



CONGRESSIONAL BUDGET OFFICE
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WASHINGTON, DC 20515

Dan L. Crippen
Director

March 9, 2000

The Honorable John R. Kasich
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

At your request, the Congressional Budget Office (CBO) has estimated the effect on mandatory spending of two proposals that would increase the federal minimum wage. In addition, CBO assessed the impact of the proposals on the private sector and on state, local, and tribal governments. One proposal would increase the minimum wage from \$5.15 to \$6.15 in three annual steps (increasing to \$5.48 on April 1, 2000, to \$5.81 on April 1, 2001, and to \$6.15 on April 1, 2002). The second would raise the wage to \$6.15 in two annual steps (increasing to \$5.65 on April 1, 2000 and to \$6.15 on April 1, 2001). This estimate addresses only the impact of such changes in the minimum wage and does not reflect any related provisions that may be included in particular bills or amendments.

Impact on the Federal Budget

CBO estimates that an increase in the minimum wage would result in a small net increase in direct spending because the Welfare-to-Work program (enacted in 1997) is classified as direct spending and involves some subsidized employment. An increase in the minimum wage would add to the cost of the subsidies and would therefore result in increased direct spending under the Welfare-to-Work program, which provides grants to states and nonprofit organizations. These grants have already been awarded, and spending will continue through fiscal year 2002. CBO estimates that, under current law, about \$400 million of the total \$3.0 billion in grant monies will go unspent. With an increase in the minimum wage, more of the funds for formula grants would be spent and the monies allocated for competitive grants would be spent more quickly.

Honorable John R. Kasich
Page 2

CBO estimates that federal spending would increase by \$3 million in 2000 and \$13 million over the 2000-2002 period under the three-step proposal. The two-step proposal would increase spending by \$4 million in 2000 and \$18 million from 2000-2002. Budget authority for the Welfare-to-Work program would not be affected by either proposal. These estimates assume that 11 percent of state grants and 25 percent of grants to nonprofit organizations will be spent on subsidized employment. Those percentages reflect the experience of the program through June 30, 1999.

Impact on State, Local, and Tribal Governments and the Private Sector

Increasing the federal minimum wage from \$5.15 per hour to \$6.15 per hour would impose both a private-sector and an intergovernmental mandate, as defined in the Unfunded Mandates Reform Act, because it would require private and public employers to pay higher minimum wage rates than they are required to pay under current law. CBO estimates that, under both proposed schedules, the mandate costs would exceed the annual threshold established in the law for private-sector mandates (\$100 million in 1996, adjusted annually for inflation) in each year beginning in fiscal year 2000, as well as the threshold established in the law for intergovernmental mandates (\$50 million in 1996, adjusted annually for inflation) in each year beginning in fiscal year 2001.

I hope this information is helpful to you. Questions about the Welfare-to-Work costs discussed in this estimate may be directed to Christina Hawley Sadoti. Questions regarding intergovernmental and private-sector mandates may be addressed to Ralph Smith.

Sincerely,

Dan L. Crippen
Director

cc: The Honorable John M. Spratt, Jr.
Ranking Member