The Daily Dish

The Road to Hell is Paved With Good Intentions

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 6, 2018

Eakinomics: The Road to Hell is Paved With Good Intentions

"There's no reason why people who work hard to provide for themselves and their families should be living paycheck to paycheck, having to choose between feeding their family and making rent. Our nation needs to provide people with basic fairness. Massive corporations are only draining our economy by vastly underpaying workers." Those were the words of Representative Ro Khanna yesterday when he joined Senator Bernie Sanders in introducing the Stop Bad Employers by Zeroing Out Subsidies (BEZOS) Act, which "aims to end corporate welfare by establishing a 100 percent tax on corporations with 500 or more employees equal to the amount of federal benefits received by their low-wage workers. For example, if a worker at Amazon receives $2,000 in food stamps, the corporation would be taxed $2,000 to cover that cost."

There is certainly nothing wrong with the pursuit of "basic fairness." But as the Indian novelist and poet Vikram Seth put it, "God save us from people who mean well."

First, the whole policy is based on a complete misunderstanding of the economics of low-wage workers and the social safety net. The existence of the social safety net does not allow large employers to skimp on their pay. Other things being the same, more generous programs will lure some workers or, for others, some part of their current work hours out of the employment market. This is an entirely understandable and predictable response to having more money. At the same time, restaurants, drinking establishments, retail stores, and other low-wage employers will find themselves competing for a shrunken pool of workers and forced to raise pay to get the employees needed to satisfy their customers. Indeed, in previous research I found that wages might be nearly 20 percent higher as a result of these pressures.

Second, the authors of the BEZOS Act evidently don't grasp the economics of their proposal as well. The proposal is one example of a "partial factor tax." The corporation income tax is one such tax — a tax on the return to capital invested in the corporate sector. Capital is a "factor" of production that is taxed on only one "part" (the corporate part) of the economy. The BEZOS tax is a tax on low-skill labor used in the large employer sector — a partial tax on low-skill inputs to production. (I'm using low-skill, low-wage, and low-income interchangeably. That's not exactly right; see AAF's Ben Gitis.)

Who bears the economic burden of a partial factor tax — that is, who "pays" it in a deep economic sense? The owners of large corporations? No, they might send the checks to the Treasury, but the burden of the tax is borne by low-skill labor throughout the economy. That's right: not just low-skill workers in the large-employer sector; *all* low-skill workers. When large employers like Walmart, Amazon, and others restructure their operations to avoid low-skill workers and the BEZOS tax, those very same workers become competitors for the now-scarce employment among mom-and-pop retail and other operations. Inevitably this generates slack in that labor market and downward pressure on wages and other benefits. The perverse outcome: The very intended beneficiaries of the BEZOS tax suffer from it.

As my mentor Alan Blinder put it, it is fine to have a soft heart. Just make sure it is accompanied by a hard head.