



NEWS from U.S. Senator Bob Dole

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STATEMENT OF SENATOR BOB DOLE

BEFORE THE HOUSE WAYS AND MEANS COMMITTEE

Mr. Chairman, I am pleased to have this opportunity to share with my colleagues on the Ways and Means Committee some of my thoughts on the proper economic stimulus package for the United States.

Our economy is in need of an innovative economic policy, one that is both expansionary and anti-inflationary. Under President Ford, inflationary pressures abated considerably. And, as Friday's unemployment statistics revealed, the trend is towards lower unemployment.

But we also know that the bitter cold winter of 1977 has temporarily idled hundreds of thousands of American workers. And even though the overall impact of the weather on the economic recovery is predicted by the Commerce Department to be "moderate," the simple fact remains that too many Americans who want to work cannot find work.

We all recognize the terrible burden unemployment imposes on the families of those who are unable to find work and the huge sacrifice of lost production and declines in real living standards imposed on society as a whole by mass joblessness.

But, many of us fear that large-scale federal jobs programs are not the answer, that they will only temporarily treat the unemployment problem while increasing inflationary pressures which ultimately lead to even higher unemployment.

Employment Tax Credit

Clearly, a more acceptable jobs program is needed. I believe the employment tax credit is just such a program. It will lead to increased hiring since the federal government would, in effect, pay part of the wages of additional workers hired by private employers. This simple tax credit device is expansionary in that it encourages more hiring and higher productivity in the private sector. And it is anti-inflationary since it will provide industry with the means to hold down product costs and, thus, shave price increases.

On April 1 of last year, I introduced my first employment tax credit bill, S.3235. This year's bill, S.616, which I introduced earlier this month, modifies and improves the original legislation. Others have shown an interest in this approach to fighting unemployment. Chairman Ullman and Senator Bentsen have proposed similar programs. And your ranking Republican member, Barber Conable, has introduced the employment tax credit here in the House of Representatives. It is a simple device which gives employers a tax break if, and only if, they hire additional workers.

On a day-to-day basis, many thousands of firms are on the verge of critical decisions -- whether to hire a few more workers to increase production and sales, whether to raise prices to try to maintain or improve profit margins, whether to hold tight. By reducing the effective cost of additional workers, by essentially paying part of the wages of added employees, a wage subsidy can sway these decisions in favor of more jobs and fewer price increases. The tax credit and the incentive are tied directly to increased employment.

Why Still Just An Idea?

If this simple policy will yield more jobs and restrain inflation, why is it still just an idea? The answer, it would seem, is that the country has not really been pressed to seek innovative economic policies. Previous recoveries have been launched from much lower rates of inflation. Combined with the assurances of some economists that economic stimulus in times of high unemployment cannot cause inflation, this has been sufficient to secure the position of conventional economic policy tools.

We are now in a very different situation. With a five to six percent rate of inflation, assurances that we need not worry about inflation when instituting an expansionary policy are not very convincing to many legislators or businesses.

In addition to the lack of urgency, several criticisms of the wage subsidy have been raised and have stood in the way of serious consideration. These reservations are based on misunderstanding and hasty analysis, or can be overcome by program design.

Tax Credit More Cost Effective

The employment tax credit must be designed to reward only employment above a very recent base level. My bill would permit the credit to be claimed only on the increase in the number of people employed and hours of labor used by an employer above the levels of the final quarter of 1976. High unemployment regions would receive slightly greater tax credits. In this manner, the "dead weight" tax loss or windfall associated with the employment that would have occurred anyway is minimized. While this cost cannot be entirely eliminated without complicating the program unduly, the employment tax credit remains far more cost effective, in terms of cost to the federal government per job added to the economy, than any expansionary alternative such as public service jobs programs. Moreover, the jobs are in the private sector with workers receiving full wages.

Other stimulative economic policies that are seldom questioned also involve substantial windfalls of some kind. Is there any doubt, for instance, that business profits will increase as the economy responds to the spending of a personal tax reduction, be it a permanent one or a rebate? Is it not clear that many individuals receive a tax break who would have spent just as much for consumption anyway? Doesn't the investment tax credit provide benefits for a certain amount of investment that would have taken place anyway? The 2% increase in the investment tax credit proposed as an alternative by President Carter is by this standard mostly "windfall."

