A Comparative Study of the 2008 and 2020 US Recessions, Informing Today's Economic Policies

Akshay Iyer

Abstract

This research paper will first focus on the monetary and fiscal policies during the 2008 and 2020 recessions to understand consistencies between them and find lessons that can be learned. Using this analysis, the following question can be answered: How can lessons learned from the US response to the 2008 Global Financial Crisis and the 2020 COVID-19 pandemic inform policy decisions in the current inflationary period, with the goal of preventing a recession? Analyzing historical monetary and fiscal policies adopted during the 2008 and 2020 recessions, this paper seeks to unravel the patterns in government responses. By examining the economic landscape in July 2023, this paper will propose a comprehensive set of policy recommendations designed to mitigate the United States' chances of a looming recession. Although there is no "one size fits all" approach to combating recessions, we can learn much from prior recessions to avoid an impending recession today. Using the 2008 and 2020 policy decisions as frameworks for how different government policies impact the economy, I have curated a recommended policy package to avoid a recession in the US today. For monetary policy, the Federal Reserve must stop raising interest rates and hint at future decreases. For fiscal policy, the federal government must strengthen banking regulations and forgive student loans. Together, these policies will improve consumer and investor confidence and stabilize the financial sector. This policy package will prevent a recession this year and place the U.S. economy in a healthier position to withstand future economic shocks.

Introduction

It was September of 2008. Everyone knew the economy was in a bad spot when the housing market crashed in 2007, but when Lehman Brothers, the US's fourth largest investment bank, declared bankruptcy, the entire world crashed as well. 700,000 people would lose their jobs every month in the US between October 2008 and April 2009.[1] The stock market crashed. Everything shut down in what came to be known as the "Great Recession." The "Great Recession" is one of the recessions that the US has dealt with during its long history. During every recession, the US has responded with monetary and fiscal policies and sped up recovery.

This research paper will first focus on the monetary and fiscal policies during the 2008 and 2020 recessions to understand what is consistent between them and find lessons that can be learned. Using this analysis, the following question can be answered: How can lessons learned from the US response to the 2008 Global Financial Crisis and the 2020 COVID-19 pandemic inform policy decisions in the current inflationary period, with the goal of preventing a recession? Building upon a historical analysis of the monetary and fiscal policies adopted during the 2008 and 2020 recessions, this paper seeks to unravel the patterns in government responses. By examining the economic landscape in July 2023, this paper will propose a comprehensive set of policy recommendations designed to mitigate the United States' chances of a looming recession.

Methodology

Throughout American history, the government has been responsible for handling the nation's economic affairs. The United States has two ways of making economic policy decisions: fiscal policy and monetary policy. Fiscal policy involves any actions taken by the U.S. government, which includes tax policies, and changes in government spending. Monetary policy involves actions taken by the Federal Reserve ("FED"), the central bank of the United States. The Federal Reserve has two main goals: stabilizing prices and maximizing employment. Its main means of achieving these goals is by managing interest rates and the money supply. This responsibility becomes even more important during recessions. Recessions occur when there is a prolonged decrease in economic activity, also known as a business cycle contraction. To understand recessions and how to respond to them, researchers and policymakers must be experts within the field of macroeconomics. Macroeconomics provides a comprehensive framework to analyze the overall stability of the economy. Focusing on factors such as GDP growth, inflation, and unemployment, it allows policymakers to analyze their current economic situation and make responsive decisions.

In order to answer the research question, this research paper will first compare and contrast the US policy responses to the 2008 and 2020 recessions. After this, the paper will then detail the economic uncertainties of today's economy listing the reasons behind experts' beliefs in an imminent recession. Finally, this paper will recommend both monetary and fiscal policies that can be made to avoid a recession this year.

2008 recession

[1] Michael Greenstone and Adam Looney, "Unemployment and Earnings Losses: A Look at Long-Term Impacts of the Great Recession on American Workers," Brookings, July 29, 2016, https://www.brookings.edu/articles/unemployment-and-earnings-losses-a-look-at-long-term-impacts-of-the-great-recession-on-american-workers/.

