Congressional Budget Office

Testimony

Increasing the Minimum Wage: Effects on Employment and Family Income

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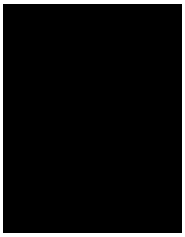
Notes

This testimony reprises a recent Congressional Budget Office (CBO) report about the effects of increasing the minimum wage. However, that report includes an appendix describing the basis of CBO's findings that is not included in this testimony. See Congressional Budget Office, *The Effects of a Minimum-Wage Increase on Employment and Family Income* (February 2014), www.cbo.gov/publication/44995.

Estimates of the effect on employment of the options to increase the minimum wage are rounded to the nearest 100,000 workers.

Numbers in the text, tables, and figures may not add up to totals because of rounding.



Contents

Chairman Harkin, Ranking Member Alexander, and Members of the Committee, thank you for inviting me to testify on the Congressional Budget Office's (CBO's) recent report *The Effects of a Minimum-Wage Increase on Employment and Family Income*. My statement today reprises that report.

Summary

Increasing the minimum wage would have two principal effects on low-wage workers. Most of them would receive higher pay that would increase their family's income, and some of those families would see their income rise above the federal poverty threshold. But some jobs for low-wage workers would probably be eliminated, the income of most workers who became jobless would fall substantially, and the share of low-wage workers who were employed would probably fall slightly.

What Options for Increasing the Minimum Wage Did CBO Examine?

For this analysis, the Congressional Budget Office examined the effects on employment and family income of two options for increasing the federal minimum wage:

- A "$10.10 option" would increase the federal minimum wage from its current rate of $7.25 per hour to $10.10 per hour in three steps—in 2014, 2015, and 2016. After reaching $10.10 in 2016, the minimum wage would be adjusted annually for inflation as measured by the consumer price index.

- A "$9.00 option" would raise the federal minimum wage from $7.25 per hour to $9.00 per hour in two steps—in 2015 and 2016. After reaching $9.00 in 2016, the minimum wage would not be subsequently adjusted for inflation.

What Effects Would Those Options Have?

The $10.10 option would have substantially larger effects on employment and income than the $9.00 option would—because more workers would see their wages rise; the change in their wages would be greater; and, CBO expects, employment would be more responsive to a minimum-wage increase that was larger and was subsequently adjusted for inflation. The net effect of either option on the federal budget would probably be small.

Effects of the $10.10 Option on Employment and Income. Once fully implemented in the second half of 2016, the $10.10 option would reduce total employment by about 500,000 workers, or 0.3 percent, CBO projects. As with any such estimates, however, the actual losses could be smaller or larger; in CBO's assessment, there is about a two-thirds chance that the effect would be in the range between a very slight reduction in employment and a reduction in employment of 1.0 million workers (see Table 1).

Many more low-wage workers would see an increase in their earnings. Of those workers who will earn up to $10.10 under current law, most—about 16.5 million, according to CBO's estimates—would have higher earnings during an average week in the second half of 2016 if the $10.10 option was implemented.[1] Some of the people earning slightly more than $10.10 would also have higher earnings under that option, for reasons discussed below. Further, a few higher-wage workers would owe their jobs and increased earnings to the heightened demand for goods and services that would result from the minimum-wage increase.

The increased earnings for low-wage workers resulting from the higher minimum wage would total $31 billion, by CBO's estimate.[2] However, those earnings would not go only to low-income families, because many low-wage workers are not members of low-income families. Just 19 percent of the $31 billion would accrue to families with earnings below the poverty threshold, whereas 29 percent would accrue to families earning more than three times the poverty threshold, CBO estimates.[3]

Moreover, the increased earnings for some workers would be accompanied by reductions in real (inflation-adjusted) income for the people who became jobless because of the minimum-wage increase, for business owners, and for consumers facing higher prices. CBO examined family income overall and for various income groups, reaching the following conclusions:

- Once the increases and decreases in income for all workers are taken into account, overall real income would rise by $2 billion.

- Real income would increase, on net, by $5 billion for families whose income will be below the poverty threshold under current law, boosting their average

1. In addition to the people who became jobless, some workers earning less than $10.10 per hour and not covered by minimum-wage laws would also not have increased earnings.

2. All effects on income are reported for the second half of 2016; annualized (that is, multiplied by two); and presented in 2013 dollars.

3. Poverty thresholds vary with family size and composition; CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

Table 1.

