

# Prominent Senators Offer Proposal to Cut Payroll Tax, Create Jobs

Submitted by [Jake Berliner](#) on 1/26/10



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Today in *The New York Times*, Senators Chuck Schumer and Orrin Hatch embrace a [payroll tax exemption](#) designed to promote employment, an idea similar to one NDN's Dr. Rob Shapiro has been discussing:

Starting immediately after enactment, any private-sector employer that hires a worker who had been unemployed for at least 60 days will not have to pay its 6.2 percent Social Security payroll tax on that employee for the duration of 2010. The Social Security trust fund will then be made whole with spending cuts elsewhere in the budget between now and 2015. That's it. Simple to understand, and easy to explain.

The beauty of this proposal goes beyond its simplicity. Unlike a jobs tax credit of a specific dollar amount, this credit is “front-loaded” in that it provides an incentive for businesses to hire workers earlier in the year — because the tax benefit will be greater. A \$60,000 worker hired on Feb. 1 will save a business about \$3,400 in taxes, while that same worker hired on May 1 will save it about \$2,500.

Here's the idea Shapiro described in October in a piece called [What Washington Should Understand and Do to Create Jobs](#) (the piece was also posted on the websites of [The New Republic](#) and [NPR](#)):

Businesses would receive a tax credit for the first year of payroll taxes on new employees or those moving from part-time to full-time, and a credit for half as much in the second year. It's not very well targeted, since you end up subsidizing jobs that would have been created without any tax break. (Keep in mind, falling employment is a net result, with some businesses adding jobs and others cutting them.) But it is well focused on jobs, so long as we also include some conditions on those who claim it. For example, a new business should have to be in place for at least six months before qualifying, to head off scams where people close down existing firms, reopen them, and then use all their existing employees to claim a big tax benefit. And a firm's total wage costs should have to rise, so employers don't just fire and rehire workers in order to qualify.

Shapiro discussed this idea at the White House Forum on Jobs and Economic Growth ([video here](#)) and also promoted the idea in the following blogs:

- November 2, 2009, [The Storms on the Economy's Horizon](#) – *"An even better idea would be to jumpstart new job creation by exempting the first few thousand dollars of wages from payroll taxes."*
- December 2, 2009, [How to Create Jobs in a Troubled Economy](#) – *"Exempt from payroll taxes the first \$3,000 to \$5,000 of wages paid in each of the first two years to new hires by firms that expand their work forces."*
- January 20, 2010, [The Path to More Jobs and Growth](#) – *"It's virtually the only proposal that's actually targeted directly at job creation, and it's effective because it directly reduces a company's cost to create new jobs. Its' projected power to boost GDP follows directly from its success in creating jobs, since the new workers would spend virtually everything they earn, boosting output in the goods and services they choose and the jobs required to provide those goods and services."*

While there is certainly no silver bullet for job creation, exempting a portion of the payroll tax, a direct tax on employment, is an appropriate and serious step that should spur job creation. In the 2002-2007 expansion, private employment grew at less than half the rate, relative to overall growth, as it did during the expansions of the 1990s and 1980s. The proposed change in the payroll tax will help alleviate this development. Senators Schumer and Hatch are to be congratulated for their proposal, and the Congress should pass this legislation with alacrity.