The 2008 recession was one of the worst recessions in modern history, crashing the US housing market, dropping GDP, and causing record unemployment. The lead-up to the recession was characterized by a housing bubble and an overheated financial sector, fueled by reckless lending practices and the securitization of risky mortgage loans. When the housing market crashed in late 2007, the US economy crashed with it. Gross Domestic Product (GDP) dropped for 3 consecutive quarters as consumer spending decreased, businesses scaled back investments, and exports declined due to reduced global demand.[2] The contraction in economic activity led to rising unemployment rates, peaking at 10.0% in October 2009.[3] The 2008 recession had disastrous repercussions for GDP and unemployment. Inflation, however, was extremely low. In late 2008, there was even deflation recorded. The lack of consumer spending and decreased aggregate demand were the main contributors to this. Both monetary policy and fiscal policy were going to be required to bring the economy out of this recession.

For monetary policy, the Federal Reserve immediately got to work, cutting interest rates down to almost zero percent to stimulate borrowing and lending. Dropping their interest rate also made sure that the Federal Funds Rate, the interest rate that banks charge each other, also dropped to almost zero. Once interest rates were down this low, the Federal Reserve had to get creative in how it stimulated the economy. They resorted to quantitative easing, where they purchased government bonds or other financial assets, stimulating the economy by increasing the money supply. Starting in November 2008, the Federal Reserve began purchasing the debt from its member banks, a total of $600 billion. In March 2009, the Federal Reserve's portfolio of securities was at $1.75 trillion and growing. When these purchases were stopped in June 2010, the portfolio had reached $2.1 trillion.[4] This was crucial to increasing the money supply and supporting the struggling banks at the time. This led to the most important action taken by the FED during the recession: the use of quantitative easing. Quantitative easing is the best way to continue expansionary monetary policy during recessions when interest rates are at a near-zero level.

The Federal Reserve was the real hero during the 2008 recession. By dropping interest rates down to near zero, people could borrow money and pay it back easier. However, the recession had significantly reduced consumers' confidence in the economy, so people were not borrowing and banks were not lending. This meant that banks were struggling and the economy needed more money flowing through it. Quantitative easing helped solve this issue by expanding the money supply, which increased confidence, spending, and lending.

For fiscal policy, the government issued tax cuts, meant to increase consumer spending, and drastically ramped up spending. The Troubled Assets Relief Program (TARP) committed $475 billion in spending which helped stabilize the financial sector, promote economic growth, and prevent foreclosures for low-income families.[5] The American Reinvestment and Recovery Act (ARRA) allocated $831 billion in spending, helping create jobs and support small businesses.[6] The third main act of economic relief was the Home Affordable Modification

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[2] FRED, "Gross Domestic Product," August 30, 2023, https://fred.stlouisfed.org/series/A191RP1Q027SBEA.

[3] FRED, "Unemployment Rate," September 1, 2023, https://fred.stlouisfed.org/series/UNRATE.

[4] Kimberly Amadeo, "QE1 and How It Stopped the 2008 Recession," The Balance, March 29, 2022, https://www.thebalancemoney.com/what-is-qe1-3305530#:~:text=QE1%20is%20the%20 nickname%20 givenbills%2C%20bonds%2C%20and%20 notes.

[5] U.S. Department of the Treasury, "Troubled Assets Relief Program (TARP)," January 5, 2023, https://home.treasury.gov/data/troubled-assets-relief-program.

[6] Adam Hayes, "American Recovery and Reinvestment Act (ARRA): Objectives and FAQs," Investopedia, June 25, 2023, https://www.investopedia.com/terms/a/american-recovery-and-reinvestment-act.asp.

