

The Top 5 Needed Macroeconomic Policy Reforms in the USA

- 1) Income tax. The income tax allows write-off on debt and taxes equity twice. This special-interest policy towards the financial sector creates too much debt in the economy, and with it, crises as the Fed manipulates the interest-rate. There should be a flat income (or consumption) tax (or more politically feasible a two-tier tax), without any write-offs for anything.
- 2) Lender-of-Last Resort (LLR) policy. Given a central bank, the rules for making liquidity available to avoid crisis need to be reined-in and clarified to prevent special-interest treatment to large well-connected institutions. Liquidity should be made available for short periods of time, for high (penalty) rates of interest and with good collateral. The Fed's discount window should be made available equally to all financial institutions, and only under these conditions, with no exceptions and this should be overtly announced as Fed policy.
- 3) "Too Big to Fail" policy. The whole idea of 2B2F should be abolished, as this opens the door to special-interest treatment to the politically well-connected and creates unnecessary policy risk. With a reformed LLR as noted above, there would be no need for a separate 2B2F.
- 4) Inflationary-bias in central bank policy. Again, given a central bank, the Fed should have a single mandate, price-stability. However, unlike the current price-stability mandate, prices should be able to drop as well as to increase within a given band (say 3% annual aggregate price movements in either an inflationary or deflationary direction). The current upward price-bias in policy means that savers are penalized to the advantage of borrowers. Savings provide the capital-base from which investment is made, and only with real investment are standards-of-living able to increase. In addition, inflationary-bias in policy hurts the less well-off in that they have less discretionary income to spend on increasingly more expensive goods.
- 5) Housing policy. The policy of the US government for the last 75 years has been to encourage people to buy homes they are not yet ready to afford. This has been done through the Community Reinvestment Act, Federal Housing Administration policy, and Fannie Mae and Freddie Mac 100% mortgage-backed bond guarantees. This misuse of society's resources discourages entrepreneurial activity and prevents people from moving to find employment. All of these bad policies should be eliminated as soon as possible.