WAGE SUBSIDIES:

A Multi-Trillion Dollar Market Distortion That America Cannot Afford

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FreedomWorks Foundation

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Executive Summary

As America enters the recovery stage from the COVID-19 economic lockdowns, one proposal that is picking up steam in both parties is a government wage subsidy to private businesses so that taxpayers pick up some or all of the tab for private sector payroll costs. Democrats have proposed a plan where the government would subsidize up to 100 percent of wages for rehiring workers up to the median salary in the United States (about $45,000 to $50,000 a year).[1] Sen. Josh Hawley (R-Mo.) has a plan that would offer up to 80 percent of wage subsidies up to the median salary.

This plan is well-intentioned in that it seeks to spur rehiring during the recovery at a time when some 30 million Americans are unemployed. But it is severely flawed and would cause very negative effects on the economy. First, we estimate that the cost to taxpayers of such a plan could be between $1 trillion and $2 trillion at a time when the federal government has already spent more than $3 trillion in jobless benefits and business subsidies to keep workers on the payroll.

Second, an 80 percent taxpayer subsidy for payrolls would distort hiring patterns by detaching worker pay from worker productivity. This would undermine the very nature of a productive economy and encourage employers to hire workers for "make work" projects with small benefits to a firm's productive capacity in order to take advantage of the taxpayer subsidies.

Third, government spending programs like this have to be paid for (now or later) with higher taxes. Democrats have already made it known that they intend to raise income tax rates to above 50 percent to pay for COVID-19 spending and to impose a wealth tax. These tax hikes would have far more negative consequences for the economy than any short-term benefit from a wage subsidy.

A far better solution to jumpstart hiring and to encourage getting Americans back to work is to repeal the payroll tax for the rest of 2020, which would reduce payroll costs for employers by 7.5 percent and increase wages for all workers with an income of less than $130,000 a year by 7.5 percent. This would be the best possible road to reemployment for the 30 million Americans who have lost their jobs since March and at no cost to taxpayers.

1 "Table 1. Median usual weekly earnings of full-time wage and salary workers by sex, quarterly averages, seasonally adjusted," Bureau of Labor Statistics, Last Modified April 15, 2020. https://www.bls.gov/news.release/wkyeng.t01.htm

Background

The Trump administration's deregulatory agenda and the Tax Cuts and Jobs Act set free the American economy, which grew by just under 3 percent in 2018,[2] the largest annual change since 2005. Between January 2017 and December 2019, employers added nearly 6.6 million jobs. The pace of job growth continued in January and February 2020, with employers adding 465,000 jobs.[3] The unemployment rate in February 2020 was 3.5 percent and the United States had 6 million unfilled jobs.[4] The policies of lower tax rates, deregulation, and cutting red tape was working brilliantly.

As the number of COVID-19 illnesses began to grow inside the United States, governors across the country responded by issuing executive orders that involved partial shutdowns of their economies, leaving only businesses deemed "essential" open. The negative impact of these partial shutdowns was predictable. In March and April 2020, the economy shed 21.4 million jobs and the unemployment rate skyrocketed to 14.7 percent.

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act[5] in response to the COVID-19-related economic disruptions and healthcare needs. Among its many provisions, the CARES Act included $349 billion for the Paycheck Protection Program for forgivable loans to businesses with 500 or fewer employees and a total of $500 billion to distressed industries,[6] $454 billion of which was to be used to leverage greater borrowing power from the Federal Reserve.[7]

Congress passed a second bill, the Paycheck Protection Program and Health Care Enhancement Act,[8] in April 2020 that increased the funding for the Paycheck Protection Program by $321 billion after the initial funding under the CARES Act was exhausted, bringing the total funding for the program to $600 billion. The Paycheck Protection Program expires on June 30, 2020.

The CARES Act also provided an additional $600 per week unemployment benefit for those who are already receiving such benefits, as well as direct payments to all Americans under certain income levels. The additional unemployment benefit payment is available for four months and comes on top of what the claimant receives through his or her state. Unfortunately, Congress created an incentive for

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2 Federal Reserve Bank of St. Louis, Real Gross Domestic Product, Accessed May 11, 2020 https://fred.stlouisfed.org/series/GDPC1

3 Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey (National) https://data.bls.gov/timeseries/CES0000000001

4 Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Accessed May 11, 2020 https://data.bls.gov/timeseries/LNS14000000

5 H.R. 748, 116th Congress (2020)

6 Of this $500 billion, $46 billion was set aside for airlines and cargo carriers.

7 Section 13(3) of the Federal Reserve Act (12 U.S. Code 343(3)) allows the Federal Reserve to use this $454 billion to leverage more than $4 trillion in loan capacity to distressed industries.

