New Public Policy Ideas for the 21st Century

Congress can enact legislation for:

A. Creating jobs,
B. Smooth and effective management of the Business Cycle,
C. Empowering people with capital for investment,
D. Alleviating poverty,
E. Stabilizing real estate prices.

1. Job Creation through Lowering Corporate Tax Rates

With globalization, countries need to calibrate their domestic policies for global competitiveness. One major factor is the corporate tax rate. At about 40%, U.S. has one of the highest rates in the world. This encourages domestic firms to move their operations to countries with lower rates, such as Ireland with a rate of only 12%. It also discourages foreign firms from investing in U.S.

Congress can stimulate job creation by closing the loopholes in the corporate tax code, and lowering the rate to the level that makes it revenue neutral. This measure would encourage more investment in U.S. by both domestic and foreign firms, creating new jobs.

2. A New Monetary Policy Instrument

Congress can provide the Federal Reserve with a new monetary policy instrument that allows for smooth and effective management of the Business Cycle without hurting those of lower income. Here is how it works:

1. Congress passes a Variable Rate Luxury Consumption Tax (VRLCT) of between 2% to 15%. The rate of the tax will be at the discretion of the Federal Reserve. The Fed uses this power to manage inflation and recession through adjusting both the level of consumption and the supply of money.
2. In times of recession, the Fed lowers the tax rate down to 2% to encourage consumption of very high-priced items such as very expensive cars, yachts, jewelry, and homes. This stimulates consumption without relying on low long-term interest rates.
3. The Fed collects the proceeds from this tax, and keeps these in a separate designated account. The Fed uses this account as a Store-and-Release mechanism to manage the Business Cycle.
4. As the economy picks momentum, the Fed slowly raises the tax rate to manage the rate of inflation within a band of 1.5% to 2.5%, and a target rate of 2%. The Fed can raise the VRLCT rate up to 15%, if needed to tame rising inflation. Consumers of luxury products will respond in one of two ways. Some will reduce their consumption, thereby helping to curb inflation. Others will consume regardless of the tax, allowing the Fed to remove up to 15% of the value in funds out of the economy. This reduces the volume of liquidity in circulation, thereby reducing further consumption, controlling the inflation.

5. As the economy begins to cool off again, the Fed has two options for slowing the rate of downturn and bring the economy into a soft landing. First, the Fed can lower the VRLCT rate slowly to encourage some consumption of high-priced items, and slowing the rate of removing liquidity from circulation. Second, the Fed can release the tax proceeds that it has been storing. The Fed releases these funds to the Executive Branch for distribution to the lowest income families. This provides a new Fiscal Policy instrument that works in synch with the Monetary Policy. This new Fiscal Policy instrument is outlined below.

3. A New Fiscal Policy Instrument

Congress can provide the Executive Branch also with a new Fiscal Policy instrument, through the Variable Rate Luxury Consumption Tax. Here is how it works:

1. In times of recession, the Fed releases the funds it has collected through the VRLCT to the Executive Branch for distribution to the lowest income people.
2. Based on the tax fillings of prior years, the Executive Branch identifies those of the lowest income. It then decides, based on the available funds, how many individuals from the lowest income levels should receive a distribution. The amount per person should be enough to allow them start a small business, about $2,000.
3. Checks are issued to those individuals, but only for deposit in their Registered Capital Account (RCA). Individuals open such accounts at their local bank.
4. Banks report transactions of the Registered Capital Accounts to the IRS. Funds used for investment will be tax exempt in that year. Funds used for consumption will count as income in that year. Tax-free investments will include: starting a new business, investing in an existing business, buying a home, home renovation, healthcare costs, and educational costs.
5. Banks offer investment advice to their clients as part of their services to attract people to open Registered Capital Accounts with them.
6. The prospect of receiving funds from the government will give everyone the incentive to file their tax return, regardless of their income level. Homeless shelters will assist their clients in filing their tax returns, using the shelter as their address.
7. The Executive Branch can thus stimulate the economy without borrowing money. Jobs are created partly through increased consumption and partly through the new business start-ups. With no government borrowing, interest rates are not increased. So we can have an expansionary Fiscal Policy without the usual associated problems of Crowding-Out Effect and the Net Export Effect.

4. Empowering People with Capital

With the decline in manufacturing, it is time to transition Americans into a nation of entrepreneurs.

Congress can empower all workers with capital. It can do this by modifying the 401K provision and turning it into the Registered Capital Accounts (RCA). Instead of having their tax-free savings managed by a money manager, people will have direct control on how to invest their funds. They open the RCA at their local banks. With advice from their bank, they decide how best to build equity: starting a new business, investing in their existing business, buying a home, renovating their home, and investing in their health and education.

In times of recession, the Executive Branch can lower the rate of tax-free savings. This stimulates more consumption, leading to economic growth.

In times of high inflation, the Executive Branch can increase the rate of tax-free savings, encouraging people to save more and consume less. This provides additional funds for investment by the private sector, allowing the Aggregate Supply to increase and reduce the inflation.

As people build equity for themselves, they can make their own retirement plans. Social Security can then become only a safety net. Payments from Social Security can be indexed to inflation and just enough to keep people above the Poverty Line in case their own investment plans fail.

5. Managing Real Estate Valuation

The Fed should value real estate assets held by banks at the lowest prices in the previous 10 years. Market supply for real estate takes a long time to adjust to shifts in demand. As a result, prices rise, attracting speculation, which leads to even higher prices. Since housing costs represent one of the highest costs incurred by households, high real estate prices hurt the lowest income people the most. Further, when the real estate bubble bursts, banks carry the burden.

Valuing the real estate assets held by banks at the lowest prices in the previous 10 years, puts a limit on how much of a mortgage banks are willing to finance. This leaves the private sector free to price real estate based on the supply and demand in the market. If buyers believe a real estate is worth more, then they will have to finance the additional costs from their own funds and not through a bank mortgage. The buyers then carry such speculative risks, and not transferring these to the banks.

This simple requirement will prevent wild gyrations in real estate prices, always allowing time for the market supply to catch up with changes in the demand. More, it saves the lower income people, who are mostly renters, from undue financial burden.

Based on Systems-Thinking principles as outlined in the books:

"POWER – The Modern Doctrine" and "Rational Decision-Making"
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