Program (HAMP), which helped homeowners at risk of foreclosure with lower mortgage payments. These three policies were critical in addressing certain people, industries, and sectors that were hit hard by the recession and offered relief to help them recover. Additionally, the government spent even more money on bank bailouts, increased unemployment insurance, Increased food stamps benefits, and public projects. However, additional spending was stopped due to public pressure. Many have considered this a massive mistake, claiming it slowed recovery, while some have said that this is what prevented inflation post-recession.

The US government is also responsible for drafting fiscal policy that enacts reforms and regulations, making sure that vulnerable sectors and industries do not fail again. Two main reforms enacted after the recession were the Dodd-Frank Act, which contained regulations for financial sectors that caused the recession.[7] The second reform was a policy of stress testing, which had banks test a hypothetical scenario. All big banks must pass these tests regularly. The reckless lending practices by banks were a leading cause of the recession, so the government needed to address this to prevent similar recessions in the future.

Letting the Federal Reserve handle most of the work to recover the economy was a smart decision by the US Government. Instead of focusing entirely on economic numbers, they could fixate on relief for the unemployed and failing banks. The increased unemployment benefits and food stamps benefits were critical to addressing those who lost their jobs or were homeless. Investing in public projects was also critical to decreasing unemployment and improving the nation's infrastructure. The bank bailouts started later than they should have but were important in keeping major banks like Wells Fargo, J.P. Morgan, and Bank of America alive. The reforms and regulations were the best actions taken by the government, making sure that banks were tested for any hypothetical scenario. These reforms ensured that there would be no economic collapse for over 10 years.

Both monetary policy and fiscal policy working together helped bring the US out of a recession. Together, the Federal Reserve and the U.S. Government supported the struggling banks, saving the financial industry. Once the recession had eased up, unemployment gradually decreased from nine percent to five percent by 2016.[8] The economy would steadily grow as well, with GDP rising at a consistent rate from the end of the 2008 crash to the COVID-19 pandemic.[9]

2020 Recession

Prior to the COVID-19 pandemic, the U.S. economy was enjoying the longest expansion on record, with consistent growth since the end of the 2008 recession. The job losses from the 2008 recession had been eliminated by 2014, and the economy continued to prosper throughout 2020. Unemployment rates were steadily declining, and inflation remained under 2.5% in 2019 before suddenly, a global pandemic struck.[10] The COVID-19 Pandemic stopped the record expansion in its tracks with worldwide lockdowns and panic. COVID spread fast, causing major stress to the healthcare system. Businesses were forced to close, millions of people lost their jobs, and the global supply chain was completely disrupted. The unemployment rate, which had

[7] Adam Hayes, "Dodd-Frank Act: What It Does, Major Components, and Criticisms," Investopedia, August 2, 2023, https://www.investopedia.com/terms/d/dodd-frank-financial-regulatory-reform-bill.asp.
[8] FRED, "Gross Domestic Product,"
[9] FRED, "Unemployment Rate,"
[10] YCharts, "US Inflation Rate (I:USIR)," August 31, 2023, https://ycharts.com/indicators/us_inflation_rate#:~:text=US%20 Inflation%20Rate%20 is%20 at,long%20term%20 average%20 of%203.28%25.

been at a historically low 3.5% in February 2020, skyrocketed to 14.7% in April of the same year.[11] 20 million jobs were lost almost immediately at the start of the lockdowns. Real GDP (GDP adjusted for inflation) was hit hard when the lockdowns started, dropping 31.2% in the second quarter of 2020.[12] The economy was devastated, and only a flawless execution of monetary and fiscal policies could restore it to its pre-recession state.

The Federal Reserve swiftly enacted monetary policy to counter the recession. They cut interest rates down to almost zero, bringing the Federal Funds Rate down along with it. Once interest rates were at almost zero, the Federal Reserve began using quantitative easing to continue stimulating the economy, purchasing over $700 billion in securities. Additionally, the Federal Reserve offered forward guidance on the future path of interest rates and established emergency lending facilities to stabilize a vulnerable financial sector.[13]

The largest impact in saving the economy during the COVID-19 Pandemic came from the Federal Reserve. Dropping interest rates and utilizing quantitative easing was successful in expanding the money supply. Offering forward guidance on their decisions regarding interest rates was crucial in ensuring that businesses and investors were prepared for these major changes. A major downside to forward guidance is that the Federal Reserve can be slow to react to surges in inflation. Emergency lending facilities were required to provide much-needed loans to struggling financial institutions, banks, and private corporations.