8 H.R. 266, 116th Congress (2020)

those who receive unemployment benefits and have not been extended an offer from their previous employer to go back to work to remain unemployed, because the boosted unemployment income is substantially higher than many ordinary jobs.[9]

Although history shows that direct payments do not boost growth and do not stimulate the economy,[10] this scheme was included in the CARES Act. An individual tax filer with an adjusted gross income (AGI) of up to $75,000 received $1,200. A joint filer with an AGI of up to $150,000 received $2,400. An additional $500 per child under the age of 17 is also available. These direct payments will be on top of a tax refund for tax year 2020. Apart from the income thresholds, the tax filer can't be a dependent and must have a valid Social Security number.

There is not a minimum income threshold to qualify for a direct payment. There is an income phase-out. Individual tax filers with an AGI that exceeds $75,000 and joint filers with an AGI that exceeds $150,000 will see a $5 reduction per $100 of income over the threshold. Individuals with an AGI exceeding $99,000 and joint filers with an income exceeding $198,000 will not receive any direct payments.

Another aspect of the CARES Act is the employee retention tax credit. This is a refundable tax credit that covers 50 percent of wages, up to the first $10,000, paid by businesses that were partially or fully shut down because of a state-level executive order or saw gross receipts decline by 50 percent or more compared to the same quarter from the previous year. Employers with 100 or fewer employees may use the credit for all employees, while employers with more than 100 employees may use it only for workers who were not performing services related to COVID-19. Employers who furlough workers but still pay health insurance benefits are not eligible for the tax credit.

Congressional Proposals for Wage Subsidies

Proposals for bringing wage subsidies to the United States have come from all sides of the political spectrum. The two major champions of dueling schemes, Rep. Pramila Jayapal (D-Wash.) and Sen. Josh Hawley (R-Mo.) have offered separate and differing ideas that would have the federal government pay either all, or a substantial amount of, the salaries of employees who may otherwise be laid-off for the duration of the COVID-19 crisis. Both proposals rely on the belief that the response from Congress, including the Paycheck Protection Program and enhanced unemployment benefits, are not enough or are not the best way to help workers.

Although Jayapal's proposal has other features, one of its main elements of her Paycheck Guarantee Act would provide 100 percent of the salaries of employees

9 Jason Pye, "The Inevitable Consequences of Rushed Legislation Could Hurt the Economic Recovery," FreedomWorks, April 23, 2020 https://www.freedomworks.org/content/inevitable-consequences-rushed-legislation-could-hurt-economic-recovery

10 Jason Pye, "History Shows Direct Assistance Won't Boost Consumption," FreedomWorks, March 17, 2020 https://www.freedomworks.org/content/history-shows-direct-assistance-wont-boost-consumption

who earn under $100,000.[11] The bill would apply retroactively to incentivize employers to rehire laid-off or furloughed employees. A white paper provided by Jayapal's office explains the basic details:

> "The Treasury Department should administer a program to allow employers to maintain 100% of base payroll and benefits, which should be maintained regardless of hours of service, over the next three months, including fully replacing employee wages up to the equivalent of a $100,000 annual salary per employee. Companies that have been fully or partially shuttered due to COVID-19 will file a sworn declaration attesting to their impairment with Treasury, who will then use the company's 2019 quarterly payroll tax return (IRS Form 941) for Q2 or Q3 to immediately disburse three months of total wages and compensation to the business. This payroll relief should be in the form of grants, not loans. To encourage employers to put recently-furloughed workers back on to payroll and to ensure that temporary furloughs do not become permanent, the paycheck guarantee will also apply retroactively, allowing employers to re-hire and receive funds to pay workers who were let go or furloughed between March 1st, 2020 and the date of their application. States and cities would also be eligible for these payroll grants if they can show that they are suffering a COVID-19-related loss in revenue. Self-employed individuals and independent contractors would also be eligible.
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> [...]
>
> If state and federal governments are still requiring businesses to remain shut down and/or encouraging social distancing that results in significant suppression of demand after the three-month period ends, the program will automatically renew on a monthly basis, until the Bureau of Economic Analysis's nominal personal consumption expenditures (PCE) estimates register two consecutive months that are at least 95% as high as the three-month average level between December 2019 and February 2020. To incentivize employers to maintain payrolls and benefits, and to ensure that the recovery is robust, Congress should give the Treasury Department the authority to continue the paycheck guarantee program for an additional three months, in the form of zero-interest loans rather than grants, on a case by case basis."[12]