Second, administered in the form of a tax credit to employers, the dark connotations now widely associated with tax credits are not deserved. This is no "trickle down" economic policy. The credit is, after all, directly dependent on increased employment of human beings.

Finally, while some industries or labor groups may benefit more than others, such is the nature of change in any economic recovery. The essential effect of an employment tax credit is merely to accelerate the recovery process.

Two Approaches

In my view, there are two possible approaches to implementing an employment tax credit mechanism. One, along the lines of the legislation Congressman Conable and I have introduced, is a general employment tax credit which provides incentives to the hiring of all new workers. A second, more limited employment tax credit can be targeted to the hiring of certain kinds of unemployed persons, such as the long-term unemployed. Both approaches -- the general and targeted concepts -- can provide significant assistance and incentive in securing private employment for individuals not presently or adequately served by public training and employment programs.

Obviously, since fewer workers would be eligible, the targeted employment tax credit approach would be less costly to the federal treasury. The Republican Conference in the Senate has recommended an employment tax credit program targeted on individuals who have been unemployed for 26 weeks or longer. This approach would focus benefits on those most in need of work experience and earned income, and whose unemployment demonstrates an inability to secure a job without assistance.

Since extended unemployment is most prevalent in areas with high overall unemployment rates, this targeted approach would also serve to focus program benefits in high unemployment regions. There are presently approximately 1.3 million people who have been unemployed 26 weeks or longer. Between the second quarter of 1977 and the fourth quarter of 1978, as many as three million persons may have experienced unemployment of this duration.

A targeted employment tax credit of \$1 per hour during the first six months of employment and 50¢ per hour during the second six months is estimated to bring about 450 to 550 thousand reduction in unemployment by the end of 1978 at a cost of \$400 million in fiscal year 1977 and approximately \$2 billion in fiscal year 1978.

A general employment tax credit, such as provided in my bill, would enable employers to take a tax credit equal to \$1 per hour per added full-time employee, and an additional 50¢ per hour credit for new employees who have been unemployed for more than 26 weeks. It would cost about \$2 billion this fiscal year and up to \$8 billion in fiscal 1978, and would increase employment by up to one million workers within the next year and a quarter.

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There are two important points with regard to how the employment tax credits should be viewed in conjunction with other economic policies.

Not Substitute For Business Tax Cut

First, neither the general incremental credit nor the targeted credit on the long-term unemployed is conceived of as a substitute for general business tax reductions designed to improve capital cost recovery and to encourage investment. Neither is it a substitute for either a general reduction in the corporate tax rate that has been suggested by some, or for accelerated depreciation. The employment tax credit will stimulate investment indirectly by increasing employment and capacity utilization levels. But it is not a viable substitute for longer run measures to promote capital formation.

Second, the employment tax credit will be most effective in increasing employment in the environment of an expanding economy and in conjunction with other policies, such as tax cuts, which provide adequate aggregate demand stimulus. The general incremental credit will make the economy more responsive to demand stimulus in terms of employment and less responsive in terms of inflation. The targeted credit will increase total employment while encouraging hiring of the long-term employed in particular.

Council of Economic Advisors Chairman Schultz has suggested that the employment tax credit might substitute employment of one group for another. This effect may be extensive in a stagnant economy, but in an expanding economy and in conjunction with other aggregate stimulus policies, employment of individuals not eligible for the tax credit need not be diminished. Indeed, by easing the difficulty of employing the long-term unemployed, addressing part of the "structural" unemployment problem, the targeted tax credit allows a more aggressive overall policy package for increasing total employment.

Because this approach of stimulating the economy has not been tried extensively, the exact effects of the employment tax credit are not known. As compared to other methods of attempting to increase employment, however, the employment tax credit directly encourages productive private sector jobs with high prospects of permanent employment. Those employed under the credit will be earning full wages paid mostly by private employers and will be paying taxes rather than drawing unemployment compensation and other economic supplements. The targeted employment tax credit could easily be extended to a broader eligibility if it proves as successful as anticipated in expanding employment without added inflation.

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