

At a Glance

H.R. 582, Raise the Wage Act

As ordered reported by the House Committee on Education and Labor on March 6, 2019

| Millions of Dollars | 2019 | 2019-2024 | 2019-2029 |
|--|------|-------------------------------------|----------------------------|
| Direct Spending (Off-budget outlays) | 0 | * | 1 |
| Revenues | 0 | 0 | 0 |
| Deficit Effect | 0 | * | 1 |
| Spending Subject to Appropriation (Outlays) | 0 | 9 | 76 |
| Pay-as-you-go procedures apply? | No | Mandate Effects | |
| Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030? | No | Contains intergovernmental mandate? | Yes, Over Threshold |
| | | Contains private-sector mandate? | Yes, Over Threshold |

* = between zero and \$500,000.

The bill would

- Increase the federal minimum wage in six annual steps, from \$7.25 per hour to \$15 per hour, and then adjust the wage annually thereafter to keep pace with the median hourly wage
- Increase spending subject to appropriation by increasing the wages of some federal workers
- Increase off-budget direct spending by increasing the wages of some postal workers
- Impose intergovernmental and private-sector mandates by requiring employers to pay a higher minimum wage to employees who are covered under the Fair Labor Standards Act

Estimated budgetary effects would primarily stem from

- Increasing the wages of some federal employees

Areas of significant uncertainty include

- Projections of increases in the median hourly wage and wage growth for federal workers over the next decade

Detailed estimate begins on the next page.



Bill Summary

H.R. 582 would amend the Fair Labor Standards Act (FLSA) to increase the federal minimum wage in six annual steps from \$7.25 per hour to \$15 per hour in 2025 (shortly after enactment, the minimum wage would be \$8.55 per hour). After 2025, the minimum wage would be adjusted annually to account for changes in the median hourly wage of all workers. By 2029, the minimum wage would be \$16.82, CBO estimates. In addition, the bill would repeal the separate federal minimum cash wage for workers who receive tips by gradually raising that wage until it equals the federal minimum wage for nontipped workers. Finally, H.R. 582 would repeal the separate minimum wage for teenage workers and workers with disabilities by raising their wages gradually to equal the federal minimum wage.

Estimated Federal Cost

The estimated budgetary effect of H.R. 582 is shown in Table 1. The costs of the legislation fall within all budget functions except 950 (undistributed offsetting receipts).

| Table 1. Estimated Budgetary Effects of H.R. 582 | | | | | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|------|------|---------------|---------------|
| By Fiscal Year, Millions of Dollars | | | | | | | | | | | | 2019- 2024 | 2019- 2029 |
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | | |
| Increases in Off-Budget Direct Spending | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 0 | 0 | 0 | * | * | * | * | * | * | * | * | 1 |
| Estimated Outlays | 0 | 0 | 0 | 0 | * | * | * | * | * | * | * | * | 1 |
| Increases in Spending Subject to Appropriation | | | | | | | | | | | | | |
| Estimated Authorization | 0 | * | * | 1 | 2 | 6 | 11 | 14 | 14 | 14 | 14 | 9 | 76 |
| Estimated Outlays | 0 | * | * | 1 | 2 | 6 | 11 | 14 | 14 | 14 | 14 | 9 | 76 |

* = between zero and \$500,000.

Basis of Estimate

For this estimate, CBO assumes that the legislation will be enacted by October 1, 2019, and that starting in 2020, the minimum wage would rise incrementally, reaching \$15 in 2025. In subsequent years, the minimum wage would increase to keep pace with the increase in median hourly earnings.

Increasing the minimum wage would directly affect the federal budget by raising the pay of a small group of federal employees who are paid an hourly wage. This estimate accounts only for those direct effects on the budget.

H.R. 582 also would indirectly affect the budget by boosting the prices of some goods and services that the government purchases. Tax receipts and federal spending for health and



income security programs also would be indirectly affected as income increases for some people and falls for others. Without further analysis, CBO cannot estimate whether the net result of those indirect effects over the coming decade would be to increase or decrease budget deficits.

