Minimum Wage Debate: Utahns should consider alternative ways to lift families out of poverty

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Many times in public policy we share a common goal, but choose a different path. This is the case with the minimum wage debate. Utahns share a sincere interest in helping low-income families secure a more stable future. Some policy makers choose the minimum wage policy path to lift these families out of poverty. Other people, like me, choose a different path. I favor enhanced training opportunities and the earned income tax credit as superior policy interventions.

With California, New York and other jurisdictions pursuing a $15 minimum wage, it's time to consider the right policy intervention for Utah.

The economic arguments

The minimum wage in Utah is currently pegged to the national rate of $7.25 an hour. Unlike some states, we do not set a state rate that is higher than the nation's. Approximately 28,000 Utahns receive the minimum wage; that's fewer than 4 percent of Utah wage and salary workers, and many of them are restaurant workers who receive far more because of gratuities.

The economic argument against a minimum wage is straightforward. Labor is a commodity just like anything else. If you increase the price, less is consumed. It follows then that when the federal government fixes the wage rate, employers hire fewer workers.

I'm not a "theory purist" on this issue. While I believe employers respond to incentives and many will hire fewer workers when faced with a non-market wage, the empirical evidence shows mixed results. Some credible studies have actually shown positive effects from modest increases in the minimum wage, in part because of greater employee retention and productivity. Others have shown the minimum wage hurts the very people it is supposed to help by reducing employment opportunities for low wageworkers.

The truth is economists have argued over the impacts of minimum wage hikes for decades. With the large increases now contemplated all around America, these debates will continue and intensify.

Alternative interventions
My biggest quarrel with the minimum wage is that we have better policy options to accomplish the goal of lifting low-income families out of poverty. These policy options are more targeted to those in need, more long-lived in terms of their impact, and more broadly shared among taxpayers.

My preferred policy intervention is investment in public and higher education that improves quality and access. We live in a globally competitive and technologically advanced world. Those with more talent, education and training thrive. Those without skills and education struggle. They must compete with lower-paid workers throughout the world with lower standards of living. It's an equation that doesn't work. The result is a growing underclass in our country. Forced wage increases will not fix this structural problem.

The best way to improve a person's financial standing in a globalized and tech-oriented world is not to give them an artificial wage, but to provide them with marketable skills. So my first and most important policy intervention is improved education funding with a focus on quality and access.

But the fruits of education investment take time to ripen. Improving educational outcomes is a medium- and long-term strategy, not a quick fix. It's the right thing to do, but not sufficient for the challenging income disparities we face right now.

This is where the federal Earned Income Tax Credit (EITC) comes into play. The EITC benefits working people with low to moderate income. The credit reduces the amount of tax owed and often provides individuals and families with sizeable refunds. As a policy intervention it captures the "triple play." It incentivizes work, targets the exact population you want to help (working parents with children), and spreads the social cost to all taxpayers.

Contrast this to the minimum wage, which incentivizes work, but in many cases serves the wrong population (such as teenagers of middle class families) and narrowly focuses the cost of the intervention on employers who employ low-skilled workers. I think the costs should be shared more broadly.

For tax year 2014, the federal EITC was claimed on 202,096 income tax returns with a Utah address. The total credit returned to these workers was $468 million. I'm certain this money goes a long way in rewarding work and improving living conditions in our state. And it's a safety net we all contribute to.

Real-world impacts
Every policy action has a reaction, some intended and some unintended. With the minimum wage, employers often replace labor with technological advancements and resort to the underground economy. The social objective of helping low-income families is thrown on the backs of a narrowly defined set of businesses—those that employ low-skilled workers.

With improved education funding and the earned income tax credit, we get more of what we want: help for low-income families working to build a better life.