
Pink shades for everyone!

By Niraj Dawar

Economic slowdowns, recessions, and even depressions are made worse than they should be because of psychological effects. In the expectation of an economic downturn businesses hold off on investments, consumers delay big ticket spending, and save rather than spend. The more talk there is of recession, the more a recession is likely. Recession becomes a self-fulfilling prophecy.

The Keynesian solution to a recession is for the government to provide stimulus during a downturn, to step in and fill the gap in spending. It's one way to keep the economic machine from stalling. The theory is that the stimulus provides an injection of money into the economy that consumers and businesses then spend on goods and services, creating several times the demand that the government's initial stimulus could have created on its own.

But the assumption here is that banks, businesses, and consumers will turn around and lend or spend rather than hoard the money they earn from government stimulus-sponsored activities.

But what if they don't? What if they are so spooked about economic prospects that they just won't part with their hard-earned dollars? They are far more concerned about repairing their balance sheets, paying off their debts, and building a reserve for the lean times ahead.

Still, the lean times ahead are purely an expectation – a psychological state where we foresee gloom and doom. What if these expectations, like others, are malleable?

Consider a thought experiment – what if overnight all seven billion people on the planet were exposed to “optimism rays” from a passing asteroid so that they wake up with expectations of a much rosier future? What if this led them to lend and spend like there was no tomorrow — or at least, a much rosier tomorrow? Would this not turbocharge the government's stimulus

spending? Would it not lend a multiplier hand to Keynes?

If so, then why is government stimulus spending generally limited to infrastructure and finance? Where is the marketing stimulus that can shape economic participants' expectations? Where are the slick advertisements and documentaries showcasing the economy's bright future? Why are we not bombarded with information about the investments that companies and the government are making in the long term infrastructure and technologies that will make our lives easier and better? Why is there no stimulus stimulating the public mood? Shouldn't we spend, say at least a billion dollars on marketing for every one hundred billion of financial stimulus? Where is the much needed marketing stimulus?

Of course, some of us might be queasy about government propaganda, and its manipulation of citizens' psychology. But why should we deny our elected representatives in government the marketing tools we allow unelected corporations to use every day?

Given a choice between another few years of a painfully slow economy with its sky-high unemployment and sky-rocketing food-bank usage, versus a mass handout of pink shades as part of the stimulus package, which would you pick?

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