

America needs to retake Econ 101

BY AINE SEITZ MCCARTHY

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Exit polling suggests that the dominating issue for voters in the presidential election was the economy. Americans can barely afford groceries, rent and child care. Voters perceived President-elect Donald Trump and Republicans to be more capable of addressing the woes of inflation and globalization, but Democrats have been hawking a similar message.

Politicians of all stripes need to move away from selling voters the false promise that they have control over inflation and globalization. Washington does, however, have the power to make positive changes for working families. As one party is about to control Congress and the White House, this would be a great moment for lawmakers to brush up on how markets work and what the federal government can do to mitigate stagnant wages and market failures, support working families and subsidize the construction of new housing.

As voters, it is also our job to learn some basic economics, at least enough to understand supply and demand for housing; the effect of tariffs, taxes and subsidies as tools; and the causes of inflation.

Inflation is a rise in across-the-board prices that, in turn, reduces the value of the dollar. The primary policy levers on inflation are the money supply and interest rates. The Federal Reserve Bank, our independent central bank, manages these factors based on oodles of data on prices, employment, trade, capital inflows, credit and financial assets, all of which can lead to a rate cut like the one recently announced. No one at the Fed is aiming for 0% inflation; they would like to stay near 2% annually, and they know that deflation would be far more painful than inflation. This means prices are very unlikely to "go back" to what they used to be. Instead, we want the government to use the policy levers to support working families financially in their ability to afford current prices.

The real economic pain of inflation comes when wages and benefits don't respond to the changing value of the dollar the way that our groceries, rent and child care costs have.

There are economic policies to help with this. They are not tariffs, deregulation or deportations. Tariffs, which are taxes on imported goods, will increase prices on most goods and likely worsen inflation. Deregulation removes the guard rails around a functioning market and leaves room for monopolies to exert their market power at the expense of consumers (again, increasing prices). Mass deportations would leave enormous holes in the labor market, crushing business productivity.

The economic policies that help regular Americans afford daily expenses are not those that distort the private sector, but those that do the job of the public sector. It is the job of the executive and legislative branches to use taxes and subsidies to mitigate, incentivize, retrain and regulate. Some of these policies include:

- Expanding the earned income tax credit. It is the best anti-poverty program we have in the U.S., and it has bipartisan support.
- Expanding the child tax credit.
- Building a lot more housing units (3 million would be great).

- Subsidizing child care. With large positive externalities (parents can work and contribute to the economy; kids do better when they get to school), child care would most efficiently be supplied as a type of public good.

These concepts are key to evaluating candidates and choosing one who offers more than false hope, isolationism and scapegoats. American voters could benefit from learning a few of the principles of economics, perhaps next time before we go to the polls.

This country has the largest economy and some of the finest economic minds in the world. I hope policymakers will listen to them.

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