



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

January 11, 2007

H.R. 2 **Fair Minimum Wage Act of 2007**

As passed by the House of Representatives on January 10, 2007

SUMMARY

H.R. 2 would amend the Fair Labor Standards Act (FLSA) to increase the federal minimum wage in three steps from \$5.15 per hour to \$7.25 per hour. The act 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 enacting H.R. 2 would have no significant effect on the direct spending and revenues of the federal government. Because a very small number of federal employees are paid the federal minimum wage, the act would have a minor effect on the budgets of federal agencies that are controlled through annual appropriations.

The act would impose mandates, as defined by the Unfunded Mandates Reform Act (UMRA), on some 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. The act 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 2007 are \$66 million for intergovernmental mandates and \$131 million for private-sector mandates, both adjusted annually for inflation.)

For the purposes of this estimate, CBO assumes the legislation will be enacted by March 1, 2007. If so, the minimum wage would rise from \$5.15 to \$5.85 on May 1, 2007, to \$6.55 on May 1, 2008, and to \$7.25 on May 1, 2009.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that enacting H.R. 2 would have no significant effects on the federal budget.

Affected workers and their families could experience changes to their incomes that would affect the benefits they receive from federal programs such as the Earned Income Tax Credit (EITC), Food Stamps, and Medicaid. However, CBO judges that in aggregate any such impacts would be small, and could result in either higher or lower spending in those programs. Most workers in the affected wage range do not currently participate in those programs. CBO's analysis of the EITC indicates that those workers who are in the earnings range where the EITC is phased out would receive reduced payments that would virtually offset the additional benefits received by those in the phase-in range. Similarly, those Food Stamp participants whose earnings rose would receive fewer benefits, but workers who could not find work at the higher wages or whose hours were cut back would likely claim higher benefits.

The potential revenue effects are similar—small and of indeterminate direction. CBO expects that the workers with increased earnings would have characteristics similar to those whose incomes fall as a result of unemployment or reduced hours. Consequently, the marginal tax rates for the two groups would be comparable, and the changes in the minimum wage would result in little change in aggregate tax revenues.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The act 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, it 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 (that is, the cost of the new requirement absent any change in their behavior), CBO used information on the number of workers whose wages would be affected in May 2007 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 late 2006. Second, that estimate was used to project the costs to employers beginning in May 2007, taking into account the expected decline over time in the number of workers in the relevant wage range. Those estimates take into account the fact that some states already have, or will have, minimum wages higher than the current federal minimum wage.

CBO estimates that the costs to state, local, and tribal governments would exceed the threshold established by UMRA for intergovernmental mandates (\$66 million in 2007, adjusted annually for inflation) in each year beginning in fiscal year 2008. We also estimate

that the costs to the private sector would exceed the annual threshold established in the law for private-sector mandates (\$131 million in 2007, adjusted annually for inflation) in each year beginning in fiscal year 2007. The following table summarizes the estimated costs of those mandates.

ESTIMATED COSTS OF MANDATES IN H.R. 2

	By Fiscal Year, in Billions of Dollars				
	2007	2008	2009	2010	2011
COSTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS					
Increase the federal minimum wage	*	0.1	0.2	0.3	0.3
DIRECT COST TO THE PRIVATE SECTOR					
Increase the federal minimum wage	0.3	1.5	4.0	5.7	5.0
Apply the minimum wage to the CNMI	*	0.1	0.1	0.2	0.2

Note: * = Less than \$50 million.

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