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‘Working Americans Credit’ Gets Bipartisan Support

By: *Alfredo Ortiz*

This month, they formally met about how to turn this bipartisan compact into political reality.

There are good reasons why the EITC, or as I like to call it, The Working Americans Credit (WAC) is so popular. It supplements the incomes of entry-level employees, many of whom struggle to get by in today’s economy, but also rewards work, which all Americans value.

So while giving a helping hand to the economically disadvantaged, it also incentivizes people to get into the workforce, so they can pull themselves up. Expanding it like President Obama and Speaker Ryan have in mind could reduce further income insecurity and bring millions of additional employees into the workforce.

Here’s how it works: The paychecks of entry-level employees are supplemented through the tax code at an increasing rate as employees earn more. This incentivizes them to find a job and take as many hours as they can.

At a certain level, \$18,190 for a single mother with two kids, the benefit plateaus, then slowly phases out as incomes rise before stopping completely (at \$44,648 for a single mother with two kids). Importantly, it never phases out fast enough to penalize work. In other words, you always make more by accepting a raise or working more hours. (Unfortunately, this stands in stark contrast to many other government programs that penalize work.)

The WAC is especially effective when compared to another so-called anti-pover-

ty measure that it is frequently compared against: the minimum wage. Over the last year, 14 cities and states approved plans to implement a \$15 minimum wage. And many others are considering similar dramatic increases on the basis that they can help entry-level employees. While minimum wage proponents have their hearts in the right place, minimum wage increases have unintended consequences that hurt the people they intend to help.

Statistics from the Department of Labor show that a very slim fraction of Americans actually earn the minimum wage. According to the most recent data, just 1.2 million people, or fewer than two percent of the 77.2 million hourly workers earn the minimum wage. And most of these people – around 60 percent – are between the ages of 16 and 24-years-old, ages where people are entering the workforce and making associated entry-level wages.

That means that there are only a few hundred thousand minimum wage employees above the age of 25 who are not new to the working world and seemingly in need of some assistance. Rather than threatening the entire entry-level labor market with a higher wage mandate, this small subset of adult employees who are still making the minimum wage would be better helped by an expanded WAC.

We’ve already seen the consequences of minimum wage increases first hand. Self-service kiosks at fast-food restaurants and grocery stores across the country are a response to the high cost of hiring em-

ployees; putting an extra burden on business owners in the form of higher wage mandates will only increase this pace. A December report from the Federal Reserve Bank of San Francisco concluded that the last round of minimum wage increases cost the country 100,000 to 200,000 jobs. This reduces valuable career opportunities that allow entry-level employees to learn skills so they can quickly earn much more than the minimum wage.

Better to help these older entry-level employees with the WAC, which allows them the opportunity to build stable careers, rather than adding another hurdle for employment. Recent IRS numbers estimate that around 28 million Americans received \$66 billion in WAC benefits in 2013, pushing about 6.5 million people up from below the poverty line – more than half of whom were children. Increasing its payout frequency and expanding its payout to individuals could do even more good.

The best way to help entry-level employees is by creating plenty of job opportunities. The minimum wage fails on that score. But with a few tweaks supported by leaders in both political parties, the WAC can improve on its success of keeping career pathways open, helping Americans get back into the workforce, and putting entry-level employees on a path to financial independence. Who says bipartisanship is dead?

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