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OPINION | COMMENTARY

Don't Raise the Minimum Wage: Trump Has a Better Plan

Use the tax code to help working families afford child care. That's a way to boost incomes without the unemployment side effect.

By **MICHAEL SALTSMAN**

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Donald Trump is no one's idea of a traditional Republican, but his speech Tuesday showed the rank-and-file a better way to help workers at the bottom. Democrats pound the need to raise the minimum wage, which is a tricky political issue for the GOP. "Fight for \$15" fits well on a protest sign, and it's easy to paint opponents of a higher minimum wage as heartless, even though their economic reasoning is sound.



PHOTO: GETTY IMAGES

Speaking in a Philadelphia suburb, Mr. Trump proposed a new benefit: allowing families to deduct child-care expenses on their income taxes. For a single-parent household with no income-tax liability—the families that Democrats target with their minimum-wage message—this wouldn't do much good. So Mr. Trump offered an alternative: an expansion of the Earned Income Tax Credit (EITC) to offset child-care expenses.

The EITC, signed into law by President Gerald Ford in 1975, has for decades been championed by Republican and Democratic presidents alike. The word "credit" is a misnomer; the policy is better described as a wage supplement for low-income employees, topping up their income on a sliding scale.

To be eligible for the EITC a person must hold a job and earn income. The size of the annual payment depends not on tax liability, but on how much the employee earns and how many children he or she has. Payments phase out gradually as income rises, to avoid the counterproductive "cliff" effect that characterizes other social-welfare programs.

Economists have found much to like about the policy: A 2008 study, supported in part by my organization and published in the *Journal of Policy Analysis and Management*, found that when the credit has been expanded in the past, employment of single mothers rose. So did their wages. Mr. Trump would build on this success by further expanding the credit to help cover eligible child-care expenses. The maximum supplement under his plan would be one-half the amount of the employee's payroll

taxes (i.e. FICA and Medicare). For married couples, the maximum would be calculated from the lower-earning spouse.

Because it boosts pay through the tax code rather than a mandate on employers, the EITC is a pro-work alternative to raising the minimum wage. Consider the math in Pennsylvania, where Mr. Trump delivered his speech: The state's minimum wage is \$7.25, or \$15,080 a year. For a single parent with two children who is working full time, the federal EITC would be roughly \$5,550. In other words, it increases this parent's gross pay by a third. This creates an effective hourly wage (before other safety-net benefits are included) of \$9.92 an hour.

Mr. Trump would add up to \$575 to this transfer payment, calculated as half of the \$1,150 that the employee had deducted in payroll taxes. This would bump the effective hourly pay up to \$10.19 an hour. That's similar to the current minimum wage in deep-blue states like Massachusetts (\$10) and Connecticut (\$9.60). It's also consistent with the \$10.10 figure that President Obama championed as recently as 2014.

The numbers look even better in the 26 states that offer a supplement to the federal credit. Maryland, for instance, adds 26% to the federal credit. The state's minimum wage is \$8.75 an hour. But include the federal and state EITC (with Mr. Trump's proposed supplement) and the effective pay is \$12.43 an hour—above the \$12 figure that Hillary Clinton has campaigned on.

What's the cost for this wage boost? EITC benefits totaled roughly \$66 billion in tax year 2014, and Mr. Trump's proposal would add to this amount. (His campaign suggests it would be offset by eliminating waste and fraud in the unemployment insurance program.) Still, a partial wage subsidy from taxpayers is far better than the alternative—a 100% wage subsidy to workers who can't find a job after the minimum wage is raised.

If you don't believe me, ask the economists: A 2015 University of New Hampshire survey commissioned by my organization asked 166 American labor economists for their opinion on the best policies to reduce poverty. More than 70% identified the EITC as a very efficient means; only 5% said the same thing about a \$15 minimum wage.

This fall Democrats will doubtless paint any opposition to a higher minimum wage as cruel. Conservatives struggling to explain why a new mandate isn't the answer should point to Mr. Trump's proposal. Expanding the EITC is a smart alternative that fortifies the career ladder rather than lopping off the bottom rungs.

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