Jayapal, who co-chairs the Congressional Progressive Caucus, boasts the

11 Rep. Pramila Jayapal, Paycheck Guarantee Act, Accessed May 11, 2020 https://jayapal.house.gov/wp-content/uploads/2020/04/OnePager_Paycheck_Guarantee_Act_04092020.pdf

12 Rep. Pramila Jayapal, "Concept Paper for a Paycheck Guarantee Plan," April 10, 2020 https://jayapal.house.gov/wp-content/uploads/2020/04/White_Paper_Jayapal_Paycheck_Guarantee_Program_04102020.pdf

endorsements of the AFL-CIO, Center for American Progress, NEA, and SEIU.[13] The Paycheck Guarantee Act was not included in House Democrats' Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act.[14]

In contrast, many of the details of Hawley's proposal are vague. He does note, "As the stakes mount, some in Congress will no doubt be tempted to fall back on old ideas and programs, such as tweaking the tax code or spending more on pet projects. But that approach is not equal to this moment."[15]

What we do know of Hawley's proposal is that it centers around a refundable payroll tax credit.[16] The freshman senator's idea is to have the federal government provide 80 percent of employees' wages "up to the national median wage" until the COVID-19 crisis has concluded:

> "Because the government has taken the step of closing the economy to protect public health, Congress should in turn protect every single job in this country for the duration of this crisis. And Congress should help our businesses rehire every worker who has already lost a job because of the coronavirus."
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> "Beginning immediately, the federal government should cover 80 percent of wages for workers at any U.S. business, up to the national median wage, until this emergency is over. Further, it should offer businesses a bonus for rehiring workers laid off over the past month. The goal must be to get unemployment down — now — to secure American workers and their families, and to help businesses get ready to restart as soon as possible."

Despite the rhetoric, Hawley is not suggesting that the federal government pay the wages of every employee in the United States. Granted, the language he has used in official documents is no less concerning. For example, Hawley's office has explained that the 80 percent subsidy would be available to "firms of all sizes affected by this crisis" and "should apply fully to workers laid off in March who are rehired in April or May by their former employers."[17] Like Jayapal's proposal, Hawley's refundable payroll tax credit would be retroactive.

Hawley's proposal relies on the expansion of the delivery method for the family and medical tax credit made available to businesses to pay for the paid family and

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13 Rep. Pramila Jayapal, "Jayapal Announces the Paycheck Guarantee Act," April 10, 2020 https://jayapal.house.gov/2020/04/10/jayapal-announces-the-paycheck-guarantee-act/

14 H.R. 6800, 116th Congress (2020)

15 Josh Hawley, "Americans are ready for a comeback. Congress must help unleash it.," The Washington Post, April 8, 2020 https://www.washingtonpost.com/opinions/congress-should-protect-every-job-in-the-country-during-this-crisis/2020/04/08/5f48e1ac-79cd-11ea-9bee-c5bf9d2e3288_story.html

16 Sen. Josh Hawley, "Sen. Hawley Outlines Phase 4 Relief Plan: Rehire Workers & Bring Supply Chains Back," April 3, 2020 https://www.hawley.senate.gov/sen-hawley-outlines-phase-4-relief-plan-rehire-workers-bring-supply-chains-back

17 Sen. Josh Hawley, "Getting America Back to Work," Access May 11, 2020 https://www.hawley.senate.gov/sites/default/files/2020-04/Getting-America-Back-to-Work_0.pdf

medical leave mandates in the Families First Coronavirus Response Act.[18]

Economist Arthur Laffer and Jonathan Hartley have endorsed the concept of a refundable payroll tax credit, writing that it "would be faster and likely help boost spending."[19] Although a refundable tax credit like Hawley has proposed could boost spending, or consumption, under shelter-in-place orders, ordinary day-to-day commerce has been discouraged. People have been encouraged to limit their trips to essential activity, such as purchasing groceries. The boost on the demand side would be, more likely than not, limited.

