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A No-Cost Proposal to Reduce Poverty:
Raising the Minimum Wage and Redesigning the EITC

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Each policy has its strengths and weaknesses.

Earned Income Tax Credit

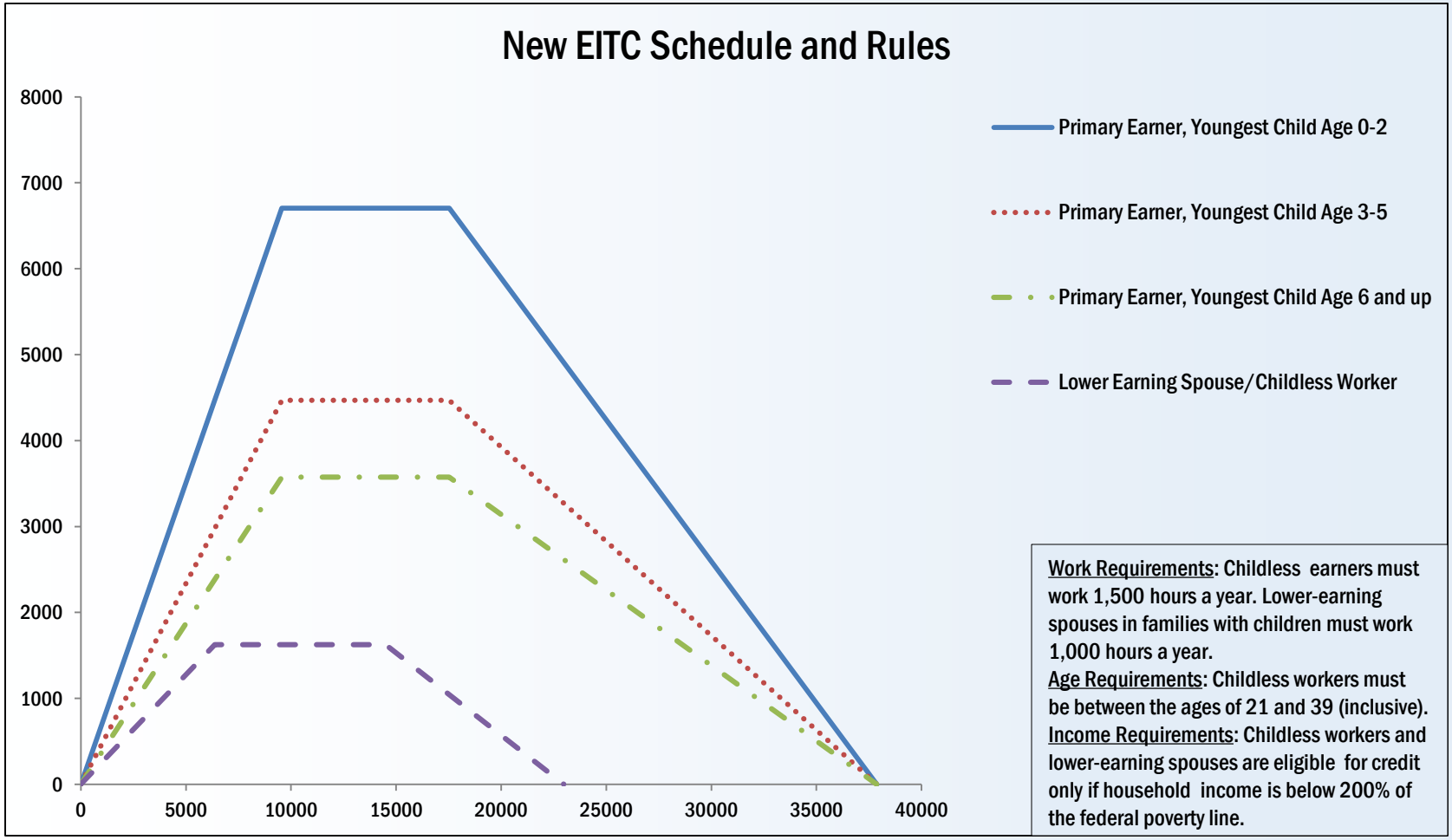
- *Strengths*
  - A highly effective antipoverty program
  - Incentivizes work
- *Limitations*
  - Sizeable marriage penalties
  - Costs the government $60 billion a year
  - Provides meager support to childless workers

Minimum Wage

- *Strengths*
  - Provides financial support to many low- and moderate-income families
  - Does not put any stress on the federal budget
- *Limitations*
  - Lacks the target efficiency of the EITC
  - May have small negative effects on employment

