

Economics 370 - Economics of Labor
SUNY Albany
Department of Economics
Spring 2021
Midterm

Read through this document carefully and then answer the questions in bold. Please type your exam answer in the format described in the last paragraph. Note that you are limited to two pages of text but you may also create a separate page(s) for your figure(s) if you have any. Submit your files via Blackboard Assignment by the start of class, Tuesday, March 30.

In July of 2020, partly to fund public programs to fight the COVID crisis, the Seattle city council passed a new payroll tax aimed at “taxing big business” that took effect at the beginning of 2021. The new tax is tiered, applying to firms with payrolls of \$7 million or more, and levied as follows¹:

- For businesses with Seattle payrolls of \$7 million to \$99.9 million:
 - No tax on salaries under \$150,000
 - 0.7% tax on salaries of \$150,000-\$399,999
 - 1.7% tax on salaries over \$400,000
- For businesses with Seattle payroll between \$100 million and \$999.9 million:
 - No tax on salaries under \$150,000
 - 0.7% tax on salaries of \$150,000-\$399,999
 - 1.9% tax on salaries over \$400,000
- For businesses with Seattle payrolls of \$1 billion or more:
 - No tax on salaries under \$150,000
 - 1.4% tax on salaries of \$150,000 to \$399,999
 - 2.4% tax on salaries over \$400,000

For more background, read the attached article from *The Seattle Times*.

Use the theory that you learned to predict the impact of this tax on the equilibrium

- 1. employment, hours, and salaries of high-skilled and highly educated workers in Seattle (i.e., workers who were making more than \$150,000 per year before the law took effect);**
- 2. non-salary compensation of high-skilled and highly educated workers;**
- 3. employment and wages/salaries of less-skilled workers in Seattle (workers who make less than \$150,000 per year);**
- 4. number of workers in Seattle making exactly \$150,000 and exactly \$400,000 in salary in larger firms;**

¹ This schedule is from the website of the Washington State Medical Association, https://wsma.org/Shared_Content/News/Membership_Memo/20200709/seattle_city_council_approves_new_payroll_tax, accessed March 22, 2021.

5. number of employers in Seattle with payrolls of exactly \$7 million, \$100 million, and \$1 billion; and
6. number of employers in Seattle.

Finally, how do you think the Seattle city council predicted that this new tax would generate \$200 million in additional revenue for the city of Seattle? Do you think their prediction will prove accurate? Why or why not?

In your answer, use what you have learned in this class so far: in particular, the models of labor demand we covered, but also the sections of the course on frictions and elasticities, as appropriate. I want to see that you understand what we have covered in this course to the level of being able to apply it.

You will be graded on how concisely your answer is written; grammar; and the quality, precision, and thoroughness of your arguments, which must lean heavily on the models and concepts we have covered in class. Limit your answer to two pages or less of text (11-or 12-point font, one-inch margins). Any figures, which should be well-labeled and clear can be on a separate page. These can be hand-drawn. **Note that your answer must reflect your work, and your work alone.**

Seattle City Council votes in committee to advance new tax on big businesses

July 1, 2020 at 3:13 pm | Updated July 1, 2020 at 7:19 pm



Seattle City Councilmember Teresa Mosqueda chairs a budget committee meeting as the council considers establishing a new tax on big businesses. (Seattle Channel)



By **Daniel Beekman** 

Seattle Times staff reporter

The Seattle City Council took a major step Wednesday toward adopting a new tax on big businesses, voting in [a budget committee meeting](#) to advance a proposal expected to raise more than \$200 million per year for affordable housing, business assistance and community development.

A final vote by the full council is planned for Monday, and passage would mark a turning point at City Hall.

Only two years ago, the council — under intense pressure from corporate critics such as Amazon and the prospect of a voter referendum — [repealed](#) a \$47 million-per-year big business tax enacted less than a month before.

Dubbed “JumpStart Seattle” [by lead sponsor](#) Councilmember Teresa Mosqueda, the new tax would target large companies with highly paid employees, whereas the 2018 “head tax” would have been based on total employees.

In last year’s council elections, five candidates [defeated](#) opponents backed by big business groups. This year, the COVID-19 crisis and Black Lives Matter protests have

shaken up local politics, deepening inequities and highlighting community needs.

A number of neighborhood business organizations and industry groups sent [a letter](#) to the council before Wednesday's vote opposing the tax as ill-advised as Seattle's economy grapples with the pandemic.

But dozens of unions, community groups, nonprofits and religious groups have [endorsed](#) the JumpStart plan. Nearly everyone who spoke during a public-comment session at Wednesday's meeting urged the council to act, noting the pandemic has exacerbated Seattle's homelessness and housing challenges. The meeting was held remotely.

"I do think the sentiment of the public has drastically changed" since 2018, Council President M. Lorena González said Wednesday.