Estimated Effects on Employment, Income, and Poverty of an Increase in the Federal Minimum Wage, Second Half of 2016

	$10.10 Option[a]	$9.00 Option[b]
Change in Employment		
Central estimate[c]	-500,000 workers	-100,000 workers
Likely range[d]	Very slight decrease to -1.0 million workers	Very slight increase to -200,000 workers
Number of Workers With Hourly Wages Less Than the Proposed Minimum Whose Earnings Would Increase in an Average Week[e]	16.5 million	7.6 million
Change in Real Income (2013 dollars, annualized)[f]		
Families whose income is below the poverty threshold	$5 billion	$1 billion
Families whose income is between one and three times the poverty threshold	$12 billion	$3 billion
Families whose income is between three and six times the poverty threshold	$2 billion	$1 billion
Families whose income is six times the poverty threshold or more	-$17 billion	-$4 billion
Change in the Number of People Below the Poverty Threshold[g]	-900,000	-300,000

Source: Congressional Budget Office based on monthly and annual data from the Census Bureau's Current Population Survey.

a. The minimum wage would rise (in three steps, starting in 2014) to $10.10 by July 1, 2016, and then be indexed to inflation.

b. The minimum wage would rise (in two steps, starting in 2015) to $9.00 by July 1, 2016, and would not be subsequently indexed to inflation.

c. Uses values at or near the midpoints of estimated ranges for key inputs.

d. In CBO's assessment, there is a two-thirds chance that the actual effect would be within this range.

e. Some of the people with hourly wages slightly above the proposed minimum wage would also have increased earnings under the options.

f. Changes in real (inflation-adjusted) income include increases in earnings for workers who would receive a higher wage, decreases in earnings for workers who would be jobless because of the minimum-wage increase, losses in income for business owners, decreases in income because of increases in prices, and increases in income generated by higher demand for goods and services.

g. Calculated using before-tax family cash income. Poverty thresholds vary with family size and composition. The definitions of income and of poverty thresholds are those used to determine the official poverty rate and are as defined by the Census Bureau. CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

family income by about 3 percent and moving about 900,000 people, on net, above the poverty threshold (out of the roughly 45 million people who are projected to be below that threshold under current law).

- Families whose income would have been between one and three times the poverty threshold would receive, on net, $12 billion in additional real income. About $2 billion, on net, would go to families whose income would have been between three and six times the poverty threshold.
- Real income would decrease, on net, by $17 billion for families whose income would otherwise have been six times the poverty threshold or more, lowering their average family income by 0.4 percent.

Effects of the $9.00 Option on Employment and Income. The $9.00 option would reduce employment by about 100,000 workers, or by less than 0.1 percent, CBO projects. There is about a two-thirds chance that the effect would be in the range between a very slight increase in employment and a reduction in employment of 200,000 workers, in CBO's assessment. Roughly 7.6 million workers who will earn up to $9.00 per hour under

current law would have higher earnings during an average week in the second half of 2016 if this option was implemented, CBO estimates, and some people earning more than $9.00 would have higher earnings as well.

The increased earnings for low-wage workers resulting from the higher minimum wage would total $9 billion; 22 percent of that sum would accrue to families with income below the poverty threshold, whereas 33 percent would accrue to families earning more than three times the poverty threshold, CBO estimates.

For family income overall and for various income groups, CBO estimates the following:

- Once the increases and decreases in income for all workers are taken into account, overall real income would rise by $1 billion.
- Real income would increase, on net, by about $1 billion for families whose income will be below the poverty threshold under current law, boosting their average family income by about 1 percent and moving about 300,000 people, on net, above the poverty threshold.
- Families whose income would have been between one and three times the poverty threshold would receive, on net, $3 billion in additional real income. About $1 billion, on net, would go to families whose income would have been between three and six times the poverty threshold.
- Real income would decrease, on net, by $4 billion for families whose income would otherwise have been six times the poverty threshold or more, lowering their average family income by about 0.1 percent.

Effects of a Minimum-Wage Increase on the Federal Budget. In addition to affecting employment and family income, increasing the federal minimum wage would affect the federal budget directly by increasing the wages that the federal government paid to a small number of hourly employees and indirectly by boosting the prices of some goods and services purchased by the government. Most of those costs would need to be covered by discretionary appropriations, which are capped through 2021 under current law.

Federal spending and taxes would also be indirectly affected by the increases in real income for some people and the reduction in real income for others. As a group, workers with increased earnings would pay more in taxes and receive less in federal benefits of certain types than they would have otherwise. However, people who became jobless because of the minimum-wage increase, business owners, and consumers facing higher prices would see a reduction in real income and would collectively pay less in taxes and receive more in federal benefits than they would have otherwise. CBO concludes that the net effect on the federal budget of raising the minimum wage would probably be a small decrease in budget deficits for several years but a small increase in budget deficits thereafter. It is unclear whether the effect for the coming decade as a whole would be a small increase or a small decrease in budget deficits.