An Overview of Payroll Programs in Denmark and Germany

Clearly, the idea of a payroll subsidy has gotten some traction in the United States, with Denmark often being cited as the model. In fact, Jayapal's proposal is heavily based on European systems. In response to the COVID-19 crisis, the Danish government will subsidize 75 percent of wages for salaried employees who would have been laid-off up to 23,000 Danish kroner ($3,335 in U.S. dollars) per month and 90 percent of hourly employees wages up to 26,000 Danish kroner ($3,770 in U.S. dollars).

The program applies for dates between March 9, 2020 and June 9, 2020.[20] Only employees who were on payroll before March 9. Businesses who receive the subsidies may not lay off employees. The plan will force the government to spend up to 13 percent of their gross domestic product (GDP) in merely three months.[21] To put this into perspective, such a stimulus plan in the U.S. would burn through $2.5 trillion in about three months.

In order to receive the wage subsidy, Danish businesses must register as affected by COVID-19, and be faced with either laying off a minimum of 30 percent of employees or firing more than 50 employees. Employees whose salaries are being subsidized may not work during the three-month time period. The idea behind this system is to maintain current employer-employee relationships to aid in a quick rebound.

The Danes intend to freeze their economy for three months and attempt to reopen as if nothing happened. According to the Danish Trade Union Confederation, as of April 28, "more than 25,000 companies have applied for wage compensation.

18 H.R. 6201, 116th Congress (2020)

19 Art Laffer and Jonathan Hartley, "A payroll tax waiver, wage subsidies make most sense as stimulus," Fox Business, April 20, 2020 https://www.foxbusiness.com/economy/payroll-tax-waiver-wage-subsidies-stimulus-art-laffer-jon-hartley

20 Mia Boesen, Pia Skovgaard Hansen and Søren Narv Pedersen, "Denmark: COVID-19: Bill on new salary compensation scheme to employers has now finally been passes," Lexology.com, March 27, 2020 https://www.lexology.com/library/detail.aspx?g=623effac-8f6b-4266-95dd-15283edb757d

21 Derek Thompson, "Denmark's Idea Could Help the World Avoid a Great Depression," The Atlantic, March 21, 2020 https://www.theatlantic.com/ideas/archive/2020/03/denmark-freezing-its-economy-should-us/608533/

160,000 workers are now benefiting from the wage compensation."[22] Compared to employment figures from the third quarter of 2019,[23] this represents under 6 percent of the Danish workforce.

In addition to current employees not having to work, education requirements for Danes who are on unemployment benefits will be paused. While still receiving their monthly stipend, people on unemployment benefits will not be required to attend regular job training meetings or search for employment until the crisis ends. The Danish government has also "agreed to compensate companies for their fixed expenses, like rent and contract obligations, depending on their level of income loss.[24]

Contrary to the Danish system where the government is paying people *not to work*, under the German system, the government and the employer share the cost of labor. Germany has a similar "short-time" program (*Kurzarbeit*) that businesses may apply for if 10 percent of employees face wage reductions of 10 percent or more. If accepted, the employer still pays their employees, but receives a reimbursement from the state.[25] This has led to complaints from small-businesses that lack the up-front cash flow to wait for government reimbursement.

The program, which was first used in response to the 2008 economic crisis, provides affected workers with at least 60 percent of their wages for up to 12 months. Businesses are also reimbursed for social insurance payments. Use of the "short-time" program has been extensive. As one report noted, "By April 26, companies had made requests for 10.1 million people to be placed on short-time work,"[26] or under 24 percent of the German workforce. As with the Danish system, the Germans place heavy emphasis on maintaining the employer-employee relationship during a down-turn as a way to speed recovery.

Interestingly, as opposed to Denmark's short-term crisis system, in Germany, "Companies can use [the Kurzarbeit] to offset seasonal production swings, such as bad weather affecting construction. Under special circumstances, it can even be used by companies undergoing restructuring to prevent sudden layoffs."[27]

A 2009 report from the Organization for Economic Co-operation and Development (OECD) found that the Kurzarbeit directly saved as many as 500,000 jobs during

22 Danish Trade Union Confederation, "Danish response to mitigate the financial impact of the COVID-19 pandemic," April 28, 2020 https://fho.dk/blog/2020/04/28/danish-response-to-mitigate-the-financial-impact-of-the-covid-19-pandemic/

23 Statistics Denmark, "Labour force survey, employment," Accessed May 11, 2020 https://www.dst.dk/en/Statistik/emner/arbejde-indkomst-og-formue/beskaeftigelse/arbejdskraftundersoegelsen#

