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EITC and Minimum Wage: We Need Both to Make Work Pay

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Minimum wage and Earned Income Tax Credit (EITC) policies each benefit the working poor in different, but equally important ways. Precisely because each uses a different strategy, one policy can add support where the other policy falls short.

In fact, by relying on both in combination, we can achieve more than just getting workers out of poverty. Our research shows that ambitious, yet realistic, expansions to both policies can guarantee that work will support a decent living standard for the majority of U.S. workers.

Opponents of minimum wage laws, however, often set the two policies against each other, arguing that EITC programs should replace minimum wage laws. A version of this “either/or” argument appeared in a recent Spotlight commentary by Michael Saltsman, which argues that, unlike EITC policies, minimum wage laws largely benefit middle class teenagers, rather than the poor. Saltsman asserts that “only 10.9 percent of the benefits of such a wage hike [a hypothetical $9.50 minimum wage] would go to the working poor.”

To get a figure this small requires defining the poor as only those living at an extreme level of economic deprivation—households living below the U.S. Census Bureau poverty line. But major government programs to assist the poor, such as Medicaid and SNAP (formerly food stamps), often use a dollar threshold that is double the poverty line to identify families in need. According to the same study Saltsman cites, 38 percent of the benefits from the President’s proposal to increase the minimum wage would go to such families.

In fact, even triple the poverty line falls below the average income for the typical three-person family. If we use this to define lower-income households, then the majority of minimum wage benefits – 59 percent – get to households that could use them.

Unlike EITC policies, minimum wage benefits do not go exclusively to lower-income households. Minimum wage laws enforce the widely popular idea that all workers have a right to some minimally acceptable wage.

As a backstop on wages, minimum wage laws can minimize a potential negative, but unintended consequence of EITC policies—they may enable employers to pay lower wages. This can happen because, as EITC benefits draw more low-income workers into the workforce, employers find they can offer lower wages and still attract workers. Research bears this connection out, and at least two studies link lower wages with higher EITC benefits.
To support the either/or argument, Saltsman also cites research that suggests only 15 percent of low-income households benefitted from the federal minimum wage hike to $7.25. Yet this should lead us to the conclusion that the minimum wage rate is too low. Once we set aside the 30 percent of low-income households without any wage earners that still leaves 55 percent of low-income households whose members earn at wage rates beyond the federal minimum’s influence. This conclusion seems more persuasive than the either/or argument, especially when a four-person household supported by two full-time minimum wage workers would still qualify for major anti-poverty programs.

EITC programs complement minimum wage laws by filling in support for workers where minimum wage laws fall short. This includes workers with too few hours at higher wages and workers with children who typically have substantially greater income needs than childless workers.

The second major criticism of minimum wage laws that either/or advocates level is that they reduce employment. But a 2009 paper by Hristos Doucouliagos and T.D. Stanley decisively refutes this view in their analysis of nearly 40 years of research. Similar to the study that Saltsman cites on this topic, Doucouliagos and Stanley find the balance of studies point to negative employment effects. However, they take an important additional step: they distinguish between more and less precise estimates and find that the most precise estimates yield no minimum wage impact on employment.

The fact that the majority of published studies show negative effects reveals that journals favor studies that confirm, rather than challenge, the traditional view that minimum wage laws lower employment.

We should not be misled by this bias. The reality, supported by research, is that we need both policies — minimum wages and EITC programs — to reduce most effectively the ranks of the working poor. Minimum wages protect the lowest paid workers, the majority of whom are lower-income. They also protect against the potential for EITC policies to push down wages. Yet EITC policies also provide a complementary role, supporting those workers whom minimum wage laws do not always reach.

At current rates both of these policies combined still fall far short of enabling households to cover their basic needs. Our analysis has demonstrated that an economically feasible proposal to make work pay and to support a decent, rather than impoverished, living standard, requires significant expansions of both policies.