

Title: **Proactive policies are needed now**
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Proactive policies are needed now

Current estimates of the federal government's aid package to offset the effects of the coronavirus epidemic exceed \$1 trillion, significantly more than the \$787 billion response to the recession and financial crisis in 2009. Let's consider some key components to the package.

Much attention focuses on making direct payments to individuals. The payments, up to \$1,000 per adult, would put about \$250 million directly into the hands of the public. The actual size of the payment should be determined by one's income bracket, thus guaranteeing relatively more money into the pockets of lower-income households.

Nobel Prize economist Richard Thaler endorsed, unsuccessfully, a similar approach during the Great Recession. Here's why: Suppose instead the government cuts your annual payroll tax, an idea also floated by the administration. If the cut is for \$1,000, when spread across the year, it is hardly noticeable, less than \$40 per month.

Getting a check (or a loaded debit card) for \$1,000 right now has an immediate impact. Whether it is spent on food, shelter, gas or medicine, you — not the government — know best how to spend your money.

The direct payment thus permits individuals receiving the money to spend it to make them better off.

Some mock the idea. Conservative economist Art Laffer vehemently denounced the

plan in a recent interview on a Fox News channel.

First, he suggested that if \$1,000 was a good number,

why not \$1 million? That distraction is so foolish that it doesn't deserve a response.

Laffer also suggested that the plan would encourage idleness. Businesses are closing. Thousands of workers are

being laid off. This results not because of poor management. The coronavirus epidemic is equivalent to a hurricane or tornado that rips apart the business community: Would Laffer and his ilk deny help to those unemployed following a natural disaster?

The payment plan mitigates the economic hardship faced by those unexpectedly idled by the pandemic. For those still working, it limits the magnitude of the downturn in their spending.

The aid package also provides assistance to small businesses that often operate on a narrow margin between success and failure. The local hardware store, bars and restaurants — the latter both now affected by authorized closure rules — fit into this category.

Should we just let them — owners and employees alike — suffer catastrophic losses and permanent closure? The

proposed bailout mitigates the unforeseen losses.

It also improves the likelihood that small businesses will continue to fill our wants once this adversity has passed.

In addition to the government, the Federal Reserve is undertaking actions similar to those taken during the financial meltdown in 2008. It recently lowered the target range for its policy interest rate, from zero to one-quarter of a percent.

Some have suggested that lowering the target rate to boost demand is like pushing on a string.

Rather than trying to stimulate consumer buying, lowering its target rate and renewing its purchase of financial debt, a revival of its quantitative easing program, is aimed at curbing the effects of the epidemic on the financial system.

A collapse of the financial system on top of the economic effects of the epidemic would be catastrophic.

The Fed must also stand ready to provide resources to any financial institution facing difficulties because of this economic crisis. In speech after speech, Fed officials must affirm its role as lender of last resort.

The resilience of the American people and the U.S. economy combined with these temporary measures by the government will get us through the pandemic and its economic consequences.

Once this storm has passed,

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then we can return to our debates over the appropriate role of the government. Now is the time to focus the power of the government and the Federal Reserve on the task at

hand.

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