Yes, We have no Manna Today

The economy continues to grow at a slower than normal pace. In Wednesday’s WSJ, Richard Vedder wrote [The Wages of Unemployment.](http://online.wsj.com/article/SB10001424127887324461604578193141690993174.html) He argued that our slow economic growth since 2000 was the result of a declining labor force participation rate. In short, people are not working as much as they used to and it is showing. His article echoes many points I made last May, in [All Play and No Work Makes Johnny a Poor Boy](http://wkubbtcenter.com/2012/04/24/all-play-and-no-work-makes-johnny-a-poor-boy/) and [All Play and no Work Makes the US a poor Country.](http://wkubbtcenter.com/2012/05/04/all-play-and-no-work-makes-the-us-a-poor-country/)

Vedder noted that the rise of food stamps, extended unemployment insurance, and a huge growth in Social Security disability and Pell Grant recipients has decreased the incentive of people to work. He also noted that high marginal tax rates don’t help. His list is not incorrect, just incomplete. Taxpayer subsidized graduate programs and easier access to student loans have also extended many students’ stay in academia, often past their point of positive economic return.

The Affordable Health Care Act (Obamacare) does not encourage work either. Many employers are actively reducing the number of full time personnel in order to avoid having to offer health insurance. Instead of firing people, employers are reducing the number of hours their employees are allowed to work. To make up these hours at a second job is a coordination task that increases the barrier to work.

Another area where the government has actively encouraged non work is in the Social Security and Medicare programs. The age for program eligibility has not risen with life expectancy. When Social Security began, benefits kicked it at age 65, which was the average US life expectancy at the time. People had to live abnormally long just to collect benefits. The Social Security age has been increased to 67 (Medicare has not risen from 65) even as average life expectancy has risen to be over 78 years.

Pensions for public employees have similarly not kept up with advances in life expectancy. In many places police and fire firefighters can collect a full retirement with health benefits after 20 years of work. This leaves people collecting retirement benefits for more years than they originally worked. Many other government employees can fully retire in their 50’s with full pension and health benefits. Even as the private sector has moved away from defined benefit pensions to defined contribution pensions, the public sector has lagged behind and in so doing has actively encouraged early retirement.

How are Medicare and Social Security funded? They are specifically funded by the payroll tax (with any deficit in revenues made up by additional national debt). The payroll tax stands at 15.3% of workers’ salaries. That provides a huge penalty for work. In effect, we subsidize the lack of work in our elder years by penalizing work in our younger years. The more years we want to not work at the end of our lives means the more harshly we have to punish work during our younger years. It can’t possibly be surprising that the result has been less work and slower growth.

While the income tax specifically penalizes work, it is harshest on two income households. Households with two high income earners get absolutely hammered when the second spouse works. If one spouse makes $450,000 or more, every dollar of the second spouse’s income is taxed at a 39.6% income tax rate. Add in another 15.3% from the payroll tax on income under the Social Security limit along with state income taxes, and the spouse is paying over 60% of their income in income taxes before they even get the chance to pay sales taxes on the money they spend.

While the marriage penalty in the tax code may have mattered less 50 years ago when fewer married women worked outside of the home, it matters much more now. Not only are more married woman working, they are more likely to be college educated and high income earning than they were 50 years ago. Furthermore, many have noted the increase in marriage sorting by educational attainment as more spouses find their mate at university. High earning women tend to marry high income men. The tax code is written as if this action should be particularly punished. At the very least, it is written to encourage highly productive people not to work outside the home. Even my two college professor household faces over a 50% marginal tax rate on new income (work).

Policy makers are completely confused about the source of wealth which is why they set up policies that discourage work. They enact tax policies that are only consistent with the “manna” idea of wealth creation. That is the idea that wealth falls from the skies and it is up to the government to distribute it fairly. The reality is that wealth has to be created and it is created by work. Less work means less wealth creation. Pro-growth policies will only be successful if they incentivize (or stop disincentivising) work.

For those who missed the title reference it was a take on the 1920’s hit:

[“Yes, We Have No Bananas”](http://www.youtube.com/watch?v=Py9Rqz9AVGU)

Why ask “Y”? Why not?

Should add Obama Care, graduate school, and early retirement

It’s Always Sunny in Philadephia

MV=PY

Print your way to wealth

Borrow your way to wealth – borrow for the sake of borrowing

[Australia, Singapore, Hong Kong, Switzerland, and Canada all came out of the financial crisis well.](http://www.ft.com/cms/s/0/46e9851a-59cf-11e2-b728-00144feab49a.html#axzz2IFrCiAad)