The Current Federal Minimum Wage

The federal minimum wage was established by the Fair Labor Standards Act of 1938 (FLSA) and currently applies to about two-thirds of workers in the public and private sectors. Workers whose compensation depends heavily on tips (such as waiters and bartenders) are subject to a special arrangement: The regular minimum wage applies to their compensation including tips, and a lower cash minimum wage applies to their compensation excluding tips. The FLSA also has exceptions for workers and employers of certain types, including a provision permitting employers to pay teenage workers $4.25 per hour during their first 90 days of employment.[4]

The nominal federal minimum wage has risen over the years. The most recent changes, which took effect in July 2007, raised the minimum wage in three steps from $5.15 per hour (in nominal dollars) to $7.25 in July 2009, where it stands today.[5] However, the real value of the minimum wage has both risen and fallen, as the

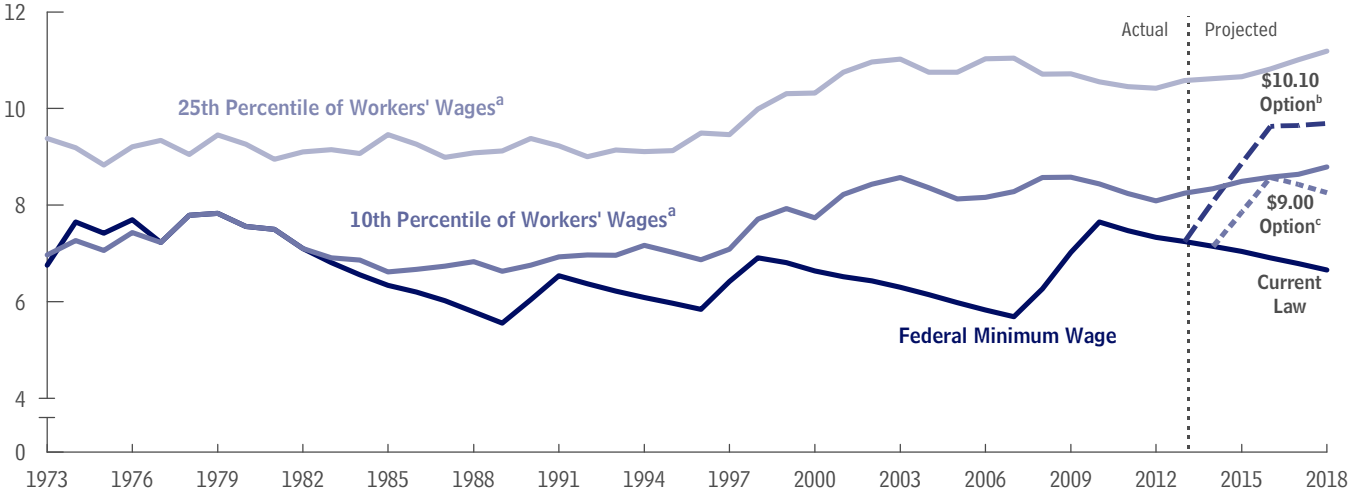
4. For details about the FLSA's minimum-wage requirements, see Fair Labor Standards Act of 1938, as amended, 29 U.S.C. §201 et seq. (2012). See also Department of Labor, "Minimum Wage and Overtime Pay" (accessed January 8, 2014), www.dol.gov/compliance/guide/minwage.htm.

5. After CBO completed its analysis of increasing the federal minimum wage, the President issued an executive order, entitled "Minimum Wage for Contractors," that established a minimum wage of $10.10 per hour for certain individuals working under new contracts with the federal government, beginning on January 1, 2015. That order slightly reduces the number of workers who would be affected by increasing the federal minimum wage and thus slightly reduces the estimated effects presented in this analysis.

Figure 1.

Workers' Hourly Wages and the Federal Minimum Wage, 1973 to 2018

(2013 dollars per hour)



Source: Congressional Budget Office based on monthly data from the Census Bureau's Current Population Survey and on data from the Department of Labor.

Note: CBO converted wages to 2013 dollars using the price index for personal consumption expenditures published by the Bureau of Economic Analysis. For example, nominal values in 2016 of $10.10 and $9.00 were adjusted downward to account for projected inflation between 2013 and 2016. After 2016, the minimum wage under the $10.10 option would increase slightly in the 2013 dollars shown in this figure because it would be indexed to the consumer price index, which would grow faster than the price index for personal consumption expenditures, CBO projects. Values for the federal minimum wage—both actual values and projected values under the $10.10 option, the $9.00 option, and current law—are as of July 1 of each year.

a. The hourly wage of workers not paid hourly was estimated as their weekly earnings divided by their usual hours worked per week. Values after those for 2013 are projected under current law.

b. The minimum wage would rise (in three steps, starting in 2014) to $10.10 by July 1, 2016, and then be indexed to inflation.

c. The minimum wage would rise (in two steps, starting in 2015) to $9.00 by July 1, 2016, and would not be subsequently indexed to inflation.

nominal increases have subsequently been eroded by inflation (see Figure 1).[6] That erosion was most pronounced between January 1981 and April 1990 and between September 1997 and July 2007—each a period of nearly 10 years during which the nominal value of the minimum wage was unchanged.

