



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 7, 2002

S. 2538

Fair Minimum Wage Act of 2002

As introduced in the Senate on May 22, 2002

SUMMARY

S. 2538 would amend the Fair Labor Standards Act (FLSA) to increase the federal minimum wage in three steps from \$5.15 per hour to \$6.65 per hour by January 2004. The bill also would apply the minimum wage provisions of the FLSA to the Commonwealth of the Northern Mariana Islands (CNMI). The Congressional Budget Office (CBO) estimates that enactment of the bill would increase direct spending by \$5 million over the 2003-2004 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

S. 2538 would impose mandates, as defined by the Unfunded Mandates Reform Act (UMRA), on state and local governments, Indian tribes, and private-sector employers because it would require them to pay higher wages than they are required to pay under current law. S. 2538 also would preempt the minimum wage laws of the CNMI. CBO estimates that the costs to state, local, and tribal governments and to the private sector would exceed the thresholds established by UMRA. (The thresholds in 2002 are \$58 million for intergovernmental mandates and \$115 million for private-sector mandates, both adjusted annually for inflation.)

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in table 1. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF S. 2538

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
DIRECT SPENDING						
Spending for the Welfare-to-Work Program						
Under Current Law						
Budget Authority	0	0	0	0	0	0
Estimated Outlays	700	120	55	0	0	0
Proposed Changes						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	2	3	0	0	0
Spending for the Welfare-to-Work Program						
Under S. 2538						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	700	122	58	0	0	0

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes S. 2538 will be enacted by the beginning of August 2002. If so, the minimum wage would rise from \$5.15 to \$5.75 on October 1, 2002, to \$6.25 on January 1, 2003, and to \$6.65 on January 1, 2004.

The wage rate increases required by S. 2538 would result in additional direct spending under the Welfare-to-Work grant program, which provides funding to states and nonprofit organizations to subsidize the employment of individuals attempting to leave welfare for gainful employment. Funding totaling \$2.7 billion has already been allocated to grantees, and CBO estimates that about 14 percent of the total will ultimately not be spent under current law.

The most recent program data indicate that about 15 percent of the state grants and 20 percent of the grants to nonprofit organizations had been spent on subsidized employment. CBO assumes that grantees would continue to support the same number of workers in subsidized employment, and that the increased minimum wage would raise the costs of supporting them in those jobs. As a result, some funds that otherwise would not be used would be spent. CBO estimates that this additional spending would total \$5 million during the 2003-2004 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through fiscal year 2006 are counted.

TABLE 2. PAY-AS-YOU-GO EFFECTS OF S. 2538

	By Fiscal Year, in Millions of Dollars											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Changes in receipts												Not applicable
Changes in outlays	0	2	3	0	0	0	0	0	0	0	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill would impose both intergovernmental and private-sector mandates, as defined in UMRA, because it would require employers to pay higher wages than they are required to pay under current law. In addition, S. 2538 would preempt the minimum wage laws of the CNMI. That preemption also is considered a mandate.

To estimate the direct cost to employers of raising the minimum wage, CBO used information on the number of workers whose wages would be affected in October 2002 and subsequent months, the wage rates these workers would receive in the absence of the bill, and the number of hours for which they would be compensated. The estimate was made in two steps. First, CBO used data from the Current Population Survey to estimate how much it would have cost employers to comply with the mandate had they been required to do so in early 2001. Second, that estimate was used to project the costs to employers beginning in October 2002, taking into account the expected decline over time in the number of workers in the relevant wage range. The methods used for this estimate are similar to those used for CBO's estimate of a similar proposal (S. 277) made in 2001.

CBO estimates that the costs to state, local, and tribal governments would exceed the threshold established by UMRA for intergovernmental mandates (\$58 million in 2002, adjusted annually for inflation) in each year beginning in fiscal year 2003. We also estimate that the costs to the private sector would exceed the annual threshold established in the law for private-sector mandates (\$115 million in 2002, adjusted annually for inflation) in each

year beginning in fiscal year 2003. Table 3 summarizes the estimated costs of those mandates.

TABLE 3. ESTIMATED COSTS OF MANDATES IN S. 2538

	By Fiscal Year, in Billions of Dollars				
	2003	2004	2005	2006	2007
COSTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS					
Increase the federal minimum wage	0.2	0.2	0.4	0.4	0.3
DIRECT COST TO THE PRIVATE SECTOR					
Increase the federal minimum wage	3.1	6.0	6.2	5.5	4.9
Apply the minimum wage to the CNMI	0.1	0.1	0.2	0.2	0.2

PREVIOUS CBO ESTIMATE:

On June 18, 2001, CBO provided an estimate of S. 277, the Fair Minimum Wage Act of 2001. Like S. 2538, S. 277 sought to raise the minimum wage to \$6.65 per hour. However, the full increase would have occurred a year earlier, by January 2003. CBO estimated that enactment of S. 277 by September 1, 2001, would have resulted in increased direct spending of \$16 million over the 2002-2004 period. CBO estimated that the costs to state and local governments and to the private sector would have been somewhat higher for S. 277 than for S. 2538, because more workers would have been affected at the earlier enactment date. In the absence of an increase in the minimum wage rate, the number of workers earning at or near that rate generally decreases over time.

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