Direct Spending (Off-Budget)

Currently, all Postal Service employees earn more than \$8.55 per hour. Using information from the Postal Service, CBO estimates that under H.R. 582, about 100 employees would receive pay increases to minimum hourly rates starting in 2023. CBO estimates that raising wages for the affected workers in step with the provisions of H.R. 582 would increase direct spending by less than \$150,000 per year over the 2023-2029 period, with a cumulative cost of about \$700,000 over the 2020-2029 period. Changes in the cost of operating the Postal Service are reflected in the unified budget as changes in direct spending. The Postal Service operations are designated as off-budget.

Spending Subject to Appropriation

Implementing H.R. 582 would increase spending subject to appropriation by \$76 million over the next 10 years, CBO estimates. Using information from the Office of Personnel Management, CBO estimates that fewer than 100 workers initially would see a pay increase. As the minimum wage increased over time, however, more workers' pay would rise, and by the end of 2029, nearly 7,000 workers' wages would increase. For most affected employees, the pay raise would be less than 50 cents per hour, but for others the raise could be as much as \$10 per hour.

Uncertainty

The uncertainty in this estimate depends in part on CBO's projections of various measures of wage growth. CBO uses the employment cost index to project wage growth for federal employees because current law explicitly links federal employee pay to that index. After reaching \$15 per hour in 2025, however, increases in the minimum wage would depend on growth in median wages. Thus, if growth in one of those two measures diverged significantly from the other, outlays could be greater or smaller than CBO estimated.

Over the past 10 years, policymakers have in some cases constrained increases in federal pay that would have otherwise occurred because of changes in the employment cost index. If that trend continued, increases in the minimum wage would probably outpace federal wage increases, and a larger group of federal employees would see faster increases in their wages.



Pay-As-You-Go Considerations

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures. Spending for the Postal Service is classified as off-budget, therefore H.R. 582 is not subject to pay-as-you-go procedures.

Increase in Long-Term Deficits

CBO estimates that enacting H.R. 582 would not increase on-budget deficits in any of the four consecutive 10-year periods beginning in 2030.

Mandates

H.R. 582 would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) by requiring employers whose workers are covered under the FLSA to pay a higher minimum wage.

CBO estimates that the aggregate additional amount paid to those workers to meet the new minimum wage requirements would significantly exceed the thresholds established in UMRA for private-sector and intergovernmental entities in each year beginning in 2020 and 2021, respectively. In 2019, the intergovernmental threshold under UMRA is \$82 million and the private-sector threshold is \$164 million; both are adjusted annually for inflation.

CBO estimates that by 2025—when the minimum wage under H.R. 582 reaches \$15 per hour—state, local, and tribal employers would be required to pay covered workers \$3 billion in additional wages annually; the additional annual cost to private-sector employers would be \$48 billion. Those amounts do not account for employers' possible responses to the higher wage requirements, which could include reducing hiring, among other responses. If employers respond by taking such actions, CBO expects the costs to be lower, but still significantly higher than the thresholds established in UMRA.

CBO estimated the cost of the mandates using monthly data from the Census Bureau's Current Population Survey to estimate the distribution of workers' hourly wages under current law. In projecting future hourly wages, CBO accounted for prospective increases in some states' minimum wage rates, including those coming into effect under current and future state law.

CBO then identified the subset of workers covered under the FLSA whose hourly wages, in CBO's projections, would fall below the schedule of minimum wages set by H.R. 582. For this analysis, CBO excluded workers who are not covered by the FLSA—including those in most small businesses and in occupations that generally are exempt from the FLSA



under current law—and workers whose wages would be more than \$15 per hour in 2025. For both of those types of workers, CBO expects that employers would incur additional costs to increase wages, but such costs would not directly result from the employers' compliance with the mandate.

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