Consulting Americans on the Payroll Tax Cut for Employees and Employers

A Study by the Program for Public Consultation and Knowledge Networks

December 13, 2011

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Knowledge
N E T W O R K S

The Program for Public Consultation seeks to improve democratic governance by helping governments consult their citizenry on the key public policy issues the government faces. Unlike standard polls, in public consultations respondents are presented information that helps simulate the issues and tradeoffs faced by policymakers. PPC has been established to develop the methods and theory of public consultation and to conduct public consultations. PPC is a joint program of the Center on Policy Attitudes and the School of Public Policy at the University of Maryland

The Center on Policy Attitudes (COPA) was established in 1992 with the purpose of giving public opinion a greater voice in the public policy process. COPA conducts in-depth studies of public opinion that include polls, focus groups and interviews. It integrates its findings together with those of other organizations. In addition to PPC, COPA has a joint program with the Center for International and Security Studies at the University of Maryland called the Program on International Policy Attitudes.

School of Public Policy, University of Maryland (College Park) is one of the nation's leading graduate programs devoted to the study of public policy, management and international affairs. It is the only policy school in the Washington area that is embedded in a major research university and combines both domestic and international policy studies under one roof.

Knowledge Networks is a polling, social science, and market research firm based in Menlo Park, California. Knowledge Networks uses a large-scale nationwide research panel which is randomly selected from the national population of households having telephones and is subsequently provided internet access for the completion of surveys (and thus is not limited to those who already have internet access).

INTRODUCTION

In this month of December 2011, Congress was deep in deliberations that centered on whether or not to extend the employees' payroll tax cut for 2012. While this tax cut had been coupled for some time with a payroll tax cut for employers, the difficulty of passing the employees' side of the cut had led to the employers' side being shelved for the time being.

Much of the debate on these measures revolves around whether they could aid the struggling economy. Since each measure has a significant price tag, their impact on the federal budget deficit also comes under consideration—though at the same time, should these measures help the economy, an improved economy would also help deal with the deficit.

Since the employees' payroll tax measure is one tax cut that finds favor with Democrat policymakers, and tax cuts are generally viewed positively by Republicans, many observers have expressed bewilderment at legislators' difficulty in finding a path to bipartisan cooperation.

This raises the question of what the public thinks—and especially, what would the public think if it had more information and the opportunity to hear the arguments on both sides in a clear systematic way and evaluate each one separately.

The Program for Public Consultation is undertaking a series of in-depth consultations on issues relating to the American economy—including a major study, released in February 2011, on how the public would deal with the budget deficit. The present study is another part of that effort.

For the employers' and the employees' payroll tax cut, a representative sample of Americans, working online, read detailed information about the proposal and evaluated pro and con arguments before offering their conclusions.

The text of the arguments presented was developed by researching the actual debate on these proposals (both currently and in recent years). Respondents were asked to evaluate how convincing each argument was—i.e., was the argument persuasive, apart from whether they agreed with its policy direction or not. Only after evaluating all arguments did they say whether they favored or opposed the proposal.

One key point to emerge from the consultation is how much members of the public, Democrats and Republicans, consider each others' arguments and seriously take them on board. Members of the public take an approach to debates of this kind that is notably different from that taken by activists and political professionals.

The poll was fielded from December 3 to 9, 2011 as part of a larger study with a sample of 907 adult Americans. Each section was partially sampled, however, so the sample size was 565 for each question released. Thus, with a design effect of 1.6431, the margin of error was 5.3%. Please contact PPC if you would like a detailed sample design.

The poll was conducted using the web-enabled KnowledgePanel®, a probability-based panel designed to be representative of the U.S. population. Initially, participants are chosen scientifically by a random selection of telephone numbers and residential addresses. Persons in selected households are then invited by telephone or by mail to participate in the web-enabled KnowledgePanel®. For those who agree to participate, but do not already have Internet access, Knowledge Networks provides a laptop and ISP connection. More technical information is available at http://www.knowledgenetworks.com/ganp/reviewer-info.html.