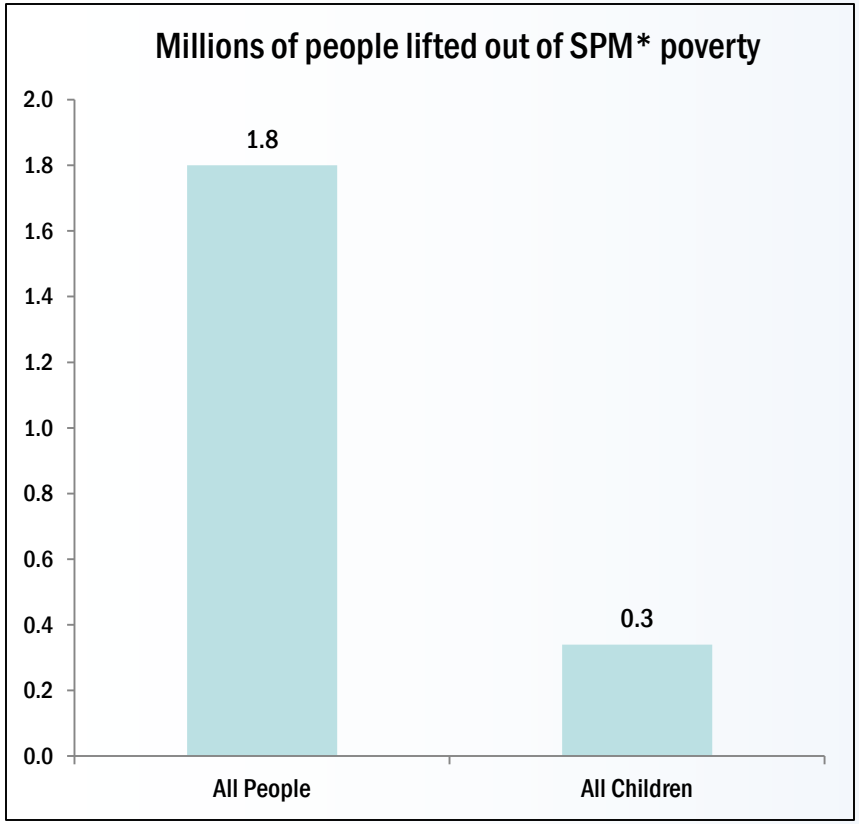
Our proposal would combine the best of both.

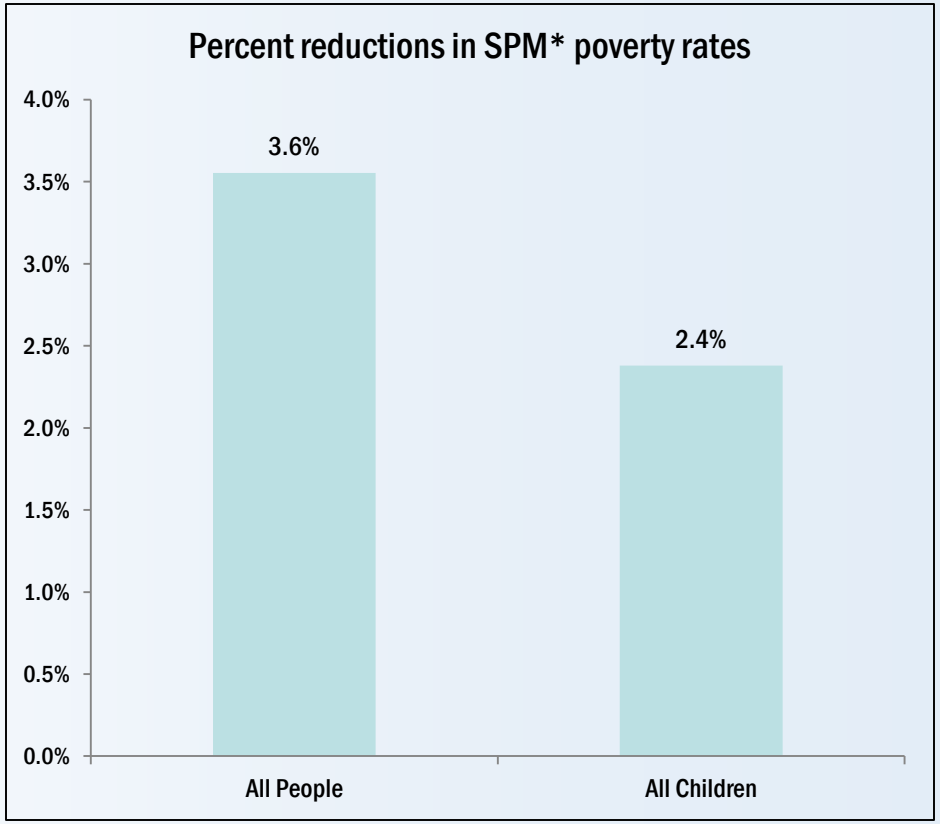
1. Raise the minimum wage to $10.10 an hour and index it for inflation.
2. Expand and restructure the EITC.



