Congress is sitting on an easy solution to speed job growth without causing inflation

By Joseph S. Fichera

Speaker of the House Nancy Pelosi and Senate Minority Leader Chuck Schumer speak after a press conference on Capitol Hill on December 20, 2020 in Washington, DC. Tasos Katopodis/Getty Images

- **Congress should suspend employer payroll taxes for businesses that expand their current payrolls with new hires from the long-term unemployed.**
- **This kind of targeted tax cut was already done before in 2010, proved to be bipartisan, and doesn't cause inflation.**
- **A CBO study ranks this tool in the top tier for being cost effective in reducing unemployment.**
- **Joseph S. Fichera has served since 2000 as chief executive officer of Saber Partners, LLC, a boutique financial consulting firm for regulators and corporations.**

June's jobs report shows the economy is recovering, but the nation is still down 7.5 million jobs from over a year ago when the unemployment rate was less than 4%. Today, we are not near that number, and more than 42% of those unemployed have been that way for more than six months. A year ago, that number was 7.1%. Small- and-medium-sized employers are moving cautiously, unable to raise wages without higher consumer prices, which could trigger inflation as well as hurt their business. And the unemployed have costs like childcare, if they ever even get a job offer.

Congress can help create jobs faster across all industries without fueling inflation in a way that is cost-effective and should be bipartisan: Simply suspend the federal employer payroll tax – currently at 7.5% – only for employers who increase their payrolls by hiring people who have been out of work for six months or more.

Suspending the federal payroll tax for hiring the long-term unemployed would be a boon for reducing unemployment

This simple move, which was done before in 2010, would give employers a clear, certain, and targeted financial incentive to focus on hiring the long-term unemployed. According to the Congressional Budget Office (CBO), a payroll tax suspension targeted and tied to expanded payrolls is one of the most cost-effective ways to increase employment. Something similar — a payroll tax-credit for keeping current employees — was included in the most recent stimulus bill, but nothing was done for creating jobs or hiring the long-term unemployed.

The payroll tax suspension would be for a limited time. Tying it to employers who hire the long-term unemployed helps by making it easier for these employers to grow by increasing their payrolls without increasing prices. It could even lower some prices because labor costs would be less. Or, employers could use their tax savings to raise wages as they get back in the hiring game with an extra 7.5% in their pocket. It's not a guarantee that wages will rise, but it does make it more likely. With a minimum wage increase off the table for the time being, Congress needs more tools to address the employment situation.

Washington's plate is full of "big and bold" initiatives that are important for the long term. Most rely on direct government spending and are potentially controversial. A targeted tax cut is a form of government spending but it can be accomplished faster and with less bureaucracy, leading to tangible results well before the midterm elections.

We can be confident of getting results because the Obama-Biden administration and a bipartisan group of lawmakers did this before. In 2010, Congress passed the Hiring Incentives to Restore Employment (HIRE) Act which suspended most of the employer payroll tax for one year in the wake of the financial crisis. The bill got 70 Senate votes — 11 from Republicans. While negotiations continue on the Biden administration's American Jobs Plan, Senators Chuck Schumer and Mitch McConnell and Representatives Nancy Pelosi and Kevin McCarthy could "rehire" the HIRE Act; the bill just needs a few updates. Employers understand it and the cash benefits for employers can begin quickly.

Tried and tested

This approach is not a shot in the dark. A January 2010 CBO study concluded that suspending payroll taxes targeted to employers who expand their payrolls was the second-most cost-effective way to stimulate job growth — following direct payments to the unemployed. It gets a "bigger bang for the taxpayer buck" than other Washington efforts to increase employment.

Why not repeat in 2021 what was successful in 2010? It could be the elusive "common ground" both sides say they seek.

In 2010, the employer payroll tax suspension was for one year even though CBO estimated a much bigger effect on creating jobs over five years. Today, we should re-employ the HIRE Act with a guarantee through at least 2023.

The counter argument is that rapid post-pandemic job growth will put the long-term unemployed back on the payroll without needing more financial incentives. Then the Biden jobs and infrastructure plans will kick in, and we are home free. But Biden's plans are moving slowly and the percent of long-term unemployed has not decreased much despite historically strong job numbers. The current jobs hole is very deep.

Some employers have raised wages to get new employees, others are worried that current rates of economic growth have inflation just around the corner, despite the Fed's considerable efforts to prevent that.

Using the tax code now, across all industries, for payroll expansion focused on reducing the long-term unemployed helps ensure this growth happens without overheating. A payroll tax suspension reduces a core cost for a limited time. It encourages the business to expand, grow, and be more productive. Moreover, the approach is transparent and easily audited to prevent waste and fraud that often follows government direct-spending programs.

To be sure, some employers could pocket the savings from a payroll tax suspension as profit, and firms already expanding payrolls would get a windfall. A payroll tax suspension also leaves out tax-exempt organizations, and state and local governments, which do not pay federal payroll taxes. Sadly, few economic tools get perfect efficiency scores. Though legitimate concerns, these are minor problems given the serious lag we have seen in reducing long-term unemployment. Besides, the priority is growth in the private sector, not the government.

An employer payroll tax suspension has been tested. It is targeted at hiring the long-term unemployed, and it's a quick, bipartisan tool. Congress and the president should remember their bipartisan history and update the HIRE Act now.