The key findings of the study were:

1. Payroll Tax Cut for Employees
While arguments both for and against the payroll tax cut for employees were found convincing, in the end there was a strong bipartisan consensus in favor of the proposal. A clear majority favored paying for the tax cut by increasing taxes on millionaires, though a majority of Republicans preferred to freeze wages of the Federal work force and gradually reduce its size. At the same time, many in each party are willing to accept the *other* party's preferred way to pay for the payroll tax cut as a second choice; few favor simply borrowing the money and adding to the deficit.

2. Payroll Tax Cut for Employers
Respondents showed substantial ambivalence about having a payroll tax cut for employers. Arguments for and against it were found convincing, though in conclusion a bare majority favored it. Interestingly a majority of Republicans favored the idea, as did a slight majority of Democrats, while a plurality of independents were opposed.

FINDINGS

1. Payroll Tax Cut for Employees
While arguments both for and against the payroll tax cut for employees were found convincing, in the end there was a strong bipartisan consensus in favor of the proposal. A clear majority favored paying for the tax cut by increasing taxes on millionaires, though a majority of Republicans preferred to freeze wages of the Federal work force and gradually reduce its size. At the same time, many in each party are willing to accept the *other* party's preferred way to pay for the payroll tax cut as a second choice; few favor simply borrowing the money and adding to the deficit.

The issue of whether to continue the payroll tax cut for employees that was in effect during 2011 was a key question before Congress at the time of polling. Respondents first read the following explanation:

Here is a proposal for a tax cut for workers:

As you may know, all employees have a payroll tax deducted from their paycheck to fund Social Security. In 2011, employees are currently getting a payroll tax cut of two percentage points—from the regular 6.2% down to 4.2%, which amounts to about an additional $1,000 over the year in the paychecks of the average household.

Currently there is a proposal being considered in Congress to continue this payroll tax cut until the end of 2012.

This proposal would reduce projected revenue by $175 billion for the year.

According to the Congressional Budget Office, due to the added economic activity that results when consumers have more money to spend, this proposal would create 350,000 to 1,225,000 more jobs.

Respondents were then asked to evaluate one argument in favor, and one argument against the proposal, saying whether they found each convincing or unconvincing.

The pro argument made the macroeconomic case for how increased consumer spending has positive effects throughout the economy. Its language was actually a direct quotation from President Obama's July 11, 2011 press conference. Large majorities of Republicans, Democrats and independents all found the argument convincing, though no more than 3 in 10 of any group found it very convincing.

Employee Payroll Tax Cut - Pro

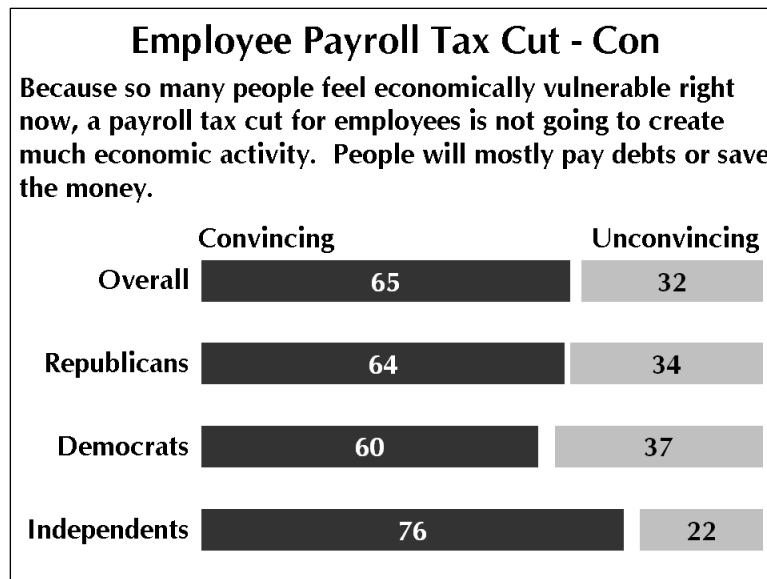A payroll tax cut puts money in the pockets of people who are then spending it at businesses, large and small. That gives them more customers, increases demand, and it gives businesses a greater incentive to hire.