Our "hybrid" plan would reduce poverty…

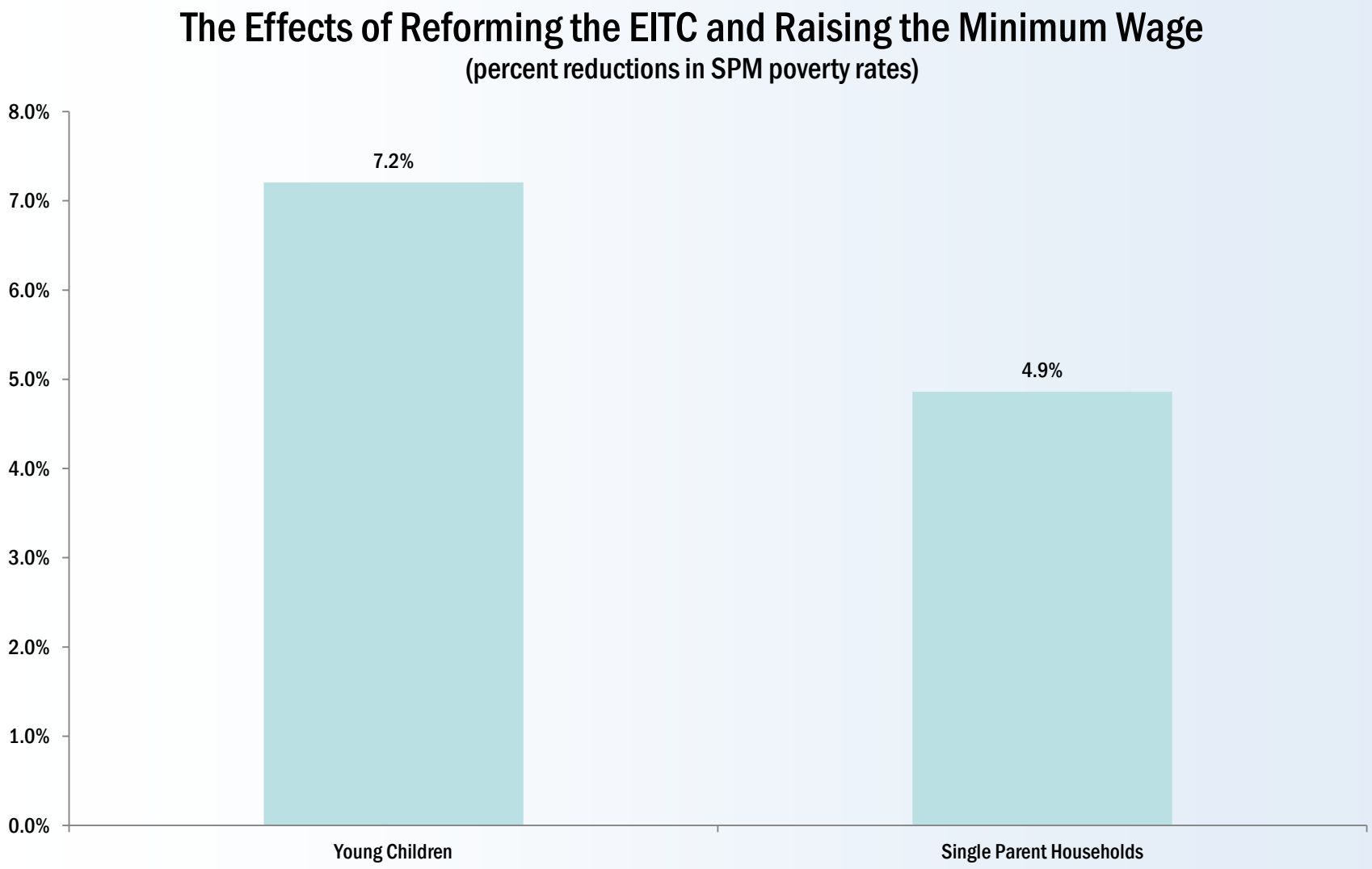
The Effects of Reforming the EITC and Raising the Minimum Wage





