Insight

Why Taxing Employers for Hiring Low-Income Workers is a Bad Idea

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For several years, many have claimed that large employers are "welfare queens" that keep wages low because their employees can claim government benefits such as food stamps. Effectively, the taxpayer subsidizes these businesses so they don't have to pay a living wage, or so the argument goes. This week, Senator Bernie Sanders and Representative Ro Khanna introduced their antidote: The Stop BEZOS Act. The bill would tax large employers the entirety of the cost of certain public benefits that their workers receive from the government. Not only is the logic that inspired this proposal backwards, but it would have disastrous results for low-income workers, as well as single women, minorities, and the elderly.

The Stop BEZOS Act would tax companies with 500 or more workers 100 percent of the value of the benefits their workers receive from Medicaid, Section 8 housing, the Supplemental Nutrition Assistance Program (food stamps), and National School Lunch and School Breakfast programs. If an employee at a large retailer were to receive $1,000 in food stamps, then that employer would owe the federal government $1,000. The bill is intended to lead these employers to raise their workers' wages so that the workers are no longer eligible for government assistance.

The logic behind this proposal is flawed. As AAF President Douglas Holtz-Eakin previously outlined, employers raise, not lower, wages in response to public benefits. Low-wage employers compete with income-support programs for their workers' time. As public benefits become more generous, the value of not working and continuing to receive those benefits increases. In response, employers must raise wages in order to attract workers. This reasoning is not merely economic theory: Holtz-Eakin found that every 10 percent expansion in public income support could raise wages as much as 2 percent.

The structure of the bill itself does not mean that corporations will avoid the tax by raising wages. Eligibility for each of the covered public-assistance programs is based on *household* composition and income, not an *individual's* labor earnings from a single job. Obviously, an employer can increase how much it directly compensates a certain worker, but the employer does not have direct knowledge of an individual's household situation. Even if an employer raises the wage of a full-time, year-round worker from $10 to $15 per hour ($20,800 to $31,200 per year), that worker could still be eligible for government assistance if he or she lives in a 4-person household that has no other source of income. Consequently, providing a raise does not guarantee the employer would avoid paying this new tax.

Where does this bill leave employers? The Stop BEZOS Act would effectively be a tax on employers for hiring low-income workers. So, rather than giving workers raises, the tax would likely lead employers to simply avoid hiring low-income workers in the first place. As a result, the disadvantaged workers the bill is trying to help would likely bear its costs.

Moreover, this bill could also lead employers to discriminate against single women, minorities, and the elderly.

Since employers do not have direct knowledge of a worker's household income and composition (and the Stop BEZOS Act specifically prohibits employers from collecting information related to program eligibility), they would be forced to guess the details about an individual's household situation. Economics literature often concludes that when an employer must guess about an individual's background, it leads to discrimination against broad demographic categories. For instance, research found that states with "ban the box" policies that prohibited employers from inquiring about applicants' criminal histories simply led employers to discriminate against black and Hispanic job applicants.

According the latest Census Report on Income and Poverty, the demographic categories with the lowest median household income include blacks ($39,490), single women ($30,572), single mothers ($41,027), those ages 15 to 24 ($41,655), and those ages 65 and older ($39,823). These very demographic categories are the ones employers may avoid hiring all together if faced with the tax proposed by this bill.

The Stop BEZOS Act is founded on backwards logic and a misunderstanding of the relationship between individual earnings and public assistance. The result is a tax on hiring low-income workers and those from disadvantaged backgrounds. Since companies do not have direct knowledge of these characteristics, the bill could simply result in businesses discriminating against traditionally low-income demographic categories when making hiring decisions. In effect, this proposal would be a major employment barrier imposed on low-income workers, as well as minorities, women, and the elderly.