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Fiscal Policy and Inflation during the COVID-19 pandemic: its benefits and aftermath

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Abstract

The COVID-19 pandemic caused severe economic disruption in the United States, yet poverty declined during the initial crisis despite historically high unemployment. This paper examines how pandemic-era fiscal policy and subsequent inflation affected U.S. poverty between 2020 and 2023. It reviews evidence concerning the Coronavirus Aid, Relief, and Economic Security Act, the American Rescue Plan, expanded unemployment insurance, stimulus payments, refundable tax credits, and other safety-net programs. The analysis compares the Official Poverty Measure (OPM) with the Supplemental Poverty Measure (SPM), which more fully captures noncash benefits, tax credits, household expenses, and changes in the cost of living. Three distinct phases emerge. In 2020 and 2021, government transfers substantially reduced poverty, with the SPM reaching a record low of 7.8% in 2021 and child poverty falling to 5.2%. In 2022, the expiration of major relief programs contributed more to the increase in poverty than inflation, as the SPM rose to 12.4% and child poverty more than doubled. In 2023, the SPM increased further to 12.9%, largely because rising living costs raised the poverty threshold and reduced household purchasing power. The paper also evaluates competing explanations for pandemic-era inflation. Although some studies attribute part of the inflationary surge to fiscal stimulus and labor-market tightness, other evidence identifies energy prices, food costs, and supply disruptions as more important contributors. Overall, pandemic relief produced immediate and measurable reductions in poverty, but these gains proved temporary because the programs expired and were not sufficiently adjusted for inflation. Future crisis-response policies should combine timely fiscal assistance with longer-lasting, inflation-responsive support to preserve reductions in poverty.

Keywords: COVID-19, fiscal policy, inflation