	Convincing	Unconvincing
Overall	70	29
Republicans	69	30
Democrats	75	24
Independents	61	36
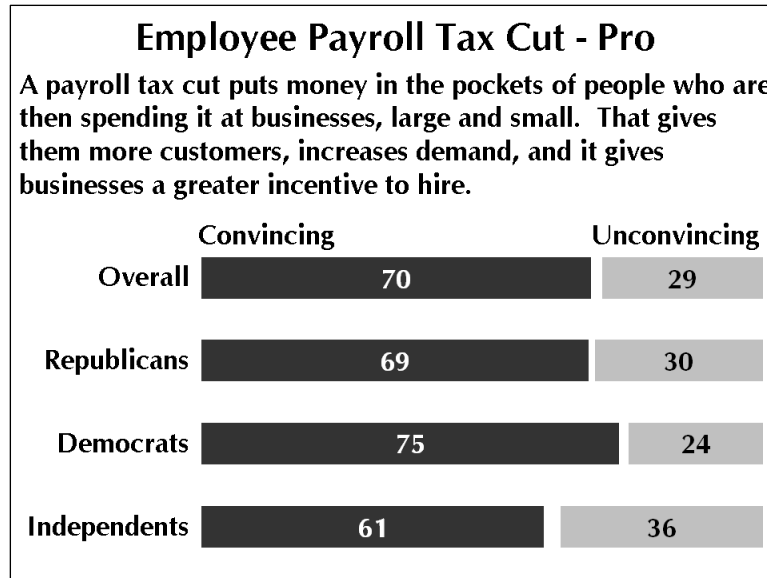
The con argument took the opposite view about how consumers behave in a lengthy economic downturn, saying they would consolidate their positions rather than spending more. Large majorities of all three groups also found convincing this argument against the tax cut—but only about a fifth thought it was very convincing.

Employee Payroll Tax Cut - Con

Because so many people feel economically vulnerable right now, a payroll tax cut for employees is not going to create much economic activity. People will mostly pay debts or save the money.

	Convincing	Unconvincing
Overall	65	32
Republicans	64	34
Democrats	60	37
Independents	76	22

Having considered these arguments, respondents were then asked whether they favored or opposed the proposal. They favored it by a full two-thirds majority. As with the arguments, support for the proposal itself showed strikingly little partisan differentiation. In this regard the public is rather

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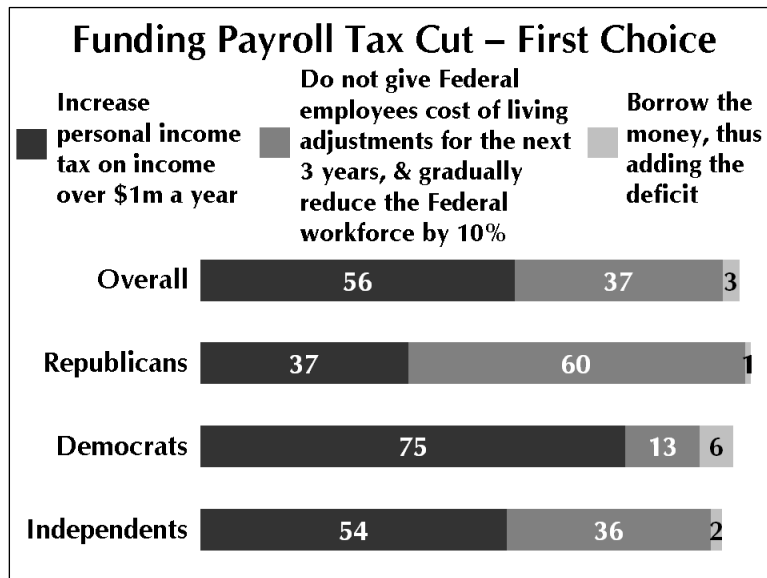similar to congressional leaders, as leaders on both sides of the aisle have endorsed the idea, though not Republican rank-and-file members in the House of Representatives.

Employee Payroll Tax Cut - Final

Now having considered arguments about the proposal, would you say that you favor or oppose temporarily reducing the payroll tax by half for employees?