Many states and localities have minimum-wage laws that apply, along with federal law, to employers within their jurisdiction. In recent years, states and localities have been particularly active in boosting their minimum wage; as of January 2014, 21 states and the District of Columbia had a minimum wage that was higher than the federal one. In 11 of those states, the minimum wage is adjusted automatically each year with inflation, and in four more, plus the District of Columbia, future increases have already been legislated. In California, for example, the minimum wage is scheduled to increase from $8.00 to $9.00 in July 2014 and to $10.00 in January 2016. Some localities also have minimum wages that are higher than the applicable state or federal minimum wage; in San

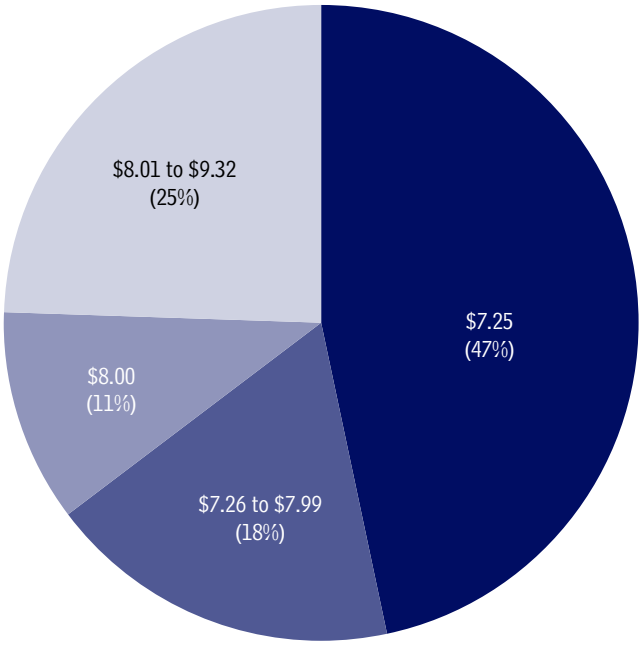
6. Adjusted for inflation, the federal minimum wage reached its historical peak in 1968. In that year, its value in 1968 dollars was $1.60, which is equal to $8.41 in 2013 dollars if the conversion is done with the price index for personal consumption expenditures published by the Bureau of Economic Analysis. CBO generally uses that index when adjusting labor market data for inflation, considering it a more accurate measure than a common alternative—the consumer price index for all urban consumers (CPI-U), which is published by the Bureau of Labor Statistics (BLS). According to many analysts, the CPI-U overstates increases in the cost of living because it does not fully account for the fact that consumers generally adjust their spending patterns as some prices change relative to other prices and because of a statistical bias related to the limited amount of price data that BLS can collect. The value of $1.60 in 1968 dollars is equal to $10.71 in 2013 dollars if the conversion is done with the CPI-U.

Francisco, for instance, the minimum wage is $10.74 per hour. Another 20 states have minimum wages equal to the federal minimum wage (and linked to it, in some cases). In some of those states, the state laws apply to some workers and employers who are not covered by the FLSA. At the moment, about half of all workers in the United States live in states where the applicable minimum wage is more than $7.25 per hour. The applicable minimum wage in those states ranges from $7.40 to $9.32 per hour (see Figure 2).

Minimum-wage workers are sometimes thought of primarily as teenagers from nonpoor families who are working part time, but that is not the case now. Of the 5.5 million workers who earned within 25 cents of the minimum wage in 2013, three-quarters were at least 20 years old and two-fifths worked full time. Their median family income was about $30,000, CBO estimates. (Some of the family incomes within that group of workers were substantially higher or lower than that amount, in part because the number of working adults in their families varied.)

Figure 2.

Shares of All Workers, by States' Applicable Minimum Wage, 2014



Source: Congressional Budget Office based on monthly data from the Census Bureau's Current Population Survey and on data from the Department of Labor.

Note: As of January 1, 2014, 21 states and the District of Columbia had a minimum wage above the federal minimum wage. The highest was $9.32 in the state of Washington.

Two Options for Increasing the Federal Minimum Wage

Lawmakers have proposed various options for increasing the federal minimum wage, including several that would increase it to $10.10 per hour and subsequently index it for inflation.[7] CBO has assessed the impact of such an option, as well as the impact of a smaller increase that would boost the minimum wage to $9.00 per hour and would not link future increases to inflation. The options that CBO analyzed would not change other provisions of the FLSA, such as the one that applies to wages for teenage workers during their first 90 days of employment.

