Better Than Raising the Minimum Wage

Help Americans who need it with a major, carefully crafted expansion of the Earned Income Tax Credit.

By WARREN BUFFETT
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The American Dream promises that a combination of education, hard work and good behavior can move any citizen from humble beginnings to at least reasonable success. And for many, that promise has been fulfilled. At the extreme, we have the Forbes 400, most of whom did not come from privileged backgrounds.

Recently, however, the economic rewards flowing to people with specialized talents have grown dramatically faster than those going to equally decent men and women possessing more commonplace skills. In 1982, the first year the Forbes 400 was compiled, those listed had a combined net worth of $93 billion. Today, the 400 possess
$2.3 trillion, up 2,400% in slightly more than three decades, a period in which the median household income rose only about 180%.

Meanwhile, a huge number of their fellow citizens have been living the American Nightmare—behaving well and working hard but barely getting by. In 1982, 15% of Americans were living below the poverty level; in 2013 the proportion was nearly the same, a dismaying 14.5%. In recent decades, our country’s rising tide has not lifted the boats of the poor.

No conspiracy lies behind this depressing fact: The poor are most definitely not poor because the rich are rich. Nor are the rich undeserving. Most of them have contributed brilliant innovations or managerial expertise to America’s well-being. We all live far better because of Henry Ford, Steve Jobs, Sam Walton and the like.

Instead, this widening gap is an inevitable consequence of an advanced market-based economy. Think back to the agrarian America of only 200 years ago. Most jobs could then be ably performed by most people. In a world where only primitive machinery and animals were available to aid farmers, the difference in productivity between the most talented among them and those with ordinary skills was modest.

Many other jobs of that time could also be carried out by almost any willing worker. True, some laborers would outdo others in intelligence or hustle, but the market value of their output would not differ much from that of the less talented.

Visualize an overlay graphic that positioned the job requirements of that day atop the skills of the early American labor force. Those two elements of employment would have lined up reasonably well. Not today. A comparable overlay would leave much of the labor force unmatched to the universe of attractive jobs.

That mismatch is neither the fault of the market system nor the fault of the disadvantaged individuals. It is simply a consequence of an economic engine that constantly requires more high-order talents while reducing the need for commodity-like tasks.

The remedy usually proposed for this mismatch is education. Indeed, a top-notch school system available to all is hugely important. But even with the finest educational system in the world, a significant portion of the population will continue, in a nation of great abundance, to earn no more than a bare subsistence.

To see why that is true, imagine we lived in a sports-based economy. In such a
marketplace, I would be a flop. You could supply me with the world’s best instruction, and I could endlessly strive to improve my skills. But, alas, on the gridiron or basketball court I would never command even a minimum wage. The brutal truth is that an advanced economic system, whether it be geared to physical or mental skills, will leave a great many people behind.

In my mind, the country’s economic policies should have two main objectives. First, we should wish, in our rich society, for every person who is willing to work to receive income that will provide him or her a decent lifestyle. Second, any plan to do that should not distort our market system, the key element required for growth and prosperity.

That second goal crumbles in the face of any plan to sizably increase the minimum wage. I may wish to have all jobs pay at least $15 an hour. But that minimum would almost certainly reduce employment in a major way, crushing many workers possessing only basic skills. Smaller increases, though obviously welcome, will still leave many hardworking Americans mired in poverty.

The better answer is a major and carefully crafted expansion of the Earned Income Tax Credit (EITC), which currently goes to millions of low-income workers. Payments to eligible workers diminish as their earnings increase. But there is no disincentive effect: A gain in wages always produces a gain in overall income. The process is simple: You file a tax return, and the government sends you a check.

In essence, the EITC rewards work and provides an incentive for workers to improve their skills. Equally important, it does not distort market forces, thereby maximizing employment.

The existing EITC needs much improvement. Fraud is a big problem; penalties for it should be stiffened. There should be widespread publicity that workers can receive free and convenient filing help. An annual payment is now the rule; monthly installments would make more sense, since they would discourage people from taking out loans while waiting for their refunds to come through. Dollar amounts should be increased, particularly for those earning the least.

There is no perfect system, and some people, of course, are unable or unwilling to work. But the goal of the EITC—a livable income for everyone who works—is both appropriate and achievable for a great and prosperous nation. Let’s replace the American Nightmare with an American Promise: America will deliver a decent life for anyone willing to work.

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