	Favor	Oppose
Overall	68	30
Republicans	65	35
Democrats	74	24
Independents	61	34
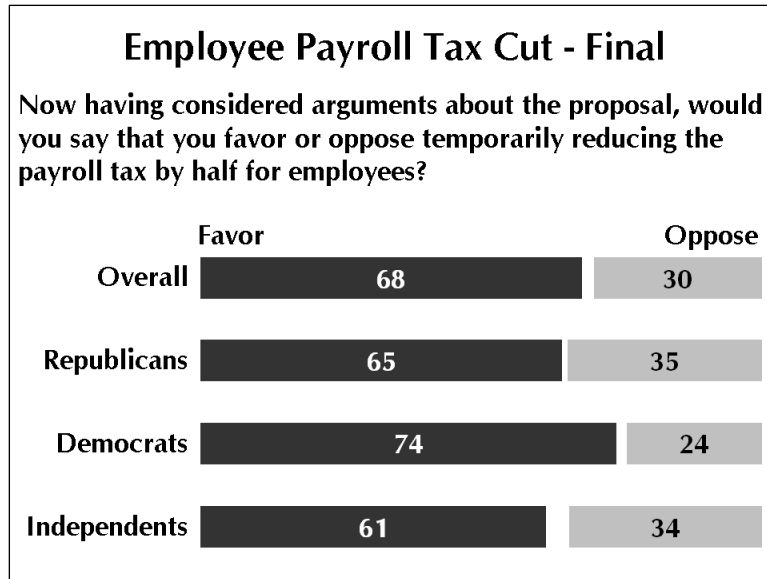
How the Payroll Tax Cut Would be Financed

Respondents were then asked about the more controversial issue of how the tax cut would be paid for and presented the two most prominent ideas being promoted by the parties in Congress as well as the option of simply borrowing the money. A clear majority endorsed the option to use a higher tax on earnings above $1 million. However, this response did show party polarization, with eight in ten Democrats and a majority of independents supporting this option but only a third of Republicans doing so. Republicans had a majority preferring to pay for the tax cut through reducing the federal workforce and lengthening the freeze on its pay.

Funding Payroll Tax Cut – First Choice

■ Increase personal income tax on income over $1m a year
■ Do not give Federal employees cost of living adjustments for the next 3 years, & gradually reduce the Federal workforce by 10%
■ Borrow the money, thus adding the deficit

Overall	56	37	3
Republicans	37	60	1
Democrats	75	13	6
Independents	54	36	2

At the same time, though, this partisan polarization does not appear to be deep-seated, as more Republicans and Democrats preferred to pursue the other party's option than to simply borrow the money. Asked their *second* choice among the three options, 4 in 10 of Republicans (39%) chose the Democrats' preferred option rather than simply increasing the deficit—only 20% chose to increase the deficit. Likewise, a majority of Democrats (56%) took the Republicans' preferred option as their second choice, rather than increasing the deficit (28% chose this option), as did 38% of independents.

Overall, only a small minority chose to borrow the money as either their first or their second choice—21% of Republicans, 34% of Democrats and 32% of independents.

Looking at polls from other organizations, similar to the majority who found convincing the con argument saying such a payroll tax cut is unlikely to generate much economic activity another poll found that most people do not see much linkage between cutting the payroll tax and helping job creation. In October Associated Press/GfK asked how much reducing the employee payroll tax would do to create jobs. Fifty-four percent thought it would do little (25%) or nothing at all (29%); another 28% thought it would do "a moderate amount"; and only 18% thought it would do more.

However other organizations' polls on this topic since August 2011 have also found majorities in favor of the employee payroll tax cut, though support has declined in some of these polls over time. In August NBC/Wall Street Journal asked whether "continuing to cut the payroll tax rate" is a good idea, or bad idea, "or do you not know enough": 40% thought it a good idea and 20% a bad idea, with many unsure. In October CNN found 59% favoring "cutting the payroll tax for all American workers" (down from 65% in September), and CBS/New York Times found 51% thinking it is "probably a good idea…to significantly cut payroll taxes for working Americans" (down from 56% in September).

2. Payroll Tax Cut for Employers
Respondents showed substantial ambivalence about having a payroll tax cut for employers. Arguments for and against it were found convincing, though in conclusion a bare majority favored it. Interestingly, a majority of Republicans favored the idea, as did a slight majority of Democrats, while a plurality of independents were opposed.