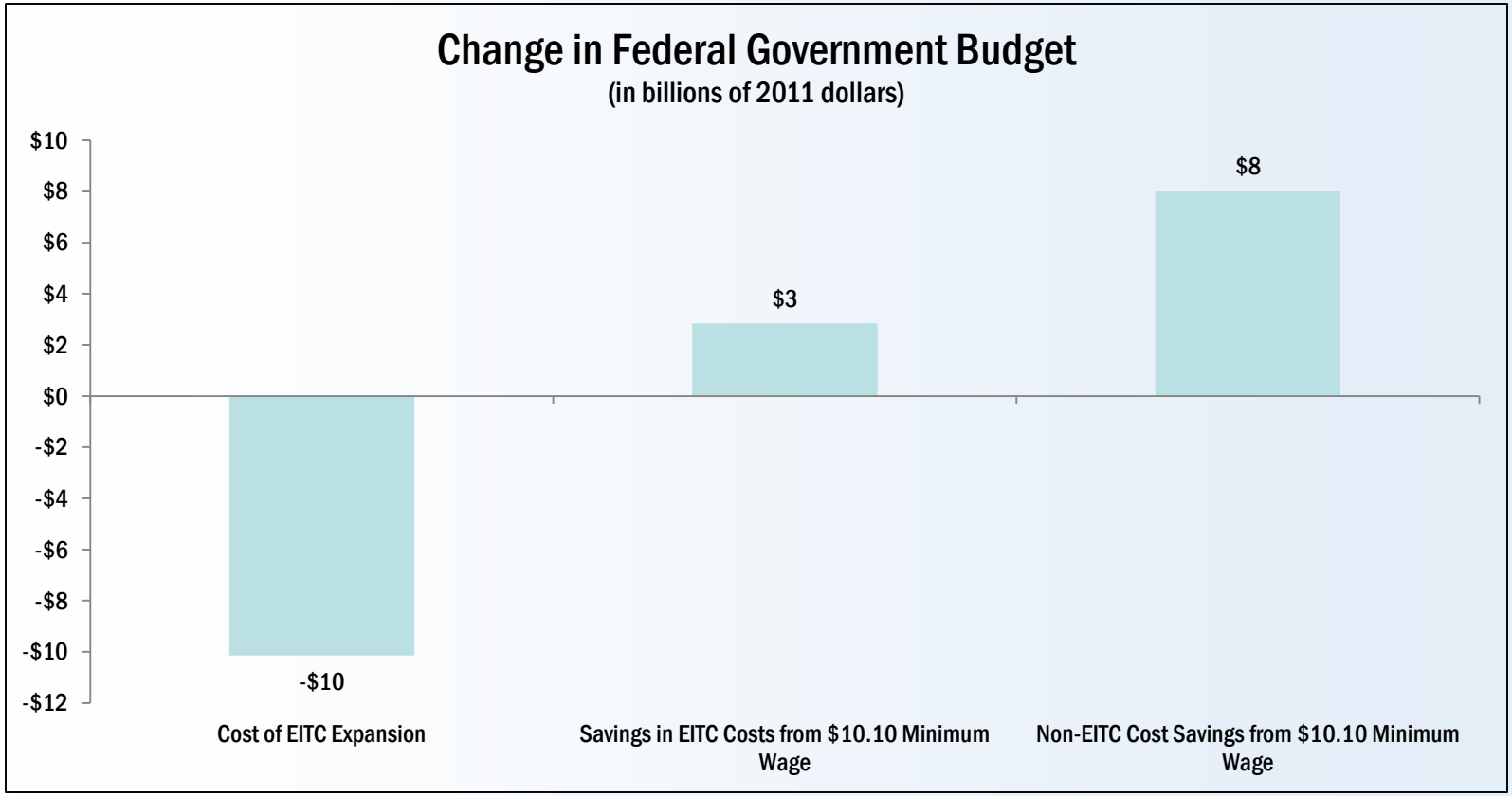
*Supplemental Poverty Measure

...especially among young children and single parents.



Reforming the EITC and raising the minimum wage in tandem also makes good fiscal sense.

The costs of our EITC expansion would be offset by a higher minimum wage, which would raise additional tax revenue and reduce participation in means-tested government programs.



For further reading:

- "Raising the Minimum Wage and Redesigning the EITC"
  - Isabel Sawhill and Quentin Karpilow, Brookings, Jan. 30, 2014.

- "A No-Cost Proposal to Reduce Poverty and Inequality"
  - Isabel Sawhill and Quentin Karpilow, Brookings, Jan. 10, 2014.

- "Earned income tax credit is a smart way to help the working poor"
  - The *Washington Post* editorial board, Jan. 26, 2014.

- "A memo to Obama: Want to make America less unequal? Here are some suggestions"
  - The *Economist*, Mar. 1, 2014.