Under the [JumpStart tax](#), companies with annual payrolls of more than \$7 million would be taxed on their pay to employees making more than \$150,000 per year. As amended in the budget committee Wednesday, the tax rate would range from 0.7% to 2.4%, with tiers for various payroll and salary amounts.

For example, a company with payroll more than \$7 million and one employee making \$200,000 would pay a tax of 0.7% on \$200,000 — or \$1,400.

The 2018 head tax, in contrast, would have applied to companies with annual gross revenues of more than \$20 million and charged \$275 per employee, no matter their salary.

Grocery stores would be exempted under JumpStart, and the council may act Monday to also exempt some hospitals and nonprofits.

"Our community is hurting. Our economy is tanking," Mosqueda said when she introduced her proposal last month. "We cannot wait for the feds or the state to step in. We have to act now to help Seattle."

Wednesday's vote was 7-2. Mosqueda was joined by council members González, Kshama Sawant, Tammy Morales, Lisa Herbold, Dan Strauss and Andrew Lewis. Alex Pedersen and Debora Juarez voted against the bill, arguing the issue should instead be sent to the November ballot for voters to decide.

Mayor Jenny Durkan agrees with Pedersen and Juarez on that point, and she worries a new Seattle tax could cause companies to relocate elsewhere in King County, a Durkan

spokeswoman said after the committee meeting. The mayor could veto the tax; her veto could be canceled by six council votes.

Mosqueda has proposed using the JumpStart tax to underwrite \$86 million in coronavirus relief this year, to buttress city services as Seattle emerges from the pandemic in 2021 and to fund housing and more in the long term.

The coronavirus-relief and long-term spending plans are contained in separate bills. Mosqueda, who chairs the budget committee, said the committee would consider those bills July 15. The tax wouldn't take effect until next year; to provide coronavirus relief this year, the city would borrow from its emergency and rainy-day funds.

During Wednesday's meeting, council members approved a Sawant amendment eliminating a 10-year sunset clause in the JumpStart plan.

But they inserted a clause meant to ensure that the Seattle tax would halt if the state or county subsequently were to adopt a similar tax.

They also approved a Mosqueda-Morales amendment adjusting upward the tax rates in the bill; the changes could yield an additional \$40 million per year.

Estimates for how much the JumpStart tax would raise are somewhat shaky, because of imprecise payroll data and an unstable economic situation. But the council's analysts believe it could generate at least \$214 million in 2021.

Council members rejected Sawant amendments that would have pushed the sum higher still for affordable housing in the Central District and green-infrastructure programs. Dozens of religious leaders wrote a letter this week backing the Central District amendment as a way to battle gentrification.

Earlier this year, Sawant and Morales [proposed](#) taxing big businesses on pay to all employees, saying it could raise \$500 million a year. That plan was eclipsed by Mosqueda's, but Morales credited Sawant and local activists with pushing the council to address the issue.

She said the JumpStart plan would fund community projects and would start to reform Seattle's regressive tax structure, which is built on property and sales taxes that hit poor people hardest.

"There has never been a greater need ... or a more opportune time to invest in Black and brown communities for people who have repeatedly been harmed by our city," Morales

said.

Sawant described the JumpStart tax as inadequate but necessary, attributing Wednesday's vote to "our powerful, multiracial movement."

"The movement is the only thing that made this victory possible," she said, mentioning the "Tax Amazon" campaign that has been collecting signatures to put a measure on the November ballot in the absence of council action.

The mayor wants to review the spending plan for the JumpStart tax, partly because she and the council are [trying to plug](#) a massive 2020 budget hole opened up by the COVID-19 emergency, said Kelsey Nyland, the Durkan spokeswoman.

Durkan also "doesn't think City Council should expedite one of the largest taxes ever proposed in Seattle, especially in the midst of an economic downturn not seen since the Great Depression," Nyland said.

"Many workers at the companies (that would be) impacted by this tax are working from home. As employers make decisions on when and where to return workers, Mayor Durkan wants jobs and taxes to return to Seattle," Nyland added. "She continues to believe that a statewide or countywide progressive payroll tax is better."

Durkan earlier this year helped craft [a state House bill](#) that would have allowed King County to adopt a tax similar to the JumpStart plan. That bill died after some companies demanded it include a clause prohibiting Seattle from adopting its own version.

The mayor is interested in a Seattle income tax, Nyland said. A recent court ruling may have [opened the door](#) to a 1% city tax on household incomes; Durkan hasn't yet proposed that legislation.

Daniel Beekman: 206-464-2164 or dbeekman@seattletimes.com; on Twitter: [@dbeekman](#). *Seattle Times* staff reporter Daniel Beekman covers Seattle city government and local politics.

 [View 332 Comments](#)