The idea of a payroll tax cut for employers was originally proposed by a group of 49 House Republicans in 2010 (when Democrats held a House majority) and later adopted by the Obama administration in September as part of its American Jobs bill. In a sense it is a bipartisan proposal, though over time it has been more identified first with the Republican party, then with the Democratic party. The proposal shown to respondents followed most closely the version the administration offered.

Respondents first read the following explanation of the proposal:

Here is a proposal for a tax cut for employers:

Besides the payroll tax on employees that supports Social Security, employers also pay such a tax. Normally this amount is also 6.2% of the employee's salary.

One proposal would lower this payroll tax rate for employers by half, from 6.2% to 3.1%.
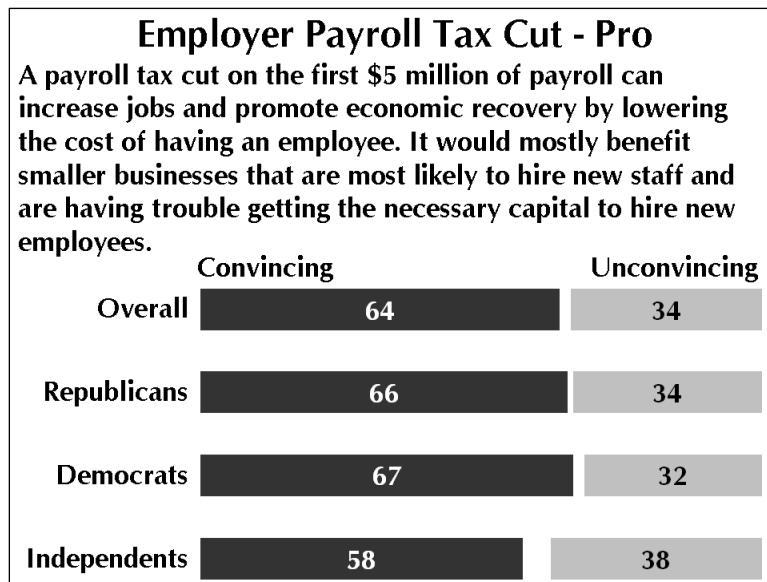

The reduction would apply to only the first $5 million of their payroll--making the positive impact on small and medium-size businesses fairly large. The impact would be less for major corporations, which would still pay the full payroll tax on most of their payroll.

Lowering the payroll tax for employers would reduce tax revenue by $65 billion.
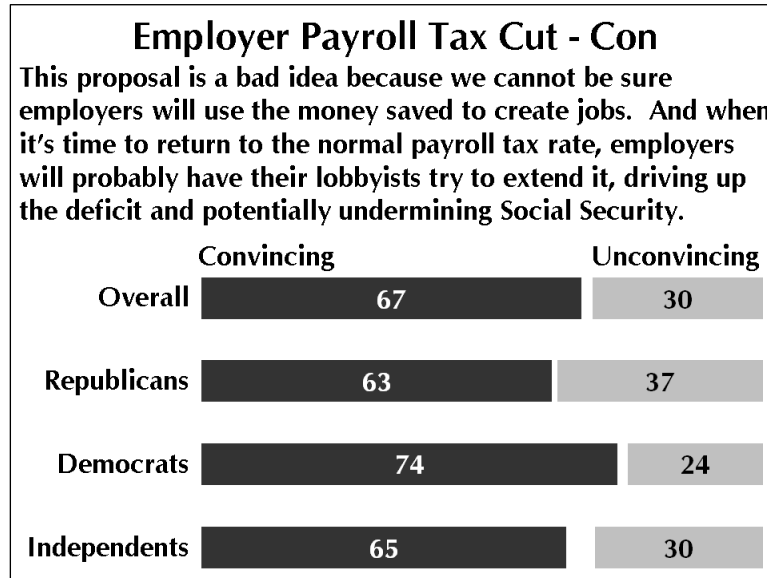
The Congressional Budget Office estimates this plan would create 350,000 to 850,000 more jobs, due to lower costs for companies to hire employees.

