WASHINGTON Examiner

Trump's coronavirus payroll tax cut motivated by reelection, not logic

Brad Polumbo

March 10, 2020

President Trump met with lawmakers Tuesday afternoon to push a payroll tax cut as a part of a coronavirus economic stimulus package, but emerged from the meeting with no consensus. This is good news, and hopefully, it means Trump's foolhardy and short-sighted proposal will never see the light of day.

While the novel coronavirus is certainly causing economic disruption, Trump's vision of a $40 billion per month temporary payroll tax cut is a blunt, crude tool ill-suited as a public policy response for this situation. Trump just wants to juice up the stock market before Election Day, rather than pursue serious policymaking that can actually help the root cause of the economic disruption: the spread of the COVID-19 virus.

The payroll tax cut would probably not include offsets in reduced government spending, resulting in a larger federal budget deficit. To cash out now at the expense of deferred taxes and expenses for future generations is an immoral and unsustainable way to approach problems.

Another issue is that a payroll tax cut is extremely broad and doesn't target those directly affected by the coronavirus outbreak. Workers only benefit from a payroll tax cut if they are continuing to work and be paid. Workers in retail, travel, and so on who are laid off permanently or temporarily won't be helped much at all by a payroll tax cut. A payroll tax cut primarily helps those who are able to continue working — and those aren't the workers in need of relief.

"The key challenges are easing liquidity constraints on businesses and workers suffering from collapsing industry-specific demand and providing relief for sick households or those affected by containment measures," the Cato Institute's Ryan Bourne told me.

"An employee payroll tax cut doesn't help much, because anyone laid off won't benefit from it, and hourly workers in highly affected service industries such as restaurants and bars won't benefit much from it," Bourne added. "The primary aim here should be slowing the virus spread while mitigating economic pain from doing so; a payroll tax cut is a needlessly untargeted and expensive measure instead designed to boost spending."

Additionally, if the goal of a payroll tax cut is to boost consumption and spending, it may not be very successful, given the reasoning behind the coronavirus-induced economic lull.

The issue isn't that people don't have enough money to go out to restaurants, the movies, and so on — it's that they aren't doing so due to fears over the virus. Putting more cash in their wallet won’t do much to change that decision, so much of that money is just likely to be saved, reducing its ability to provide serious economic stimulus. Even if it somehow did encourage them to get back out there and consume, from a public health perspective, that’s not really what we want to encourage right now.

Plus, if the payroll tax cut is temporary, it won’t do much of anything to boost growth over the long term. Most economists agree permanent tax cuts are much more successful at boosting long-term growth. If we’re going to finance tax cuts with more debt, we should at least do it in a way that will most successfully promote long-term economic growth, as the GOP tax reform law's 2017 reduction in corporate taxes did.

There are cheaper and more targeted solutions to the coronavirus situation available.

One proposal would extend government loans to help small businesses particularly harmed by this disruption get through a rough patch. This targets relief for those most harmed by the coronavirus. And assuming the loans are mostly repaid, this would surely cost taxpayers much less than a revenue-slashing payroll tax cut, too.

It’s not clear that a big stimulus package or bailout is warranted by the economic situation, and there’s little to suggest a payroll tax cut would improve matters noticeably beyond perhaps juicing the stock market in the short-term. President Trump needs to do what’s right for the country and its fiscal future — not what he thinks might best boost his odds for reelection.