24 Derek Thompson, "Denmark's Idea Could Help the World Avoid a Great Depression," The Atlantic, March 21, 2020 https://www.theatlantic.com/ideas/archive/2020/03/denmark-freezing-its-economy-should-us/608533/

25 Carolynn Look, "Explaining Kurzarbeit, or Saving Jobs the German Way," Bloomberg, April 3, 2020 https://www.bloomberg.com/news/articles/2020-04-03/how-germany-pays-workers-when-their-work-dries-up-quicktake

26 Reuters, "Use of short-time work scheme varies widely across German economy," May 5, 2020 https://www.reuters.com/article/us-health-coronavirus-germany-short-time/use-of-short-time-work-scheme-varies-widely-across-german-economy-ifo-idUSKBN22H0NZ

27 Carolynn Look, "Explaining Kurzarbeit, or Saving Jobs the German Way," Bloomberg, April 3, 2020 https://www.bloomberg.com/news/articles/2020-04-03/how-germany-pays-workers-when-their-work-dries-up-quicktake

the recession.[28] Proponents argue that the Kurzarbeit is particularly well tuned to address the type of supply side disruption we are currently experiencing.[29] Ursula von der Leyen, President of the European Commission has even gone so far as to recommend the expansion of the Kurzarbeit across Europe.[30]

Between Denmark, Germany, France, Italy, Belgium, and the rest of the European Union, Bloomberg Economics estimates that "extra borrowing could finance 70 percent of wages for about a third of permanent employees across the European Union for up to five weeks."[31]

One can clearly discern a link between the Danish and German systems and the proposals of Rep. Jayapal and Sen. Hawley. Such a program may be appealing to some in the United States, but the separate proposals offered by Jayapal and Hawley prompt many concerns, one of which is the lack of necessity considering the substantial fiscal policy responses already passed by Congress and signed into law by President Trump.

Why Wage Subsidies Should Not Be Adopted In the United States

The wage supplement idea is severely flawed and inadvisable for many reasons.

1. A $2 trillion new entitlement.

The most obvious problem with the Hawley plan is that it is not the government's role to meddle in the private sector. The second obvious problem with an 80 percent wage subsidy for businesses in the United States. Total wages paid in the United States in 2018 were $8.4 trillion.[32] Let us assume that about $3 trillion of that income is at below the median income level. This means that the government would pay $2.4 trillion of salaries. Government spending and government debt would rise by that amount. The cost of this would be more than double the previous projected deficit for FY 2020 of $1 trillion. This would also be on top of the $3 trillion of spending already allocated to COVID-19 relief measures already enacted.

The largest entitlement program is Social Security, which spends roughly $1.2 trillion on benefits per year. The Hawley plan would be nearly twice as expensive, making it the largest entitlement program by a factor of two. No limited government

28 Organization for Economic Co-operation and Development, "Employment Outlook 2009 –How does GERMANY compare?" http://www.oecd.org/employment/emp/43707146.pdf

29 Peter S. Rashish, "A German import to fight the economic impact of the coronavirus," The Hill, March 19, 2020 https://thehill.com/opinion/international/488484-a-german-import-to-fight-the-economic-impact-of-the-coronavirus

30 Annette Weisbach, "Germany is using a familiar weapon to prevent massive layoffs," CNBC, Apr 3 2020 https://www.cnbc.com/2020/04/03/kurzarbeit-germany-is-using-a-familiar-weapon-to-prevent-layoffs.html

31 Carolynn Look, "Explaining Kurzarbeit, or Saving Jobs the German Way," Bloomberg, April 3, 2020 https://www.bloomberg.com/news/articles/2020-04-03/how-germany-pays-workers-when-their-work-dries-up-quicktake

32 Bureau of Labor Statistics, "Employment and Wages, Annual Averages 2018," Accessed May 11, 2020 https://www.bls.gov/cew/publications/employment-and-wages-annual-averages/2018/home.htm

conservative or fiscal conservative could support that level of new deficit spending.

2. Biggest corporate welfare program in American history.

An 80 percent wage subsidy would be a massive taxpayer funded give-away to corporate America and successful companies. These plans are intended to include strict criteria to limit the benefits only to companies intending to lay off workers, lawyers and corporate lobbyists will almost assuredly find ways around those safeguards in order to qualify for millions of dollars of wage subsidies. We can confidently predict this will happen because it is precisely how the Paycheck Protection Program[33] may end up costing taxpayers double its original forecast. As currently proposed, Jayapal and Hawley provide some controls on how the 100 percent payroll subsidy may be accessed, but they are vague and full of loopholes. As such, profitable companies would sign up for the benefits – as happened with the Paycheck Protection Program and hundreds of billions of taxpayer dollars would be lost.