Respondents were then asked to evaluate one argument in favor, and one argument against the proposal, saying whether they found each convincing or unconvincing.
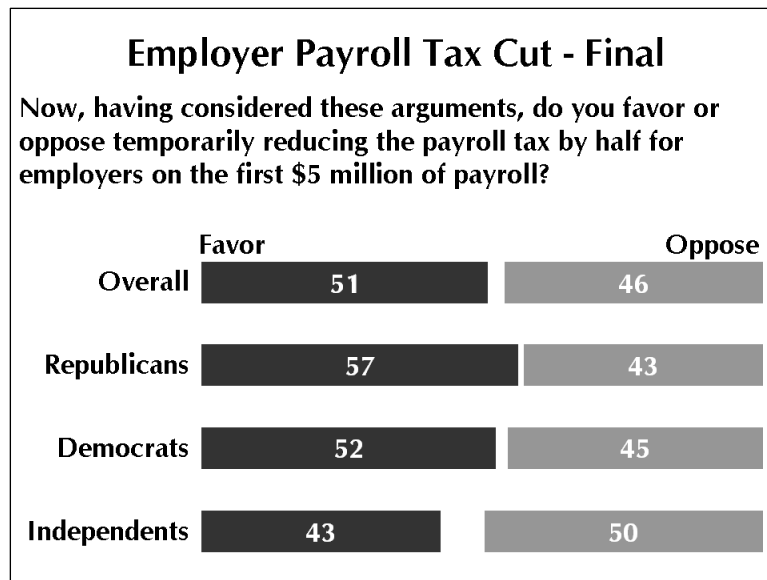
The pro argument focused on the economic logic of the proposal and the idea that smaller businesses would primarily benefit. While almost two thirds found the argument convincing, only a slender 14% found it very convincing. There were virtually no party differences.

Employer Payroll Tax Cut - Pro

A payroll tax cut on the first $5 million of payroll can increase jobs and promote economic recovery by lowering the cost of having an employee. It would mostly benefit smaller businesses that are most likely to hire new staff and are having trouble getting the necessary capital to hire new employees.

	Convincing	Unconvincing
Overall	64	34
Republicans	66	34
Democrats	67	32
Independents	58	38

The con argument raised the possibility that employer behavior would not respond to a payroll tax cut in the way policymakers intended. This got a somewhat stronger reception than the pro argument. Two thirds found this argument convincing, with Republicans only a little short of this level. A quarter found it very convincing (including 20% of Republicans and 28% of Democrats).

Employer Payroll Tax Cut - Con

This proposal is a bad idea because we cannot be sure
employers will use the money saved to create jobs. And when
it's time to return to the normal payroll tax rate, employers
will probably have their lobbyists try to extend it, driving up
the deficit and potentially undermining Social Security.

	Convincing	Unconvincing
Overall	67	30
Republicans	63	37
Democrats	74	24
Independents	65	30

Having considered these arguments, respondents were then asked whether they favored or opposed the proposal. Overall, a bare majority of 51.3% favored it, with 45.7% opposed—a spread barely outside the margin of error. Interestingly, partisan differences were modest—a majority of Republicans favored it as did a slight majority of Democrats, while it was independents who had a plurality opposed.

Employer Payroll Tax Cut - Final

Now, having considered these arguments, do you favor or
oppose temporarily reducing the payroll tax by half for
employers on the first $5 million of payroll?

	Favor	Oppose
Overall	51	46
Republicans	57	43
Democrats	52	45
Independents	43	50

Polls by other organizations have elicited seemingly contradictory responses, reflective of the variations respondents showed as they considered the arguments for and against the option as well as the close final response.

Democracy Corps in September asked respondents to imagine hearing a candidate arguing in favor the proposal, calling for "Cut[ting] payroll taxes for small businesses in half, giving the average firm

$80,000 to hire new workers and create jobs." As in response to the pro argument above, a large majority in this case (74%) favored this idea (41% strongly).

CNN in September asked about "cutting the payroll tax for all American businesses," which elicited 58% support. However, the wording did not specify that this would be only the employer's side of the payroll tax, so some respondents may have answered in terms of both the employer and employee halves of the tax.

Associated Press/GfK in October asked respondents to think about whether a general employer payroll tax cut would help the economy. Similar to the close final position in the current study, the public was divided. Fifty-one percent said it would do little (27%) or nothing at all (24%), while 48% said it would help "a moderate amount" or more (October 2011). Many in the public may see such a tax cut as an insufficiently targeted incentive, even in the Obama administration's proposed version.