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An advertisement banner for Intuit Online Payroll. The banner has a blue background with the Intuit logo on the left. The main text reads "Intuit Online Payroll" in large white letters. Below this, there are three checkmarks followed by the text "Create paychecks", "Pay taxes", and "File tax forms". On the right side of the banner, there is a yellow button that says "Try It Free" and below it, "30 Day Free Trial".

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Robert J. Shapiro

Former Under Secretary of Commerce for Economic Affairs

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Midterm Advice for Congress: Tax Carbon Instead of Jobs

It is now abundantly clear that the unemployment rate will largely determine the fate of the Democrats and their policies this fall and beyond. Public concerns over jobs and the economy overshadow everything else, to the point that just two years after the historic 2008 election, much of the administration's agenda could be in jeopardy.

The exceptions are health care and financial reform, and even those achievements could be compromised if Republican wins are big enough this November.

Democrats headed home for the mid-term elections need a new plan that will give voters powerful reasons to get to the polls and vote for them. We have one. Call it Plan B. It creates jobs, stimulates the economy, and addresses energy and climate concerns at the same time. Here's how it goes.

First, in order to stimulate job creation under our current conditions, Congress and the President need to make it cheaper for American companies to hire new people. The most direct and effective way to do that is to sharply cut the employer's share of payroll taxes for new, net hires. That would cover all new employees in firms that expand their total workforce and their total payrolls. In the second year, the tax break would cover a smaller share of the employer's payroll tax contribution. If the economy recovers nicely and job creation returns to healthy levels, the break can be phased out. Workers who have worked hard for those two years will know how to do their jobs well, which will be enough for their companies to keep them on without the payroll tax break.

The experts at the Congressional Budget Office report that this approach creates more jobs, per federal dollar spent, than any other. In fact, the jobs bill passed two weeks ago includes a light version of this approach, in a seven-month payroll tax holiday for hiring people who have been out

of work for a long time. It's a good start. But we need a broader and more long-term program, not a small temporary fix that doesn't ask people to remain jobless for months and months before they qualify.

Second, we need to stimulate demand so that companies feel secure enough to take on new workers. We can do that by cutting the employee's share of payroll taxes permanently, so that everyone has more money to spend for the foreseeable future.

The large and obvious problem with this plan is the impact of lower payroll taxes on the Social Security and Medicare Trust Funds, which can't spare a dime. So, the third part of the plan would keep those funds whole by putting a new fee on carbon big enough to make up the revenues lost by the payroll-tax cuts. In order to get the necessary economic stimulus from the payroll tax cuts, the economy-wide carbon fee should kick in one year after the payroll tax cuts.

The carbon fee would be a powerful nudge for everyone to consume less energy, and a compelling incentive for companies to invest in developing more energy-efficient and climate friendly fuels and technologies. But our political leaders should not pretend that finally putting a price on carbon will not affect gas and electricity prices. In fact, Congress and the President should advertise that price increases are coming. Why? So that taxpayers have a good reason to make the changes in their offices and homes that will protect them from the higher gas and electricity prices.

If Americans know that higher prices are coming, they can use the extra money in their pockets to make their homes and offices more energy efficient -- which also can help put thousands of people to work -- and buy cars and trucks that use less gas.

In the current economic climate, the urgency of global warming has receded sharply - but the threat only grows more serious with every passing year. To deal with climate change, we have to move our entire economy to low-carbon sources of energy. Tying a carbon fee to lower payroll taxes for workers on a permanent basis can not only take the sting out of what has to be done for the climate, it also can help create thousands of jobs and stimulate more innovation. The current favored approach for climate, cap-and-trade, is dying in the Senate, because its proponents can never guarantee that it won't turn into one more playground for Wall Street traders.

It's time for Plan B. As Al Gore pointed out decades ago when he first called for action against green house gases, let's stop taxing jobs and start taxing carbon.

Dr. Robert J. Shapiro, Chair of the U.S. Climate Task Force (CTF) and head of the economic advisory firm Sonecon, LLC, served as Under Secretary of Commerce in the Clinton administration. Dr. Elaine C. Kamarck, former senior policy advisor to Vice President Al Gore, serves as CTF Co-Chair and lectures at the Kennedy School of Government at Harvard University.