

Congressional Brief: Jobs

Due to the slow recovery following the last recession, 8.2 percent of Americans were unemployed and looking for work as of May 2012. Among minorities, the Hispanic unemployment rate was 11 percent and the African American unemployment rate was 13.6 percent. Among teenagers 16 to 19 years old, nearly one in four were unemployed, and among black teenagers, nearly four in 10 were unemployed.

Key Contributors to Unemployment

Taxes

The prospect of tax increases is stifling expansion and job creation. Corporations and small business owners face an uncertain tax environment that discourages hiring:

- Family-owned businesses, farms and ranches have been sold or liquidated to pay the federal estate tax, and at a 45 percent rate, for example, the estate tax stifles the creation of an estimated 1.5 million jobs.
- Uncertainty about extension of the R&D tax credit compared to a permanent credit reduces potential output by \$90 billion and stifles creation of 162,000 new jobs.
- If the Bush tax cuts expire at the end of 2012, the individual income tax rates many small businesses pay will increase by up to 50 percent, rising most for the lowest earners.
- Taxes on dividends and capital gains will also rise, making investment less profitable and thus restricting businesses' ability to expand.

The U.S. tax system also hurts international competitiveness.

- The 35 percent top U.S. corporate tax rate outstrips the 25 percent average among developed countries, driving U.S. manufacturing jobs overseas.
- Businesses may immediately expense 50 percent of their investment in plant and equipment (through 2012), but must depreciate the rest over many years, reducing their return on capital by 2.5 percentage points.

Health Care Reform

The Affordable Care Act (ACA) mandates that employers provide health coverage by 2014, and that has a major impact on hiring decisions today.

Not counting the employer's share of payroll taxes:

- The estimated cost of the minimum required benefit package is \$4,750 for individuals and \$12,250 for families.
- That translates into a minimum health benefit of \$2.28 an hour for full time workers (individual coverage) and \$5.89 an hour for family coverage.
- In four years, the minimum cost of labor will be a \$7.25 cash minimum wage and a \$5.89 health minimum wage (family), for a total of \$13.14 an hour or about \$27,331 a year.

ACA and Part-Time Employees

By 2014, every company with more than 50 employees will be required to offer to their employees coverage.

- Employers will also have to provide coverage to part-time workers, or face penalties.
- Employers and employees do not have the option to choose between health benefits and wages. For example, if a new employee has coverage under her spouse's health plan, federal law does not allow her employer to pay higher wages instead.

ACA Penalties for Hiring Employees

The ACA provides a health insurance tax credit to small businesses. However, the credit is arbitrarily reduced as firms grow:

- As a firm's average pay rises above \$25,000, the tax

credit is gradually withdrawn, and is completely gone once average pay reaches \$50,000.

- The tax credit is also gradually withdrawn if the firm size increases beyond 10 employees, and is completely withdrawn once the firm reaches 25 employees.
- A business with 50 workers is not required to offer health coverage, but hiring their 51st employee would subject them to a fine of \$42,000 if they don't.

Trade Barriers

International trade agreements now account for almost 43 percent of U.S. exports. The failure to liberalize trade has hurt U.S. exports. Since 2007, three international trade agreements have been negotiated and signed by the United States. A renegotiated trade agreement with South Korea is expected to increase annual exports of American goods by up to \$11 billion and to support at least 70,000 U.S. jobs. An approved agreement with Panama will gradually eliminate tariffs on U.S. exports. Over 87 percent of U.S. exports to Panama will become duty-free immediately.

The recently signed Colombia trade pact will increase U.S. exports by \$1.1 billion, and increase U.S. output roughly \$2.5 billion, according to the U.S. International Trade Commission.

Free trade is particularly beneficial to U.S. manufacturing. During the seven years after NAFTA, the overall economy grew 29 percent, and manufacturing output increased 42 percent.

Regulatory Costs

Since 2010, the Environmental Protection Agency (EPA) has proposed or finalized 30 major regulations and

172 major policy rules.

- Environmental regulations cost \$1,523 per employee annually, which is a substantial portion of the \$8,086 per employee total annual cost of federal regulations, according to the U.S. Senate Committee on Environment and Public Works.
- The EPA's proposed ozone standard will cost local governments, businesses and consumers \$10 billion to \$22 billion per year, and cause the loss of 7.3 million jobs by 2020.
- By 2020, EPA regulation of greenhouse gas emissions will eliminate an estimated 7.3 million American jobs and add \$1 trillion in regulatory costs nationwide, and will result in \$7 trillion in lost economic activity by 2029.

The harmful impact on individual states of various rules is estimated to be substantial:

- The Boiler MACT [Maximum Achievable Control Technology] Rule would cost 15,557 jobs in North Carolina, 13,968 jobs in Ohio and 12,821 jobs in Michigan, and would present total capital costs of over \$2.62 billion in these 3 states alone.
- Restrictions on Mining Permits and consequent power plant closures will cost 6,245 jobs in Kentucky, 3,404 jobs in Wyoming and 3,190 jobs in West Virginia, and will cause over \$8 billion in lost revenue in these 3 states alone.
- The Utility MACT, the Cross-State Air Pollution Rule, cooling water intake regulation, and coal combustion residual regulations have cost 28,899 jobs in Illinois, 25,646 jobs in West Virginia and 19,647 jobs in Ohio, and will cause enough megawatts to be retired to power more than 13 million homes. There will be over \$3.4 billion in lost revenue by 2015.

NCPA Policy Recommendations

- Taxes
 - Make income tax cuts permanent in order to encourage work and investment.
 - Repeal the estate tax, which reduces capital formation and thus productivity, wages, employment and federal revenues.
- Health Care Reform
 - Repeal employer mandates and offer a refundable tax credit to employees to buy their own insurance.
- Trade
 - Pursue additional free trade agreements. These agreements will stimulate U.S. job growth.
- Environmental Regulation
 - Require that the benefits of new environmental regulations outweigh the costs.