

Restore the Economy with Loans to All Taxpayers

The mess on Wall Street spilled over into the rest of the economy when it induced a crisis in confidence. People felt insecure and sought to increase their cash reserves. But this meant that they were not spending as much, and a recession is resulting. The cure is to put enough money into the economy that people will be willing to spend at the level needed to keep the economy fully employed. But that will cause inflation when the crisis in confidence has passed, unless the money is withdrawn at that time. It would not be wise to count on Congress to raise taxes by just the right amount and at just the right time to soak up the cash that would cause inflation. Therefore it is sensible to deal with temporary increases in the demand for cash by lending people money, which will be soaked up when the loans are repaid.

Recent legislation has given Secretary Paulson authority to invest or lend up to \$700 billion to deal with the crisis. Many interests are vying for the money, and anyone who does not get any can be expected to feel aggrieved. Instead of picking winners and losers, it would be fairer and quite efficient to divide the stimulus money equally among taxpayers.

For example, let each taxpayer borrow \$5,000 from the bank of his choice at an interest rate of 1%, to be repaid beginning a year from now at a rate of \$100 per month for four years and four months, with payments to be deducted automatically from an account at the bank. Pay the bank an origination and servicing fee of \$150, and have the Fed purchase the loan for \$5,000. The bank has as much money to lend as before, plus the origination and servicing fee, and the taxpayer has a cheap loan with which to deal with personal financial problems or overcome increased reluctance to spend. Have the U.S. Treasury guarantee the loans, so that if they became delinquent, collection will be the responsibility of the IRS. Every taxpayer will be eligible for a loan. Those who are behind with the IRS will be allowed to borrow if the money goes first toward their tax delinquencies.

There will be enough money in the economy to avoid a recession, and the money will come out of the economy with the loan repayments, so that inflation is avoided. All taxpayers are treated equally with respect to the needed stimulus. (Expert analysis could lead to revisions in the numbers.)

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