A $10.10 Option

CBO examined an option that would increase the federal minimum wage from $7.25 per hour to $8.20 on July 1, 2014; to $9.15 one year after that; and to $10.10 after another year. The increase in the minimum wage between 2014 and 2016 under this option would be about 40 percent, roughly the same percentage as the total increase from 2007 to 2009 but larger than several earlier increases. Each year after that, the minimum wage would rise with the consumer price index.[8]

In addition, this option would raise the minimum cash wage for tipped workers from $2.13 per hour to $4.90 in three steps timed to coincide with the changes in the minimum wage. Then, starting in 2017, the minimum cash wage for tipped workers would rise by 95 cents each year until it reached 70 percent of the minimum wage (which would occur in 2019, by CBO's estimate); in subsequent years, it would be tied to inflation.

7. See, for example, S. 460, the Fair Minimum Wage Act of 2013; S. 1737, the Minimum Wage Fairness Act; and H.R. 3939, the Invest in United States Act of 2014. Another proposal (H.R. 3746, the Fair Minimum Wage Act of 2013) would increase the minimum wage to $11.00 and subsequently index it for inflation.

8. The $10.10 option is based on the provisions of S. 460, the Fair Minimum Wage Act of 2013. (The FLSA and S. 460 also apply to Puerto Rico and certain other U.S. territories, but because of limitations in available data, CBO's analysis is limited to the effects of minimum-wage increases on employment and family income in the 50 states and the District of Columbia.)

A $9.00 Option

CBO also examined a smaller change that would increase the federal minimum wage from $7.25 per hour to $8.10 on July 1, 2015, and to $9.00 on July 1, 2016. The minimum cash wage for tipped workers would increase when the minimum wage increased, and by the same percentage. The increase in the minimum wage would start one year later than it would under the $10.10 option. Like previous minimum-wage increases, this one would not be indexed to subsequent inflation. This $9.00 option is more similar than the $10.10 option to minimum-wage increases studied in the economics literature in a number of respects: the size of the increase, the portion of the workforce that it would affect, and the fact that its real value would be eroded over time.

How Increases in the Minimum Wage Affect Employment and Family Income

In general, increases in the minimum wage probably reduce employment for some low-wage workers. At the same time, however, they increase family income for many more low-wage workers.

Employment

According to conventional economic analysis, increasing the minimum wage reduces employment in two ways. First, higher wages increase the cost to employers of producing goods and services. The employers pass some of those increased costs on to consumers in the form of higher prices, and those higher prices, in turn, lead the consumers to purchase fewer of the goods and services. The employers consequently produce fewer goods and services, so they hire fewer workers. That is known as a scale effect, and it reduces employment among both low-wage workers and higher-wage workers.

Second, a minimum-wage increase raises the cost of low-wage workers relative to other inputs that employers use to produce goods and services, such as machines, technology, and more productive higher-wage workers. Some employers respond by reducing their use of low-wage workers and shifting toward those other inputs. That is known as a substitution effect, and it reduces employment among low-wage workers but increases it among higher-wage workers.

However, conventional economic analysis might not apply in certain circumstances. For example, when a firm is hiring more workers and needs to boost pay for existing workers doing the same work—to match what it needs to pay to recruit the new workers—hiring a new worker costs the company not only that new worker's wages but also the additional wages paid to retain other workers. Under those circumstances, which arise more often when finding a new job is time-consuming and costly for workers, increasing the minimum wage means that businesses have to pay the existing workers more, whether or not a new employee was hired; as a result, it lowers the additional cost of hiring a new employee, leading to increased employment. There is a wide range of views among economists about the merits of the conventional analysis and of this alternative.

The low-wage workers whose wages are affected by increases in the minimum wage include not only those workers who would otherwise have earned less than the minimum but also, in some cases, workers who would have earned slightly more than the minimum. After a minimum-wage increase, some employers try to preserve differentials in pay that existed before—for example, so that supervisors continue to be paid more than the people they supervise—by raising the wages of people who previously earned a little more than the new minimum. Also, some wages determined by collective bargaining agreements are tied to the federal minimum wage and could therefore increase. As a result, an increase in the minimum wage causes some workers who would otherwise have earned slightly more than the new minimum wage to become jobless, for the same reasons that lower-wage workers do; at the same time, some firms hire more of those workers as substitutes for the workers whose wages were required to be increased.

