Get America Working!
A Member of Ashoka's Social Entrepreneur Associates

How to Give Millions of Americans the Choice to Work & Increase Growth While Reducing Social Costs, Dependency, and Taxes

Payroll taxes sharply reduce employment. High payroll taxes discourage employers from hiring and workers from working. Even in countries with relatively low payroll tax rates, the impact is significant. In the United States, payroll taxes have steadily increased the price of labor relative to its chief substitute, most notably energy and natural resources. Seventy-five years ago, payroll taxes accounted for 1 percent of Federal revenues. Recently they have accounted for 34 to 40 percent.

Reversing this accidental giant price signal could create, in the long-term, millions of new jobs. Eliminating payroll taxes and substituting natural resource or pollution taxes would change the price of labor relative to natural resource inputs by roughly 30 percent. Daniel Hamermesh, a leading labor economist who teaches at the University of Texas at Austin, estimates that reducing payroll tax rates by just ten percentage points could boost employment by ten percent in the long term and even more if offsetting taxes were imposed on things (materials, energy, land).

Such tax shifting is acceptable across the ideological and institutional spectra, because it is unwinding a mistaken price signal -- not creating a bureaucracy, picking winners, or otherwise distorting the economy. This policy is, in fact, powerfully unifying, not divisive. To avoid revenue loss that supports Social Security and Medicare, there must be offsetting taxes. There are dozens of alternatives that, at moderate rates, together could offset today's payroll tax revenue -- giving the policy process wide choice in pursuit of pain minimization. Some of the options include a non-labor value added tax, an energy inefficiency tax (on the 25 percent least efficient cars, appliances, and commercial buildings), and emissions rights auctions.

Former Vice President Al Gore proposed replacing the payroll tax with a carbon tax and other pollution taxes stating, "We should tax what we burn, not what we earn." Former Senator Bill Bradley has issued a similar appeal. T. Boone Pickens, the Texas oil billionaire, has proposed raising gas taxes by up to $2 a gallon with the revenues used to reduce payroll taxes. Irwin Stelzer, an economist for the Hudson Institute and columnist for the Weekly Standard, put it this way:

"A truly radical reformer would consider alternatives to the job-destroying payroll tax system. After all, why tax a good thing, like jobs, rather than the many bad things that currently go untaxed? Two leap to mind: pollution and imported oil. Surely a reduction in the payroll tax, funded by a tax on either of those two items, would do much to stimulate economic growth…"

The United States faces greater unemployment than the official Bureau of Labor Statistics numbers indicate. In addition to the approximately 8 million Americans who are officially recognized as unemployed, millions more adult, healthy Americans who are not working. They include many older people, handicapped, minorities, women, young people, immigrants, and those affected by structural change. Giving all Americans the choice to work is the country's greatest opportunity, significantly and structurally, to enhance growth. There is no other economic input that is similarly underutilized.

Boosting employment levels would:

Increase economic production;

Reduce the high costs of dependency and social ills (such as de-motivated students and crime) to families, business and government;

Allow tax and/or deficit cuts as the tax base expands and expenditure needs decline; and

Greatly enhance the life freedom and happiness of those given this choice.

A growing number of leading economists, both liberal and conservative, (N. Gregory Mankiw, Joseph Stiglitz, Gilbert Metcalf, William Gale, Robert Frank, Robert Shapiro, etc.) have endorsed the idea of using an energy or carbon tax to cut payroll taxes. So have leading newspaper commentators from all across the political spectrum from Charles Krauthammer to Thomas Friedman and David Leonhardt.In 2005 Rep. Bill Thomas (R-CA), then Chairman of the House Ways and Means Committee, suggested that it might be time to find alternatives to the payroll tax as a means of financing Social Security and Medicare. The Obama Administration's payroll tax holiday -- implemented as a stimulus measure -- became contentious because of concerns of how to offset the revenues. GAW has outlined 25 options to replace the revenues. (See Publications.)

Congressional leaders, like John Larson (D-CT) and former Representatives Bob Inglis (R-SC) have supported a carbon tax that would be partially or entirely offset a payroll tax cut. President Obama in his first budget supported a cap-and-trade approach to reducing greenhouse gases with an auction of pollution allowances. Revenue from the auctions would help fund his "Make Work Pay" reduction in payroll taxes -- initially at $400 per worker/$800 per working family. Mr. Obama introduced "Make Work Pay" as part of his stimulus package as it puts more money in the wallets of American workers. (The Obama plan did not cut the portion of payroll taxes paid by employers, reducing its impact on new job creation.) When the cap-and-trade legislation failed, President Obama provided a payroll tax "holiday" on the worker's portion of payroll taxes. The nonpartisan Congressional Budget Office scored the payroll tax holiday as the most effective employment stimulus measure -- greater than infrastructure spending.

Other nations are reducing payroll taxes as a tool to encourage employment. Since 2000 more than a dozen European nations have reduced their Social Security payroll tax rates. In 2004, Russia slashed its payroll tax rate from 35.6% to 25%. In 2007 and 2008, governments in Germany, Italy, and Sweden moved to cut payroll taxes, and Slovenia voted to abolish its payroll tax. In France, President Sarkozy won election in 2007 on a pledge to eliminate payroll taxes on overtime work and after his election proposed additional payroll tax cuts for industrial firms -- all to boost job creation. Germany, which implemented an "Eco Tax" shift taxing energy and offsetting payroll taxes has one of Europe's lowest uneumployment rates (5.4 percent in April 2013).

A 2007 study by Get America Working of 22 OECD economies (just before the economic downturn) revealed that the level of employment is substantially lower on average in nations with high payroll tax rates (above 40%) than in nations with comparative lower payroll tax rates (below 30%) The average employment rate (employment to population ratios for adults) for the 11 OECD nations with high payroll tax rates was dramatically lower (61.1 percent) than the average employment rate (72.5 percent) for the 11 OECD nations with lower payroll tax rates.

The World Bank recently recommended that all Central European nations boost employment by cutting payroll taxes. Now, it's time to Get America Working!