

If the majority of us want to ensure that anyone working a full-time job earns at least \$31,000 there are two ways to do it: (1) require a \$15.00 minimum wage (MW) or (2) set the level of the Earned Income Tax Credit (EITC) to \$31,000. Using the EITC will hurt the economy less than MW will and using EITC will also reduce inequality more than MW will.

The cost of EITC would be borne by all income tax payers. Only the top 53% of earners pay any income tax at all so EITC benefits the bottom end of workers by transferring money from the top half of earners, a clear reduction of inequality. Since the top 20% pay 87% of all income taxes, the top 10% pay 70% of all income taxes, the top 5% pay 60% of all income taxes, and the top 1% pay 40% of all income taxes, the vast preponderance of an EITC increase for those at the bottom will actually be paid for by those at the very top.

MW, on the other hand, is paid for by a completely hidden tax (a) on the other bottom end people whose jobs are displaced because of MW (b) on everyone who pays the higher prices that have to be charged for goods and services provided by employers forced to pay MW and (c) to some extent by employers who can't pass along the cost as higher prices.

Category (a) amounts to some bottom end workers transferring income to other bottom end workers.

Category (b) appears on first glance across the board: everyone pays a little in higher prices so that the worst off can get their MW. But on a closer look, a disproportionate share of the goods and services provided by minimum wage employers (fast food, big box, high volume retailers, low end manufactures, walk-in bank branches, high volume health care providers) are paid for by lower half consumers compared to upper half, a large portion of whose incomes aren't consumed and what is consumed is less likely from low-cost vendors.

Even in category (c) a fair number of the employers are not big businesses but rather local stand-alones and small franchisees of name brand chains. These employers are as likely to be in the bottom 50% or 75% as they are to be in the top levels.

So a heavy preponderance of the hidden tax levied to support MW comes from the bottom half of earners. It really reduces inequality only within the bottom half, not between the bottom and the top. On the other hand EITC takes directly from the top and gives to the bottom. Furthermore, it does so without any of the distortion to normal economic functioning caused by an arbitrary MW.

So why aren't the proponents of a \$31,000 wage floor for everyone clamoring for the EITC solution?

Simple.

Even though they would be levied only on the top half, and mostly on the top 5% or 10% at that, the population at large simply won't stand for visible tax increases on anyone. They have learned the hard way not to trust politicians bearing tax increases. So politicians will sneak it through by the MW route which actually imposes a hidden tax increase on all, but mostly on the bottom half.