No Taxes on Tips – the Gresham's Law of Campaign Policies

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As is by now well known, both presidential candidates have proposed to exempt tips from income tax. As is also well known, anybody who has thought about this for, say, a nanosecond concludes it is a non-starter.

- It is an incentive to distort labor compensation, as there is no particular reason to treat one kind of labor income differently than another.
- It is not an effective way to promote work; a much more effective tool is the earned income tax credit.
- It is not a good tool for redistribution as it is not well-targeted toward the less affluent.
- There is no reason to assign special merit to waiting and waitressing as compared to other difficult, low-wage jobs.
- In many cases, this is just ratifying the status quo of non-reported (and thus untaxed) tips.

And the list could go on.

But how does this happen? In economics, Gresham's Law is the principle that bad money drives out good. The idea of no tax on tips reflects a similar phenomenon that pervades campaigns: Bad policies drive out the good ones. (Remember the gas tax holiday?) There are two key components to the canonical bad campaign policy proposal: good versus evil and punchy messaging.

Tips are virtuous. They are a reward for superior performance. (Fun fact: TIP is actually an acronym: To Insure Promptness.) Taxes are evil. It is attractive to have good triumph over evil, especially if you can describe the whole proposal in four words: No Tax on Tips. It's a beauty. NTOT.