The government's fiscal policy decisions involved significant increases in spending. $5.2 trillion was spent over the course of the pandemic, over 25% of GDP.[14] A major expenditure was the stimulus checks to the unemployed and struggling families. Acts like the CARES Act of 2020, the Consolidated Appropriations Act of 2021, and the American Rescue Plan Act all had trillions of dollars worth of spending within them aimed at providing relief for the unemployed, poorer households, small businesses, corporations, and state/local governments. The other side of fiscal policy, tax policy, was also important for boosting consumer and investment spending. Tax cuts for corporations were passed, increasing investment spending. Poorer families did not have to pay federal income tax, increasing consumer spending. As the pandemic got less serious and vaccinations started coming out, businesses started reopening and the economy began to recover. Real GDP rose by 33.8% in the third quarter of 2020, and would gradually keep growing, continuing into 2023.[15] The unemployment rate dropped to under 5% in September 2021.[16] The $5.2 trillion in spending would stoke inflation soared post-recession. The inflation rate was above 5% starting from June 2021 to February 2023, peaking at over 9% in June 2022.[17]

Comparing 2008 and 2020 recessions

There are patterns that can be easily recognized from the responses to the 2008 and 2020 recessions. For monetary policy, the Federal Reserve dropped interest rates down to almost zero, lowered the Federal Funds Rate, and used quantitative easing. Together, these policies

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[11] FRED, "Unemployment Rate,"
[12] FRED, "Real Gross Domestic Product," August 30, 2023, https://fred.stlouisfed.org/series/GDPC1.
[13] Eric Milstein and David Wessel, "What Did the Fed Do in Response to the COVID-19 Crisis?," Brookings, March 9, 2022, https://www.brookings.edu/articles/fed-response-to-covid19/.
[14] Ron Surz, "Money Printing and Inflation: COVID, Cryptocurrencies and More," Nasdaq, November 16, 2021, https://www.nasdaq.com/articles/money-printing-and-inflation%3A-covid-cryptocurrencies-and-more.
[15] FRED, "Real Gross Domestic Product,"
[16] FRED, "Unemployment Rate,"
[17] YCharts, "US Inflation Rate (I:USIR),"

increased the money supply and promoted additional economic activity. While the amount of money spent on quantitative easing differed between recessions, the policy decisions remained the same. The Federal Reserve is non-partisan and only seeks to limit inflation and maximize employment, so they can have a repetitive strategy to achieve these goals during recessions.

For Fiscal Policy, on the other hand, the policies passed by Congress were tailored toward the impacts of each recession. In both 2008 and 2020, tax cuts and increased spending policies were implemented, but how the spending was allocated differed. In 2008, a major theme within most policies was housing, meant to address the impacts of the housing market crash. In 2020, a major theme within most policies was increasing consumer purchasing power, by providing stimulus checks and other forms of direct payment to households. The government was smart in 2008 to not have excessive government spending, which avoided post-recessionary inflation. This was not the case in 2020, where the $5.2 trillion in spending caused major inflation for the next 2 years. This is the main reason why the response to the 2008 recession is arguably more successful than the 2020 recession.

Today's economy (July 2023)

When inflation was at record highs in mid-2022, both monetary and fiscal policies were needed to stabilize the economy. On the monetary policy side, the Federal Reserve raised the Federal Funds Rate to 5%, an important step in contracting the economy.[18] On the fiscal policy side, the government passed the Inflation Reduction Act of 2022, which aimed to lower healthcare and energy costs, in addition to reducing the deficit. These measures are designed to alleviate economic pressures and boost consumers' purchasing power.

