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GENERAL DISCUSSION Robert Hall noted that the COVID-19 recession was different from recessions in the past. The rise in unemployment during the pandemic has been driven by those on temporary layoff, and the economy has since returned to a normal unemployment rate of about 5 percent.[1] While there has been a huge social loss from people being out of work, Hall argued that households did not suffer as much dislocation as they have during past recessions since job losses have not been permanent. According to data in the Current Population Survey, those laid off had a reasonable expectation of returning to their jobs.[2] Indeed, Hall observed that data showed workers did return, which coincided with the implementation of the debt forbearance policy.[3] As such, Hall recommended exercising caution in interpreting the unemployment rate.

Caroline Hoxby considered the effect of forbearance on student loans. In the COVID-19 situation, students who would have gone into default were, instead, automatically put into forbearance or another delayed repayment scheme, she observed.[4] Noting that students do not expect to repay their loans with a high probability in many countries—repayment rates in Brazil and Chile are less than 50 percent, for example—Hoxby wondered whether the intervention in the United States may have created an expectation that student loans will not have to be repaid. The issue is that student loans do

1. Erin Wolcott, Mitchell G. Ochse, Marianna Kudlyak, and Noah A. Kouchekinia, "Temporary Layoffs and Unemployment in the Pandemic," *FRBSF Economic Letter*, Federal Reserve Bank of San Francisco, November 16, 2020, https://www.frbsf.org/economic-research/publications/economic-letter/2020/november/temporary-layoffs-unemployment-pandemic/.

2. Bureau of Labor Statistics, "28.4 Percent of Unemployed Were on Temporary Layoff in December 2020," TED: The Economics Daily, January 13, 2021, https://www.bls.gov/opub/ted/2021/28-point-4-percent-of-unemployed-were-on-temporary-layoff-in-december-2020.htm.

3. Elizabeth Weber Handwerker, Paul B. Meyer, Joseph Piacentini, Michael Schultz, and Leo Sveikauskas, "Employment Recovery in the Wake of the COVID-19 Pandemic," *Monthly Labor Review*, December 2020, Bureau of Labor Statistics, https://www.bls.gov/opub/mlr/2020/article/employment-recovery.htm.

4. US Department of Education, "Department of Education Announces Expansion of COVID-19 Emergency Flexibilities to Additional Federal Student Loans in Default," March 30, 2021, https://www.ed.gov/news/press-releases/department-education-announces-expansion-covid-19-emergency-flexibilities-additional-federal-student-loans-default.

not have any collateral apart from human capital, which is extremely difficult to seize from its possessors.

Hoxby then noted that expectations during the Great Recession were very different from those in the pandemic; during the former many workers who were laid off did not expect to find reemployment at their old jobs.[5] During the pandemic workers underestimated how long they would suffer income losses and how much they would save from reduced consumption or benefit from federal grants, Hoxby suggested.

Addressing Hall and Hoxby, Gregor Matvos remarked that forbearance is not an ideal program in the event of a permanent shock. He wondered, however, whether the pandemic shock was temporary due to the quick government intervention. Debt forbearance during the pandemic may have ensured that the COVID-19 shock, unlike the Great Recession, did not spill into household debt, aggregate demand, or housing prices. According to the paper, the shock was temporary for most people, who saw the forbearance as a credit line. However, 20 percent of the population—those in areas worst hit by COVID-19, those with the worst credit scores, and so on—still hung onto the forbearance, as highlighted by the results in the paper. For such individuals the shock may have been more permanent, Matvos argued. While forbearance would not be effective against a permanent shock in the future, the policy could help prevent temporary setbacks from becoming permanent, he concluded.

Tomasz Piskorski added to Matvos's response, highlighting that a forbearance policy acts as a temporary loan and provides less incentive for individuals to exploit the system, especially when shocks are expected to be transitory. The results in the paper showing that less than 10 percent of eligible mortgage borrowers applied for assistance suggest that the self-selection of the program worked, Piskorski argued. Echoing Pascal Noel's and Susan Wachter's comments, Piskorski agreed that a similar policy may not be effective when the shock is more permanent, though quick implementation of debt forbearance by limiting household debt distress channel may prevent some adverse shocks from having more persistent effects on the economy.

