



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 5, 2003

S. 224

Fair Minimum Wage Act of 2003

As introduced in the Senate on January 29, 2003

SUMMARY

S. 224 would amend the Fair Labor Standards Act (FLSA) to increase the federal minimum wage in two steps from \$5.15 per hour to \$6.65 per hour. 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 this bill would have no significant effect on the federal budget.

S. 224 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. 224 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 2003 are \$59 million for intergovernmental mandates and \$117 million for private-sector mandates, both adjusted annually for inflation.)

For the purposes of this estimate, CBO assumes S. 224 will be enacted in early July 2003. If so, the minimum wage would rise from \$5.15 to \$5.90 on September 1, 2003, and to \$6.65 on September 1, 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that raising the minimum wage would not significantly affect the federal budget, as federal agencies would not be subject to the new requirement. The bill would result in small increases in spending under the Welfare-to-Work grant program, which is classified as mandatory spending. A small portion of these grants is being spent to help subsidize employment for individuals moving out of welfare, but because all remaining spending under this program would occur in 2004, CBO estimates that the minimum wage increase would result in additional spending of less than \$500,000.

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. 224 would preempt the minimum wage laws of the CNMI. That preemption also is considered a mandate.

CBO estimates that the costs of the mandates to state, local, and tribal governments would peak at \$0.3 billion in 2005 and would exceed the threshold established by UMRA for intergovernmental mandates (\$59 million in 2003, adjusted annually for inflation) in each year beginning in fiscal year 2004. We estimate that the costs to the private sector would peak at \$5.5 billion in 2005 and would exceed the annual threshold established in the law for private-sector mandates (\$117 million in 2003, adjusted annually for inflation) in each year beginning in fiscal year 2003. The table below summarizes the estimated costs of those mandates.

ESTIMATED COSTS OF MANDATES IN S. 224

	By Fiscal Year, in Billions of Dollars				
	2003	2004	2005	2006	2007
COSTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS					
Increase the federal minimum wage	*	0.1	0.3	0.3	0.2
DIRECT COST TO THE PRIVATE SECTOR					
Increase the federal minimum wage	0.1	1.8	5.4	4.8	4.2
Apply the minimum wage to the CNMI	*	0.1	0.1	0.2	0.2

Note: * = Less than \$50 million.

To estimate the direct cost to employers (including state and local governments) of raising the minimum wage, CBO used information on the number of workers whose wages would be affected in September 2003 and subsequent months, the wage rates those 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 2002. Second, that estimate was used to project the costs to employers beginning in September 2003, 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. 2538) made in 2002.

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