The Daily Dish

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The government's own non-partisan watchdog found that it was all too easy to sign up and receive Obamacare benefits under false pretenses. Last year, the Government Accountability Office ran an undercover test applying for benefits under 11 fake names. In the end, 10 were able to receive the benefits. Some were notified that their plans were to be terminated, however, when the undercover officials called the Obamacare phone number, their plans were reinstated with even larger subsidies.

As we approach the 5th anniversary of Dodd-Frank, AAF marked the occasion each day this week with 5 problems, 5 repercussions, and 5 solutions. The law has resulted in substantial economic and compliance costs and limited consumer choices. Click below for the recap of The 5-5-5s of Dodd-Frank at 5:

Episode 1

Episode 2

Episode 3

Episode 4

Episode 5

Eakinomics: Clinton's Profit-Sharing Proposal

Yesterday, candidate Clinton proposed tax incentives to induce firms to provide a share of profits to their employees. According to *Vox*, here is how it would work:

- Larger businesses that share profits with their workers would get a two-year tax credit equal to 15 percent of the amount they distribute to employees, with a higher fraction given to small businesses. So, for example, a company that gave a worker a $5,000 payout would get a $750 credit.
- An employee could not get a profit-sharing distribution of more than 10 percent of his or her current earnings, a mechanism intended to control costs for the company. The payments would also be phased out for higher income workers.
- The total tax credit for any single company would be capped to avoid windfall credits for the nation's largest companies.

The proposal raises three questions: (1) will it raise workers' incomes, (2) will it improve firms' productivity and performance, and (3) how will the cost be covered in the federal budget.

Questions (1) and (2) are closely related. If profit-sharing improves productivity, firms will be more inclined to pass along higher overall compensation. If not, then there will be pressure to keep (the growth of) total compensation the same, with profit-sharing replacing some portion of cash wages. The result is a riskier package of compensation for the employees. The Clinton campaign insists there will be safeguards to ensure that firms cannot replace wages with profit-sharing, but these notions never work. At some point in the future, it would be impossible to say what a workers wage would have been, add on the profit-sharing and compare to the actual total. It is the same problem as trying to reward firms for making more investment than they otherwise would have, or hire more workers.

Whether profit-sharing improves performance and productivity is an open question. There is some evidence of a relationship, but no firm research showing profit-sharing causes improved work performance. Interestingly, this same issue has been explored at length in executive compensation. Takeovers in the 1980s led companies to introduce compensation schemes tied directly to stock prices, to focus on shareholder value. Until then, executive pay was basically salary and bonuses. In the 1990s, this shifted to using stock options, so that at the end of the decade CEOs had significant stock and options holdings. There was never established a causal link between better performance and the incentive pay and the large packages became a point of demagoguery on left. This is revisiting the same terrain in a new guise.

As for (3), no answer so far. Just a promise that there will be budgetary offsets.

It is a concrete proposal, but it is old concrete and there remain a few potholes.

From the Forum

The 5-5-5s of Dodd-Frank at 5: Episode 5 by Andy Winkler, AAF Director of Housing Finance Policy; and Meghan Milloy, AAF Director of Financial Services Policy

VIDEO: Big Ideas on a Little Stool with Tom Price

Fact of the Day

In 2013 high minimum wages cost 747,700 jobs