In other words, the government would be paying for the salaries of tens of millions of workers who would have received their normal wage and salary without the subsidy. This would thus be the largest corporate welfare give-away in the history of America.

3. The Hawley bill creates serious distortions in the free market wage-setting system.

Wages reflect the value added to the firm of a worker. Employee wages are based on the productivity of the worker. If a worker can add $40 of extra output per hour, the employer will provide up to $40 of wage and salary and other benefits to that worker. Wages rise with productivity. This is the crux of the free enterprise system.

Now assume that a worker can be hired at $40 an hour but the cost to the employer is only $8 an hour with the other $32 per hour cost borne by taxpayers. Employers would in this case have an incentive to raise the salary of a worker well beyond their marginal production value because the direct cost to the employer would be only 20 percent. For example, take the extreme case where the government was subsidizing 100 percent of a worker's salary up to the median wage. Every employer in America would have an incentive to hire workers ad infinitum and pay them up to the median wage, because the employer cost would be zero. The costs of the program would escalate into the multiple trillions of dollars in that case.

4. The plan is too late and duplicates hiring incentives already in place.

Congress has already responded with a $2 trillion program providing loans/grants to

33 Cheryl W. Thomson and Graham Smith, "Loopholes In Small Business Relief Program Allow Thriving Companies To Cash In," April 29, 2020 https://www.npr.org/2020/04/29/847582203/loopholes-in-small-business-relief-program-allowed-thriving-companies-to-cash-in

businesses with financial incentives to hire workers through the Paycheck Protection Program. The idea behind the wage subsidy proposals is to scrap what has already been done and reallocate federal government resources behind a new scheme. That's highly unlikely to happen. What is much more likely is that a wage subsidy plan would be on top of the existing worker aid programs.

5. Government spending does not grow the economy.

The Hawley plan falls victim to the fallacy that Congress can mitigate the negative employment and output effects from the lockdown, the multitrillion-dollar loss of purchasing power and wealth, and the rash of business failures. It can't. More government spending to help certain workers and employers can only be paid for by redistributing money from the productive sectors of the economy to the less productive sectors to the economy. Government spending IS taxation. The left has already made it clear that their intention to pay for the multi-trillion dollar price tag for programs like a wage subsidy is to cancel the 2017 tax cuts for businesses (which would reduce investment and employment) or to impose tax rates of 50 percent or more and impose a wealth tax. The negative impact of higher income and wealth taxes would far exceed any employment benefits in the near term from wage subsidies.

6. Perverse incentives for governors.

A program designed to cover the wages of workers may have the perverse effect of incentivizing governors to respond to COVID-19 with longer partial economic shutdowns. If a subsidy program like those proposed by Jayapal and Hawley is in place, governors may be unconcerned about the related job losses that would otherwise happen in absence of such a program. Here, a governor would view the federal government as picking up the tab for the consequences.

Some may argue that state governments are negatively impacted by shutdown orders through the declines in tax revenue. Although these shutdowns would still impact tax revenues, state legislatures can respond to declines in revenues through a mix of spending cuts and tax increases, although the latter may result in unintended consequences, such as causing businesses that have the means to relocate to friendlier tax climates to do so.

Additionally, further amplifying their insatiable desire for federal dollars in virtually any situation, governors are currently lobbying Congress for substantial funding to bail themselves out of a self-induced fiscal crisis.[34] Governors will not worry about the consequences of continuing these lockdowns for months, either on businesses or the impact on tax revenues, if they know Congress will intervene.

34 National Governors Association, "Governors' Letter Regarding COVID-19 Aid Request," April 21, 2020 https://www.nga.org/policy-communications/letters-nga/governors-letter-regarding-covid-19-aid-request/

What About the European Model?

Is the Europe model applicable to the United States? Again, the Hawley plan, as well as the Jayapal plan, are bad policy because meddling in private business is not the government's role. Another problem with using the Danish and German subsidy programs is that these countries have relatively low debt-to-gross domestic product (GDP) ratios while the United States has a relatively high ratio, making such a program simpler to administer there than it would be here. Undoubtedly, the fiscal policy response of all countries will lead to higher debt, but Denmark's debt-to-GDP ratio in 2019 was 33.9 percent.[35] Germany's was 61.9 percent.

