastructure development, education, healthcare, or defense, or implementing tax cuts to provide individuals and businesses with more disposable income.

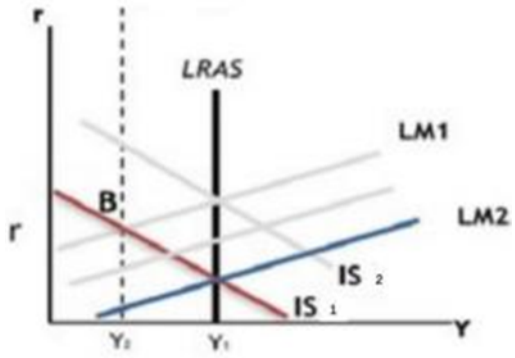


Figure 3. IS curve after an increase in government spending

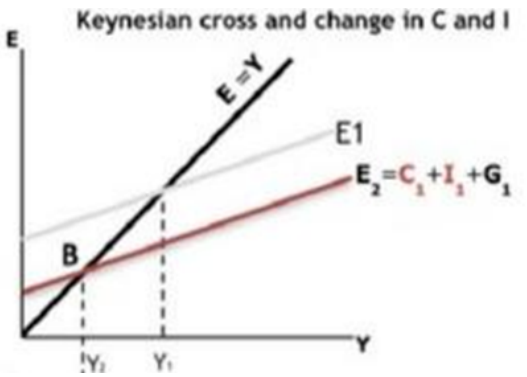
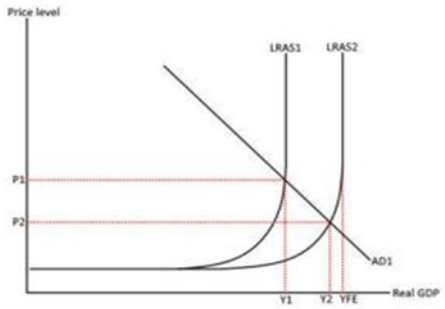


Figure 4. Keynesian cross curve after an increase in consumption and investment

As illustrated in **Figure 3**, by increasing government spending, expansionary fiscal policy injects additional funds into the economy, leading to an increase in planned production from E2 to E1, and an increase in actual output from Y_2 to Y_1. This increase in output stimulates production and encourages investment and expansion of businesses and an increase in employment. Consequently, the IS curve shifts rightward from IS_1 to IS_2 due to the changes in government spending divided by (1-MPC), and economic growth is stimulated, leading to higher levels of output and employment (**Figure 4**) [10]. Reducing taxes is another aspect of expansionary fiscal policy. By lowering tax rates, individuals and businesses have more money available for consumption and investment. This stimulates consumer spending and private-sector investment, which further drives economic growth and increases employment opportunities. However, the impact of tax reduction on the IS curve is smaller than that of government spending, as the multiplier, (-MPC times ΔT)/(1-MPC), is smaller. However, fiscal policy has its limitations and potential drawbacks. Some of the limitations include the time lags associated with enacting and implementing fiscal measures, the difficulty in accurately predicting the impact of policy changes on the economy, and the potential for unintended consequences. Additionally, high levels of government debt resulting from sustained deficit spending can lead to concerns about long-term sustainability and can limit future fiscal flexibility. The details and effects of fiscal policy can vary across countries and over time, and it is also affected by various economic factors and policy objectives.



polic supply-side policies to varying degrees over the years. Supply-side
a fav growth and job opportunities by increasing productivity and creating
potei sinesses and investors [11]. As shown in **Figure 5**, the productive
as the supply-side policy is implemented.

Figure 5. Supply-side policy using AD-AS model (original)

Over the past few decades, the US government has taken several supply-side policy measures. These include reducing corporate tax rates, deregulation, strengthening intellectual property protection, encouraging innovation, providing technical training, and enhancing trade liberalization. These policies are designed to stimulate business investment and innovation activities, thereby increasing production capacity and employment opportunities.

5. Challenges of policy inertia

5.1. Capital flight caused by expansionary monetary policy

When a country's currency depreciates, its exports become cheaper and its imports become more expensive, because when the domestic currency depletes, it takes more money to buy foreign products. If so, the demand becomes elastic, foreigners will rush to buy American products, while Americans will not buy foreign products. This dynamic is likely to stimulate the country's economic growth as export revenues rise and spending on imports decreases. In contrast, when a country's currency (domestically produced goods) appreciates, its exports become more expensive and imports become cheaper. If so, demand elasticity could slow down the country's economic growth as demand for exports decreases and demand for imports increases.

5.2. Income inequality

Policy inertia has a limited influence on income inequality [17]. Policymakers often belong to the end that holds a significant amount of wealth. As discussed above, this can be explained by the relationship between power and interests in the policy-making process. Certain policies may be swayed by specific interest groups equipped with the means to influence decisions, ensuring policies align with their interests. They might be reluctant to change the policy that has boosted their wealth for decades. Meanwhile, traditional policies might not be able to address income inequality since the causes of the inequality are complex.

Although wages for high-skilled and educated individuals have increased significantly, wages for low- and middle-income workers have not kept pace with inflation. This lack of wage growth contributes to income inequality as it disproportionately affects lower-income households [18]. Income inequality is further exacerbated by the concentration of wealth among a small group of the population. High-income individuals often obtain a significant portion of their income from capital gains and investments, which contribute to their wealth accumulation. This widening wealth gap leads to further income inequality, as wealthier individuals have more resources to generate additional income and access to investment opportunities.

Fourthly, the rising costs of higher education further exacerbate income inequality [19]. Disadvantaged individuals, who often come from lower-income backgrounds, face difficulties in accessing quality education due to factors like underfunded schools, lack of resources, and limited educational support systems. The rising costs of higher education can create financial burdens, leading to student loan debt and loss of job opportunities.

As mentioned earlier, existing policies and institutions are often supported by high-income groups who may be reluctant to embrace change as it could impact their power, status, or economic interests. This protection of interests and institutional inertia makes it difficult to implement new policies or initiate fundamental reforms. Meanwhile, income inequality is a complex issue with diverse perspectives and conflicting interests, making policy reform challenging.

5.3. Devastating effect on American cities

Policy inertia might prevent cities from adapting to new challenges and needs [14]. Cities require constant policy adjustments to accommodate population growth, technological innovation, climate change, and other evolving conditions. However, policy inertia can hamper these adjustments.

In fact, the problem of US urbanization has been discussed for decades, and the income inequality stemming from policy inertia could exacerbate this challenge. Moreover, the imbalance between housing and community relationships can lead to diverse effects.

It is crucial to strike a balance between housing and relationships in order to avoid potential failures and challenges within a neighborhood or city [20-24]. The Pittsburgh study showed that improving housing alone may lead to higher crime rates. On the other hand, fostering strong relationships within a community can create a sense of belonging. By addressing both aspects simultaneously, cities can work towards solving these problems and preventing the development of unsuccessful neighborhoods plagued by such issues. This involves preserving existing neighborhood structures, promoting small-scale businesses, enhancing opportunities for walking and biking, and encouraging resident participation in urban planning decisions.

Disclosure statement

The authors declare no conflict of interest.

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