The Daily Dish

Paid Leave and the Reconciliation Bill

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Eakinomics: Paid Leave and the Reconciliation Bill

Get ready to hear a lot about "the reconciliation bill" (TRB), the vehicle by which Democrats hope to pass key elements of President Biden's Build Back Better policy agenda through Congress. At this point, it is far from clear what the specifics will be for the "human infrastructure" – child tax credit, earned income tax credit, health insurance subsidies, child care subsidies, home health care subsidies, etc. – proposals in TRB.

In one case – paid leave – we can be fairly confident that the proposal will reflect Congressman Neal's "Building an Economy for Families Act." It is based on the FAMILY Act, which provides up to three months of leave because they (a) have a serious health condition, (b) are caring for an immediate family member, (c) have a newborn or adopted child, or (d) face difficulties arising from the foreign deployment of a family member in the armed forces. The basic benefit is about two-thirds of a recipient's highest earnings over the preceding three years, with a minimum benefit of $580 per month and a maximum of $4,000 per month in 2021. (Benefits are indexed thereafter.) The Congressional Budget Office (CBO) puts the 10-year price-tag at $547 billion.

The original bill also featured a payroll tax of 0.4 percent?, split equally between the employer and employee (just like Social Security and Medicare). While TRB probably won't contain the payroll tax – why spoil the fun of providing goodies with the notion that they aren't really free? – it is useful to focus a bit on the size of the tax rate. After all, for the average worker that is the real impact of the program. They might not have to take any leave for long stretches of time, but they will have to pay the tax every week.

As documented in previous AAF research on versions of the FAMILY Act, the biggest source of uncertainty regarding the cost of the program (and accordingly the size of payroll tax needed to finance it) is the fraction of eligible individuals who actually take up the program ("the takeup rate"). In the United States, the primary law regarding family and medical leave is the Family and Medical Leave Act of 1993 (FMLA). It guarantees certain workers up to 12 weeks of unpaid, job-protected parental, family caregiving, and personal medical leave. To be eligible for the FMLA's 12 weeks of job protection, an employee must have worked continuously for his or her employer for at least one year and worked at least 1,250 hours in that year.

Unfortunately, the FMLA is unpaid leave, so its takeup rate might not be indicative of behavior under a paid leave program. An alternative is to look at the experience of a handful of states – notably California, Rhode Island?, and New Jersey – that have their own paid-leave programs. Unfortunately, the information is probably strongest for parental leave and less informative for medical and family leave.

Finally, in 2018 the Cato Institute conducted a poll to determine the likely takeup and duration of leave under a FAMILY Act-style paid-leave program.

Here is where things get interesting. The 0.4 percent payroll tax rate noted by CBO is exactly what AAF found would cover the cost of the FAMILY Act based on the state-level experience. In contrast, the 0.85 percent tax rated cited by the Joint Committee on Taxation as the break-even tax rate matches the AAF estimated tax rate based on the takeup under FMLA. In contrast, using the Cato survey – the only information on precisely the program in the FAMILY Act – projects much greater usage of the benefits and requires a 2.9 percent payroll tax to finance it. For those numerologists in the Eakinomics realm, 2.9 percent is the current payroll tax rate for Medicare.

That is my fear in a nutshell: The paid leave program will be sold to the public as no threat to the average worker, when in fact Congress will be loading on a major new entitlement as big as Medicare.