Unlike the United States, Germany has a tight fiscal control in place. In 2009, the Bundestag adopted a debt brake (*Schuldenbremse*) to limit annual budget deficits to 0.35 percent of GDP.[36] As a result, Germany has run budget surpluses in recent years.[37] The budget surplus for 2019 was a record.[38] However, Germany has considered exempting COVID-19-related expenditures from its debt brake.[39] Both Denmark and Germany have higher spending, due to robust welfare programs, and revenues in relation to GDP than the United States.

The United States' debt-to-GDP ratio was 79.2 percent in 2019.[40] The Congressional Budget Office projects that it will rise to 101 percent in 2020,[41] a level not seen since the conclusion of World War II. Prior to COVID-19, the debt-to-GDP ratio was not expected to reach 101 percent of GDP until 2030, and it was expected to keep rising through 2050 when it was projected to reach 180 percent of GDP.[42]

At some point, Congress must recognize that the fiscal policy response to COVID-19 will have a negative impact on the economic recovery. Deficits have to be financed, which is done through the sale of government securities at a relatively low, albeit guaranteed, interest rate. Government borrowing to finance deficits can increase interest rates, discouraging private investment. This can have the effect of reducing investment in the private-sector as fewer loanable dollars are available for businesses. Large deficits will also increase borrowing costs, which means increased spending in future years.

35 Trading Economics, "Country List Government Debt to GDP - Europe," Accessed May 11, 2020 https://tradingeconomics.com/country-list/government-debt-to-gdp?continent=europe

36 Article 109, Section 3, Basic Law for the Federal Republic of Germany, Accessed May 11, 2020 https://www.btg-bestellservice.de/pdf/80201000.pdf

37 Trading Economics, Germany Government Budget, Accessed May 11, 2020 https://tradingeconomics.com/germany/government-budget

38 Holger Hansen and Michael Nienaber, "German coalition quarrels over how to spend record budget surplus," Reuters, January 13, 2020 https://www.reuters.com/article/us-germany-budget-ministry/german-coalition-quarrels-over-how-to-spend-record-budget-surplus-idUSKBN1ZC1ZC

39 Reuters, "Germany mulls exception to debt brake to fight coronavirus: source," March 19, 2020 https://www.reuters.com/article/us-germany-economy-debt/germany-mulls-exception-to-debt-brake-to-fight-coronavirus-source-idUSKBN2161ZW

40 Congressional Budget Office, "The Budget and Economic Outlook: 2020 to 2030," January 2020 https://www.cbo.gov/publication/56073 (This is the share of the debt held by the public and does not include intragovernmental transfers.)

41 Phil Swagel, "CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021," Congressional Budget Office, April 24, 2020 https://www.cbo.gov/publication/56335

42 Congressional Budget Office, Long-Term Budget Projections, January 2020

A policy proposal that requires the federal government to cover the salaries of employees is expected from Jayapal. After all, Jayapal is the House sponsor of the Medicare for All Act,[43] which creates a single-payer health insurance system in which competition from private health insurance is explicitly prohibited.

On the other hand, it may be surprising for some to see a purported conservative like Hawley propose a similar idea. Of course, the new strain of economic populism that has infected the conservative movement shares a similar skepticism towards capitalism and markets with the new socialism that has gained popularity in the Democratic Party.

Concluding Comments

A much better solution to reducing record-high unemployment in the United States is to suspend payroll taxes that are taken straight from worker pay before they receive their paychecks. This plan provides very large pro-employment incentives with a 7.5 percent boost in pay for some 150 million American workers and a 7.5 percent reduction in payroll costs for employers. It provides this employment incentive without costing taxpayers a dime, but instead letting workers and employers keep their own money. Economists Arthur Laffer and Steve Forbes have made a very powerful case for the payroll tax cut in the Wall Street Journal as the most efficient way to get Americans back working.[44] The Hawley bill costs taxpayers $1 trillion to $2 trillion in new spending and the payroll tax suspension does not increase spending a dime. It is the superior choice.

43 H.R. 1384, 116th Congress (2019)
44 Steve Forbes and Arthur Laffer, "Suspend the Payroll Tax," Wall Street Journal, April 19, 2020 https://www.wsj.com/articles/suspend-the-payroll-tax-11587316945