The change in employment of low-wage workers caused by a minimum-wage increase differs substantially from firm to firm. Employment falls more at firms whose customers are very sensitive to price increases, because demand for their products or services declines more as prices rise, so those firms cut production more than other firms do. Employment also falls more at firms that can readily substitute other inputs for low-wage workers and at firms where low-wage workers constitute a large fraction of input costs. However, when low-wage workers have fewer employment alternatives overall, employment can fall less at firms that offset some of the increased costs with higher productivity from employees' working harder to keep their better-paying jobs and with the lower cost of

filling vacant positions that results from higher wages' attracting more applicants and reducing turnover. Some firms, particularly those that do not employ many low-wage workers but that compete with firms that do, might see demand rise for their goods and services as their competitors' costs rise; such firms would tend to hire more low-wage workers as a result.

The change in employment of low-wage workers also differs over time. At first, when the minimum wage rises, some firms employ fewer low-wage workers, while other firms do not; the reduced employment is concentrated in businesses and industries where higher prices result in larger reductions in demand. Over a longer time frame, however, more firms replace low-wage workers with inputs that are relatively less expensive, such as more productive higher-wage workers. Thus, the percentage reduction in employment of low-wage workers is generally greater in the long term than in the short term, in CBO's assessment. (However, the total reduction in employment might be smaller in the long term; that total depends not only on the percentage reduction in employment of low-wage workers but also on the number of such workers, which could decline over time if wage growth for low-wage workers exceeded any increase in the minimum wage, all else being equal.)

Employers might respond to an increase in the minimum wage in ways other than boosting prices or substituting other inputs for low-wage workers. For example, they might partly offset a minimum-wage increase by reducing other costs, including workers' fringe benefits (such as health insurance or pensions) and job perks (such as free meals). As a result, a higher minimum wage might increase total compensation (which includes benefits and perks) less than it increased cash wages alone. That, in turn, would give employers a smaller incentive to reduce their employment of low-wage workers. However, such benefit reductions would probably be modest, in part because low-wage workers generally receive few benefits related to pensions or health insurance. In addition, tax rules specify that employers who reduce low-wage workers' nonwage benefits can face unfavorable tax treatment for higher-wage workers' nonwage benefits. Employers can also partly offset higher wages for low-wage workers by reducing either formal training or informal mentoring and coaching. The evidence on how much employers reduce benefits, training, or other costs is mixed.

An increase in the minimum wage also affects the employment of low-wage workers in the short term through changes in the economywide demand for goods and services. A higher minimum wage shifts income from higher-wage consumers and business owners to low-wage workers. Because those low-wage workers tend to spend a larger fraction of their earnings, some firms see increased demand for their goods and services, boosting the employment of low-wage workers and higher-wage workers alike. That effect is larger when the economy is weaker, and it is larger in regions of the country where the economy is weaker.

Low-wage workers are not the only ones whose employment can be affected by a minimum-wage increase; the employment of higher-wage workers can be affected as well, in several ways. Firms that cut back on production tend to reduce the number of both higher-wage workers and low-wage workers. But once a minimum-wage increase makes higher-wage workers relatively less expensive, firms sometimes hire more of them to replace a larger number of less productive low-wage workers. Another factor affecting higher-wage workers is the increase in the economywide demand for goods and services. All in all, a higher minimum wage tends to increase the employment of higher-wage workers slightly, according to CBO's analysis.

Family Income

For most families with low-wage workers, a higher minimum wage boosts family income, because of the increase in earnings that many of those workers (including those whose wages were slightly above the new minimum) receive. A much smaller number of low-wage workers become jobless and therefore experience a decline in earnings because of the higher minimum wage.

For families with low-wage workers, the effect of a higher minimum wage depends on how many such workers are in a family, whether those workers become jobless (and, if so, for how long), and whether there are other changes in family income. For instance, the decline in income from losing a job can be offset in part by increases in nonlabor income, such as unemployment compensation, or by increases in the work of other family members.

For business owners, family income (including income for shareholders) falls to the extent that firms' profits are reduced. In addition, real family income for many people

tends to fall a bit, because the increase in prices of goods and services reduces families' purchasing power.

The effects on total national income of an increase in the minimum wage differ in the long term and in the short term. In the long term, the key determinant of the nation's output and income is the size and quality of the workforce, the stock of productive capital (such as factories and computers), and the efficiency with which workers and capital are used to produce goods and services (known as total factor productivity). Raising the minimum wage probably reduces employment, in CBO's assessment. In the long term, that reduction in the workforce lowers the nation's output and income a little, which means that the income losses of some people are slightly larger than the income gains of others. In the short term, by contrast, the nation's output and income can deviate from the amounts that would typically arise from a given workforce, capital stock, and productivity in response to changes in the economywide demand for goods and services. Raising the minimum wage increases that demand, in CBO's assessment, because the families that experience increases in income tend to raise their consumption more than the families that experience decreases in income tend to reduce their consumption. In the short term, that increase in demand raises the nation's output and income slightly, which means that the income losses of some people are slightly smaller than the income gains of others.

