



## **A free-market approach to reviving the economy amid COVID-19 distress**

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According to economist Arthur Laffer, President Ronald Reagan had a great response when asked by staff what to do about one of the economic crises of the 1980s: “Don’t just stand there, go undo something!”

This rings true amid our current situation. Yet some elected officials are inclined to impose a new law or regulation to address an economic crisis. In some cases that reaction is warranted. However, harkening back to the words of Reagan, some of the most effective government responses to aid individuals in the economy can revolve around repealing or suspending burdensome taxes and regulations. While many of the innovative policy solutions are currently happening at the state and local level, federal policymakers have major opportunities as well.

For instance, the economy would greatly benefit from a suspension of the Jones Act. Passed in 1920, the Jones Act requires all ships transporting goods between United States ports be U.S. owned, U.S. crewed, U.S. registered and U.S. built. As researchers at the Cato Institute point out, this results in higher prices for American consumers, to the tune of \$1.8 billion each year. Fewer ships are available to transport needed goods in the supply chain, which is especially worrisome during a pandemic.

In the wake of Hurricanes Harvey, Irma and Maria in 2017, President Trump temporarily waived the Jones Act. As many tankers as possible were utilized to quickly resolve supply shortages in Texas, Florida and Puerto Rico. A suspension of the Jones Act is sound public policy that would benefit all Americans. But it would be especially helpful for Alaska, which is getting crushed by the collapse of both oil prices and cruise line activity. Hawaii would also substantially benefit, since it’s suffering from a significant loss of tourism.

Another burdensome government requirement that President Trump could immediately address is the 1931 Davis-Bacon Act. This nearly 90-year old law significantly increases costs on taxpayer-funded infrastructure projects by imposing often ill-defined prevailing wage requirements and compliance burdens on construction businesses. As a result of this federal compliance burden, small contractors have difficulty submitting competitive bids on projects, which ultimately raises project costs.

At the state level, researchers at the Empire Center found that New York's prevailing wage requirements inflate construction costs by up to 25 percent. Suspending Davis-Bacon would enable state and local governments to save billions of dollars on construction costs. States could return the savings to taxpayers in the form of tax relief, increase the solvency of their underfunded pension systems for teachers, or use the savings to complete additional needed infrastructure construction.

The Heritage Foundation estimates "undoing" Davis-Bacon restrictions would allow for more infrastructure and yield 155,000 additional construction-related jobs. Perhaps it should come as no surprise that presidents of both parties have suspended Davis-Bacon for economic reasons.

When it comes to tax policy, we are seeing some encouraging solutions. Extending the federal tax filing deadline to July 15 and allowing for flexibility in claiming net operating losses (NOLs) will give businesses some much-needed breathing room. Most states with income taxes are also wisely delaying their tax deadlines, but a further delay in payments is worthy of consideration. This would help businesses delay their estimated liabilities for another quarter beyond mid-July. States could allow more flexibility around claiming NOLs as well.

Next, a truce on international trade barriers would expand trade, enhancing the flow of needed goods for health care workers and the American public during the pandemic. International trade supports millions of American jobs. In fact, most U.S. exporters are small and medium-sized businesses. Suspending tariffs and other trade barriers would increase international trade activity, giving Americans access to needed supplies while protecting their paychecks.

Once the COVID-19 crisis subsides, the federal government should wholeheartedly work toward a reduction in both federal spending and the national debt. There are many pro-taxpayer fiscal rules to choose from, including the Taxpayer Bill of Rights (TABOR) in Colorado, or a meaningful balanced budget amendment, like the one Indiana voters overwhelmingly inserted into their state constitution in 2018. President Trump's proposed budget already outlined the importance of fiscal rules this year. Individuals and businesses should not be squeezed for higher taxes to support federal spending habits as the national debt hurtles past \$23 trillion.

In the midst of so much uncertainty, leaders should navigate the current crisis with a free-market approach to economic policy. Often, the most helpful actions come in the form of "undoing" damaging taxes and regulations. The U.S. economy thrived over the past several years, and policymakers now have a duty to get the American economy moving again. Free market policies like these are tools to help.