Frederic Mishkin concurred with Piskorski that moral hazard is a significant issue with forbearance programs. The Great Recession and the COVID-19 pandemic were very different crises, Mishkin noted. He

5. Henry S. Farber, "Job Loss in the Great Recession: Historical Perspective from the Displaced Workers Survey, 1984–2010," working paper 17040 (Cambridge, Mass.: National Bureau of Economic Research, 2011), https://www.nber.org/papers/w17040.

observed that during the COVID-19 crisis, the issues people faced repaying their loans did not stem from overborrowing but were a result of the pandemic, which explained the nature of the policies implemented by the Federal Reserve and Congress.[6] Mishkin asked the authors to comment on the lessons learned from the pandemic since it involved very low moral hazard costs. He suggested that a future crisis resulting from overborrowing, for example, might have different policies that would be appropriate.

Donald Kohn reflected on the shadow banking system and nonbank services and their role in a future shock that may be of a less temporary nature than the COVID-19 crisis and would be unlikely to be accompanied by the type of fiscal policy that has provided extraordinary income support during the current recession. Kohn highlighted the need to make the shadow banking system and nonbank services more resilient against future shocks. He then asked the authors to reflect on the importance of differentiating between rent forbearance and mortgage forbearance, mainly due to differences in the nature of the people taking the loans.

Robert Tetlow commented that foreclosure decisions are influenced not just by the duration of the shock but also by its breadth. For instance, given that the COVID-19 shock affected everyone, mortgage lenders had to consider whether there were any alternative borrowers who would be in a better position to pay, leaving less scope to opportunistically capture some of the equity of homeowners. This was particularly relevant for rent forbearance decisions, he noted, because landlords had to consider whether new tenants would be in any better position to pay the rent than their existing tenants.

Steven Davis remarked that, while the temporary layoff share of the unemployed surged during the COVID-19 crisis, the labor force also shrank by roughly 8 million people.[7] The labor force was still below prepandemic levels in August 2021, Davis observed, which implied that many people had not returned to their prepandemic jobs.[8] At the same time, many

6. The Federal Reserve slashed interest rates and greatly expanded lending facilities, while Congress passed legislation to make large payments to households and businesses.

7. Wolcott and others, "Temporary Layoffs"; Nathan Jefferson, "Post-Pandemic Activity Rebounds, but Many Remain Outside the Labor Force," Economic Synopses, Federal Reserve Bank of St. Louis, July 14, 2021, https://research.stlouisfed.org/publications/economic-synopses/2021/07/14/post-pandemic-activity-rebounds-but-many-remain-outside-the-labor-force.

8. US Bureau of Labor Statistics, "Employment Situation News Release," September 3, 2021, https://www.bls.gov/news.release/archives/empsit_09032021.htm.

workers had moved out of the travel and hospitality sector and pursued other employment options, demonstrating that there was a surge in permanent job loss triggered by the pandemic, he concluded.[9]

Piskorski agreed with Mishkin that the nature of the shock is important, suggesting that concern about moral hazard may have been one of the reasons it took almost two years for Congress to implement debt relief during the Great Recession. COVID-19, in contrast, was a canonical example of an exogenous shock, Piskorski observed, which affected a large part of the population and made such concerns less warranted. He argued that there are still important lessons to be learned about the implementation, the speed, the simplicity, and the intermediary frictions related to the COVID-19 forbearance policy as they can inform policy responses to future crises.

Matvos reported that, according to the data collected in the paper, shadow bank services required high amounts of liquidity to pay for forbearance before government-sponsored enterprises stepped in, noting that Kohn's concerns were fair and interesting.

9. Kathryn Dill, "Four Million Hotel, Restaurant Workers Have Lost Jobs. Here's How They're Reinventing Themselves," *Wall Street Journal*, February 22, 2021, https://www.wsj.com/articles/hospitality-workers-are-pushed-into-new-careers-as-pandemic-begins-second-year-11613999342.