



The Case for Growing Both Minimum Wage and the EITC

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Both the minimum wage and the EITC need to be raised together to empower workers and give them the support they need.

It is well known that wages have not increased at the same pace as rising costs of living. Public assistance through social programs such as the Earned Income Tax Credit offer much needed aid to workers when wages alone cannot meet their expenses.

The [Center on Budget and Policy Priorities](#) finds, "Policymakers can help build an economy that works for everyone by adopting or strengthening two policy tools at their disposal: state earned income tax credits (EITCs) and state minimum wages. These are the twin pillars of making work pay for families that earn low wages. They boost income, widen the path to the middle class, and reduce the gap between high- and low-income households. They help women and communities of color — two groups that disproportionately work in low-wage jobs — see the fruits of their labor and share more fully in economic growth. And they help build a stronger future economy by putting children on a better path in life." As Rev. William Barber II [notes](#), "There's nowhere in the country where a worker can support a family on \$15 an hour."

Skeptics point out that when the EITC encourages work, it also boosts the supply of potential low-wage workers and creates downward pressure on wages. Jesse Rothstein (2010) [found](#) that for every dollar of the EITC, a worker's wage increases by 73 cents. Although the EITC can be viewed in part as a subsidy for employers, even if only $\frac{3}{4}$ of every EITC refund ends up in the recipient's pocket, that is still a substantial amount of support for the very poorest workers.

However, the case for increasing the EITC is stronger than that. Rothstein's estimates were performed using data on labor market participation and earnings from 1993 through 1995, a period in which the federal minimum wage was merely [\\$4.25 per hour](#). A higher minimum wage, such as today's federal minimum of \$7.25, reduces the size of that subsidy, and a much higher minimum wage, such as the \$15 that has been passed in many states/cities and is proposed federally, would put a high floor under wages, preventing employers from lowering wages to offset the EITC some of their workers may receive. Indexing the \$15 wage to inflation would continue lifting that floor. Rothstein himself [notes](#), "The minimum wage can be an efficient complement to the EITC, improving the latter's effectiveness by limiting employers' ability to capture the credit...EITC increases strengthen the case for raising the minimum wage."

We need to raise both the minimum wage and the EITC as sound economic policies that support workers. That is the [argument](#) made by David Lee and Emmanuel Saez (2010), that a strong minimum wage in conjunction with the EITC is needed to ensure that workers retain as much of their wages as possible, and captures any leakage in wage transfers from the EITC. Without a high and binding minimum wage, low-skilled wages would fall, partly offsetting the cash transfer that the EITC could provide. As Arin Dube [affirms](#), “A high minimum wage prevents wage reductions that can result from an EITC.” A strong minimum wage can help working families who may not qualify for the EITC and can [reduce](#) churning in the labor market, and a simultaneous EITC expansion could increase after-tax incomes of workers dollar for dollar.

Further, a modernized EITC, such as a “Cost-of-Living Refund” that expands the definition of work by making low-income family caregivers and students eligible for a credit, gives those individuals more worker power, as they may be able to afford to stay home rather than accept a low-quality job. In addition, that modest reduction in labor supply will tend to drive up wages, further offsetting any downward wage pressure from a larger EITC benefit.

Many economists and economic policy organizations point to the minimum wage and EITC as complementary policies, not substitutes for each other. The Center on Budget and Policy Priorities’ Jared Bernstein [writes](#) with Elaine Maag of the Urban Institute and Tax Policy Center, “There is no reason to choose between setting a wage floor or boosting the tax credit. Together, these programs can help reconnect some of our least advantaged workers to a growing economy—one that has largely passed them by.

Along with the economic advantages, increasing both the EITC and minimum wage can also have tangible benefits on health and wellbeing. A [working paper](#) circulated by the National Bureau of Economic Research finds that raising the minimum wage and the earned-income tax credit (EITC) by 10 percent each [could prevent](#) about 1,230 suicides annually.

Economic Policy Institute’s John Schmitt notes, “Four decades of slow and unequal wage growth have left workers at the middle and the bottom struggling to make ends meet. There is no silver bullet, but direct measures to raise workers’ wages should be at the center of any set of solutions. Two of the best policies for raising wages are a much higher federal minimum wage--ideally to \$15 per hour by 2024, as proposed in the Raise the Wage Act--combined with a substantially expanded EITC, along the lines proposed in the LIFT the Middle Class Act or the Cost-of-Living Refund Act. Both policies boost workers’ take home pay directly and they work well together.”