The current state of the economy is marked by optimistic numbers but also concerns by experts based on a variety of factors. The unemployment rate is at 3.6%, with 209,000 jobs being added in June 2023.[19] Inflation was at 2.97% in June 2023, over 1% less than it was in May 2023 (4.05%).[20] Knowing these numbers, the Federal Reserve still chose to raise interest rates by 0.25% on July 26 while also hinting at further increases in the future.[21] It is a questionable action by the Federal Reserve: raising interest rates while both unemployment and inflation are trending in the right directions. This could be a sign that the Federal Reserve knows something that nobody else knows about the future of the economy. Many experts worry that the disastrous effects of these rate hikes will be delayed, also known as a "lag", claiming that a recession is imminent in late 2023 or early 2024.[22]

Experts' predictions of an imminent recession stem from a variety of factors, ranging from financial insecurities stemming from rising interest rates to COVID-era policies coming to an end. To start, the rising interest rates display a lack of confidence in the short-term economy, which is very worrying to experts and investors. A key indicator of this low confidence is long-term Treasury bond yields being lower than those of short-term bonds. Typically, investors demand higher yields for locking their money in longer-term investments. However, the inversion

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[18] Paul Davidson, Charisse Jones, and Bailey Schulz, "Fed Raises Interest Rates 0.25 Point, Opens Door to Another Hike despite Easing Inflation," USA Today, July 27, 2023, https://www.usatoday.com/story/money/2023/07/26/fed-interest-rate-hike-live-updates/70463418007/.
[19] FRED, "Unemployment Rate,"
[20] YCharts, "US Inflation Rate (I:USIR),"
[21] Davidson, Jones, and Schulz, "Fed Raises Interest Rates."
[22] Paul Davidson, "Are We in a Recession? US Economy Has Been Remarkably Resilient so Far," USA Today, June 12, 2023, https://www.usatoday.com/story/money/2023/06/09/are-we-in-recession/70304424007/.

of this trend indicates that investors are increasingly moving towards long-term assets, potentially in anticipation of a recession.[23] The high interest rates could also be a problem for companies that took out loans during the pandemic at near-zero interest rates. When it comes time to refinance these loans, it will be at a much higher rate.[24]

The real estate landscape is also dealing with changes. Rising interest rates might affect home buying and mortgage affordability, which reminds some of the 2008 recession. Office spaces in commercial buildings are experiencing low occupancy due to remote work, raising questions about the fate of loans tied to these properties and the stability of regional banks that financed them.[25] Banks like the Silicon Valley Bank have collapsed in 2023, being the largest bank to fail since Lehman Brothers in 2008, worrying many about another banking crisis.

A major COVID-era policy that is ending is the pause on student loan payments. These payments will be due as soon as October 2023. Another major concern is the gradual depletion of the cash cushion that households amassed during the pandemic. While households managed to accumulate around $2.5 trillion in excess savings, this fund has dwindled to $1.5 trillion.[26] While many of these factors seem very indirectly connected to the economy, they all combine to create an environment of caution and uncertainty regarding the economy in the coming months.

Theory-based policy decisions to stabilize the economy

In the face of an impending recession, both monetary policy and fiscal policy should be utilized to stabilize the economy. Although most citizens blame the federal government for high prices, the government shouldn't submit to public pressure and spend recklessly. This was seen during the 2020 recession when the government excessively distributed stimulus check payments, a key reason for the record inflation afterward. The federal government doesn't have enough power to just lower all prices. Prices are driven by a variety of complex domestic and international factors, many of which the US government has no control over. Forcefully reducing prices can have extremely negative effects, including shortages and reduced quality of goods. A more reasonable and long-term approach is a balance of both monetary and fiscal policies that address the underlying causes of inflation and economic uncertainty in today's economy. This careful balance is critical to avoiding a recession this year.