CBO's Findings About Employment and Family Income

CBO estimated the effects on employment and family income of both the $10.10 option and the $9.00 option for raising the federal minimum wage.[9] CBO's estimates are for the second half of 2016 because that would be the point at which the minimum wage reached $10.10 under the first option and $9.00 under the second. In either case, the increase in the minimum wage would have two principal effects on low-wage workers: The large majority would have higher wages and family income, but a much smaller group would be jobless and have much lower family income. Once the other changes in income were taken into account, families whose income would be below six times the poverty threshold under current law would see a small increase in income, on net, and families whose income would be higher under current law would see reductions in income, on net. In addition, in either case, higher-wage workers would see a small increase in the number of jobs.

Increases in the minimum wage would raise the wages not only for many workers who would otherwise have earned less than the new minimum but also for some workers who would otherwise have earned slightly more than the new minimum, as discussed above. CBO's analysis focused on workers who are projected to earn less than $11.50 per hour in 2016 under current law (who, in this analysis, are generally referred to as low-wage workers). People with certain characteristics are more likely to be in that group and are therefore more likely to be affected by increases in the minimum wage like those that CBO examined. For example, in 2016, 88 percent of the people earning such wages will be at least 20 years old, 56 percent will be female, and 91 percent will not have attained a bachelor's degree, CBO estimates (see Table 2).

Effects of the Options on Employment

According to CBO's central estimate, implementing the $10.10 option would reduce employment by roughly 500,000 workers in the second half of 2016, relative to what would happen under current law.[10] That decrease would be the net result of two effects: a slightly larger decrease in jobs for low-wage workers (because of their higher cost) and an increase of a few tens of thousands of jobs for other workers (because of greater demand for goods and services).[11] By CBO's estimate, about 1½ percent of the 33 million workers who otherwise would have earned less than $11.50 per hour would be jobless—either because they lost a job or because they could not find a job—as a result of the increase in the minimum wage.

9. For an estimate of the effect on employment of a previous proposal to increase the minimum wage, see Congressional Budget Office, private-sector mandate statement for S. 277, the Fair Minimum Wage Act of 2001 (May 9, 2001), www.cbo.gov/publication/13043.

10. A central estimate is one that uses values at or near the midpoints of estimated ranges for key inputs.

11. In this analysis, phrases referring to changes in the number of jobs are used interchangeably with phrases referring to changes in employment. Technically, however, if a low-wage worker holds multiple jobs and loses one of them, that would represent a reduction of one job but no change in employment (because the worker would remain employed). About 5 percent of low-wage workers will hold more than one job under current law, CBO projects. Therefore, for any given reduction in employment, the reduction in the number of jobs will be slightly larger.

Table 2.

Projected Characteristics of Low-Wage Workers, Second Half of 2016

Characteristic	Percentage of All Workers With Characteristic Who Will Be Low-Wage	Percentage of Low-Wage Workers With Characteristic
Age		
16 to 19	87	12
20 and older	22	88
All	24	100
Sex		
Female	28	56
Male	21	44
All	24	100
Educational Attainment		
Less than high school	58	21
High school graduate or some college	30	70
Bachelor's degree	7	10
All	24	100
Hours Worked per Week		
Fewer than 35	58	47
35 or more	16	53
All	24	100
Number of Employees in Firm		
Fewer than 50	30	48
50 or more	19	52
All	24	100

Source: Congressional Budget Office based on monthly and annual data from the Census Bureau's Current Population Survey.

Note: Low-wage workers are people who are projected, under current law in the second half of 2016, to be paid less than $11.50 per hour.

Those job losses among low-wage workers would be concentrated among people who are projected to earn less than $10.10 an hour under current law. Some workers who would otherwise have earned between $10.10 and $11.50 per hour would also see an increase in their wages, which would tend to reduce their employment as well, CBO estimates. However, some firms might hire more of those workers as substitutes for the lower-paid workers whose wages had been increased. Those two factors would probably be roughly offsetting, CBO anticipates, so the number of such workers who were employed would probably not change significantly.

The overall reduction in employment could be smaller or larger than CBO's central estimate. In CBO's assessment, there is about a two-thirds chance that the effect of the $10.10 option would be in the range between a very slight decrease in employment and a decrease of 1.0 million workers; thus, there is a one-third chance that the effect would be either above or below that range. The most important factors contributing to the width of the range are uncertainty about the growth of wages over the next three years (which influences the number of workers who would be affected by the minimum-wage increase, as well as the extent to which the increase would raise their wages) and uncertainty about the responsiveness of employment to an increase in wages. For example, if wage growth under current law was slower than CBO projects, implementing the increase would result in more people with increased wages and a greater reduction in employment than CBO's central estimate suggests.