For monetary policy, the Federal Reserve needs to take a step back and stop raising interest rates. The lack of confidence in the economy by experts and citizens is only growing as the Federal Reserve keeps raising interest rates. The FED needs to stop hinting at raising rates in the future as well. Instead, they should hint at lowering rates in the future, a potential transition to expansionary fiscal policy. Typically, the FED is the first to act when the economy is heading in the wrong direction. Today, however, inflation is at a relatively stable rate of 2.97%.[27] While this is not within their target rate of 2%, it is low enough that the economy can stabilize itself. The FED just raised interest rates recently so the effects are not known yet. The FED should not immediately start lowering interest rates either. Instead, they should wait for a period of eight months and then reassess the economy. Following the eight month period, if the inflation rate increases, then the FED can raise interest rates slightly. However, based on the

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[23] Davidson, "Are We in a Recession?"
[24] David Gura and Scott Horsley, "Could the U.S. Still See a Recession? We Got Big Clues This Week on Where It's Headed," NPR, July 27, 2023, https://www.npr.org/2023/07/24/1189268260/economy-recession-inflation-jobs-interest-rates.
[25] Ibid.
[26] Davidson, "Are We in a Recession?"
[27] YCharts, "US Inflation Rate (I:USIR),"

consistent decrease in the inflation rate, inflation should continue to decrease slightly. Eventually, the 2% target rate will be met. The FED needs to be measured in its approach to countering inflation in order to avoid causing another recession.

Both businesses and investors look to the Federal Reserve for an indication of what the future of the economy will be like. The impacts of the FED hinting at lowering rates instead of raising them would be far-reaching throughout the US financial system. To start, it would prevent panic-induced withdrawals from already fragile banks, as witnessed in the case of the Silicon Valley Bank's collapse in March 2023. Additionally, the stock market would see an increase in activity due to an increase in investor confidence. Rising stocks are a great indicator of economic success. Confidence in the economy can influence higher consumer spending and investment spending, raising GDP. Due to the potential drop in interest rates in the near future, there would be an increase in lending by banks. Since the suggested action is only a pause on raising rates and not a decrease in them, there wouldn't be as substantial of a change as there would be for more expansionary measures like significantly dropping rates.

There are risks associated with switching from contractionary to expansionary monetary policy. The economy, held back by contractionary policies, might grow too quickly, causing inflation to increase again. However, it is still better to act proactively rather than reactively when countering recessions. There is always a "lag" when influencing interest rates, so the effects on the financial sector as a whole won't be known until potentially a year later. Having an eight month waiting period for the FED to assess any late effects of their July rate hike is critical to negate any risks associated with changing their policy goals.

For fiscal policy, the government needs to protect smaller banks and their depositors to prevent another banking crisis. These fears stem from the failures of relatively large banks like the Silicon Valley Bank and Signature Bank. After the 2020 recession, many banks are still at risk due to consistent losses from rising interest rates, panic-induced withdrawals by savers, and losses from commercial real estate. Regulation is necessary to protect against more bank failures. The Dodd-Frank regulations that were rolled back during the Trump administration need to be reinstituted, with the regulation extending to even smaller banks. The government also needs to make sure that all banks that it deems "at risk" have FDIC insurance, especially the smaller ones, to protect depositors from sudden failures.

Opponents of bank regulation argue that excessive government oversight and restrictions stifle growth within the financial sector. They believe that regulatory measures overburden smaller banks with compliance costs and inefficiencies without actually reducing their risk. These costs can also prevent banks from lending and investing in the economy. Another major argument is that banks having to face the full consequences of their actions encourages better risk management. However, the 2008 recession was primarily caused due to reckless practices and extremely poor risk management from banks. Regulation is necessary to set standards for the financial industry, potentially preventing major bank failures. Not only does regulation protect individual depositors, but also the economy as a whole from financial instability. Without proper oversight, banks will take unnecessary risks to make short-term profits, not considering the impacts on long-term economic stability. Bank regulation plays a vital role in ensuring transparency, accountability, and responsibility within the financial industry.[28]

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[28] Hayes, "Dodd-Frank Act."

The government also needs to assist lower-income students with student loan payments. Many Democrats in Congress have proposed forgiving up to $50,000 in student loan debt for all borrowers, which is unnecessarily expensive, costing about $1 trillion.[29] Instead, the government should focus on college graduates who are unemployed or don't have high-paying jobs that can help pay off their debt. Without any forgiveness, they would be stuck with their debt for the majority of their lives.

Opponents of any student loan forgiveness argue that it is too expensive and unfair to those who already paid their debt. They have concerns about who will end up paying for this. In the end, those who didn't go to college and those who have already paid off their student debt will be paying taxes to forgive these loans. While the price tag is the most common argument against student loan forgiveness, some critics also worry that student loan forgiveness encourages lower-income students to take out higher student loans with the expectation of forgiveness in the future. While critics may call this a negative consequence, it is actually a positive one. Lower-income students would be more willing to attend and graduate from universities that can boost their future earnings since they know that their loans can be forgiven in the future. A more targeted approach to loan forgiveness can be more reasonable and less costly. By only focusing on college graduates who are unemployed or are in low-paying jobs that can't support their student debt, the government can spend less but make a larger impact. Additionally, those low-income students who graduate from a university will be more likely to get a better job after graduating college, allowing them to pay off their student debt. Student loan forgiveness acts as a safety net for those who would otherwise never be able to pay off their debt.

Less student debt is substantially better for the economy. Lower student debt allows graduates to begin contributing to the economy much sooner and at a much higher rate. These graduates would have more purchasing power, which would increase consumer spending. Lowering the burden of federal student loan debt also enables graduates to make higher-returning financial decisions, like investing in homes and starting businesses. Encouraging entrepreneurship is crucial to economic growth and innovation. Additionally, lowering debts assists young adults with financial stability, reducing defaults and late payments. This would have disastrous implications for the broader financial sector since there would be reduced lending due to the losses from student debts not being paid. Overall, forgiving student loans for those who cannot pay them back strengthens the economy, promotes entrepreneurship, and further secures the financial sector.

Due to the two-party system in the United States, compromise and cooperation are required to pass the policy recommendations mentioned above. Aspects of these policies that are negotiable include the strictness of banking regulations and the amount and qualifications for student loan forgiveness. However, recommendations like the reinstitution of the Dodd-Frank Act are necessary and non-negotiable. The ideals behind all of these fiscal policy recommendations are necessary for the economy to avoid a recession. The exact numbers are for Congress to debate.

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[29] Adam Looney, "Putting Student Loan Forgiveness in Perspective: How Costly Is It and Who Benefits?," Brookings, February 12, 2021, https://www.brookings.edu/articles/putting-student-loan-forgiveness-in-perspective-how-costly-is-it-and-who-benefits/

Conclusion

The FED was the hero of both the 2008 and 2020 recessions, acting swiftly to try and stabilize the economy. Today, however, their attempts at being proactive are only making businesses and consumers more worried. They are trying to reach their target of 2% inflation, but is this number even possible to maintain in today's global economy? With tensions rising across the world and climate change and disease affecting many natural resources, it has become more difficult to sustainably maintain a 2% inflation rate. While many can hope for reasonable, common-sense legislation from the US government, it has become increasingly difficult due to the growing political divide. Unless both parties can come to some sort of consensus on how to grow the economy, it will continue to be held back. While this paper recommends policy decisions for today's economic situation, it may not work for all recessions in the future.

Although there is not a "one size fits all" approach to combating recessions, there are lessons from previous recessions that can be used to avoid an impending recession today. Using the 2008 and 2020 policy decisions as frameworks for how different government policies impact the economy, I have curated a recommended policy package to avoid a recession in the US today. For monetary policy, the Federal Reserve must stop raising interest rates and hint at future decreases. For fiscal policy, the federal government must strengthen banking regulations and forgive student loans. Together, these policies will improve consumer and investor confidence and stabilize the financial sector. This policy package will prevent a recession this year and place the U.S. economy in a healthier position to withstand future economic shocks.