Under the $9.00 option, employment would decline by about 100,000 workers in the second half of 2016, relative to what it would be under current law, according to CBO's central estimate. That estimate is much smaller

than the central estimate for the $10.10 option for three reasons: Fewer workers would be affected; the change in their wages would be smaller; and four aspects of the $9.00 option would make employment in 2016 less responsive to a minimum-wage increase, CBO expects.[12] The first of those four aspects is that the $9.00 option is not indexed to inflation, so some employers would probably refrain from reducing employment, knowing that inflation would erode the cost of paying higher wages. Second, under the $9.00 option, the second half of 2016 arrives one year after the initial increase in the minimum wage—rather than two years, as under the $10.10 option—and employers would be less likely to reduce employment soon after an increase in the minimum wage than they would be over a longer period. Third, because the cost of paying higher wages under the $9.00 option is smaller than that of the $10.10 option, CBO expects that fewer employers would find it desirable to incur the adjustment costs of reducing employment (such as installation of new equipment). Fourth, the $9.00 option would apply to a smaller share of the workforce. Four percent of the labor hours in the economy will be worked by people who will earn up to $9.00 per hour under current law and who would either receive a wage increase or be jobless if the $9.00 option was implemented, CBO estimates. In contrast, about 10 percent of labor hours will be worked by people who will earn up to $10.10 per hour under current law and who would either receive a wage increase or be jobless if the $10.10 option was implemented. Thus, the $9.00 option would cause a correspondingly smaller increase in costs, which employers would be likely to absorb less through reductions in employment and more in other ways.

In CBO's assessment, there is a two-thirds chance that the effect of the $9.00 option would be in the range between a very slight increase in the number of jobs and a loss of 200,000 jobs.[13] If employment increased under either option, in CBO's judgment, it would probably be because increased demand for goods and services (resulting from the shift of income from higher-income to lower-income people) had boosted economic activity and generated more jobs than were lost as a direct result of the increase in the cost of hiring low-wage workers.

CBO has not analyzed the effects of either option on the number of hours worked by people who would remain employed or on the decision to search actively for work and join the labor force by people who would not otherwise be working. Therefore, the agency has not reported the effects of the options on full-time-equivalent employment or on the unemployment rate.

Effects of the Options on Family Income

Among the 33 million low-wage workers earning less than $11.50 per hour in the second half of 2016 under current law, CBO estimates, real earnings would increase by $31 billion as a result of higher wages if the $10.10 option was implemented. (All amounts of income reported for that period are annualized—that is, multiplied by two—and reported in 2013 dollars.) About 16.5 million workers who will earn less than $10.10 per hour under current law would receive higher wages, CBO estimates, and some workers who will earn between $10.10 and $11.50 per hour under current law would receive higher wages as well.[14] Most of the additional income would accrue to families with fairly low income, but a substantial portion would also be received by low-wage workers in higher-income families—29 percent and 6 percent by families who would otherwise have had income greater than three and six times the federal poverty threshold, respectively.

That increase in income resulting from higher wages would be accompanied by reductions of a similar amount in real income from several other sources: decreases in earnings for workers who would be jobless because of the

12. Under the $9.00 option, the central estimate of the responsiveness of employment to a change in the applicable minimum wage is -0.075 for teenagers, for example, which means that the employment of teenagers would be reduced by three-quarters of one percent after a 10 percent change in the minimum wage. The equivalent estimate under the $10.10 option is -0.10.

13. In a recent survey, leading economists were asked whether they agreed with the statement that "raising the federal minimum wage to $9 per hour would make it noticeably harder for low-skilled workers to find employment." When the results were weighted by the respondents' confidence, 40 percent of the economists agreed with the statement, 38 percent disagreed, and 22 percent were uncertain. However, the survey did not specify how large a drop in employment was meant by "noticeably harder . . . to find employment." See University of Chicago Booth School of Business, "Minimum Wage" (published February 26, 2013; accessed January 8, 2014), http://tinyurl.com/aa52pfo.

14. CBO did not estimate the number of workers in the latter group who would receive higher wages as a result of the increase in the minimum wage; instead, it applied an estimated average percentage increase in wages to all workers in that group.

minimum-wage increase; losses in income for business owners; and increases in prices of goods and services, which would reduce people's purchasing power. In addition, a few higher-wage workers would be employed and earn more because of increased demand for goods and services resulting from the minimum-wage increase.

Once all those factors are taken into account, CBO estimates that the net changes in real income would be an increase of about $5 billion for families whose income would have been below the poverty threshold under current law; an increase of $12 billion for families whose income would have been between one and three times the poverty threshold; an increase of $2 billion for families whose income would have been between three and six times the poverty threshold; and a *decrease* of $17 billion for families whose income would have been greater than that (see Figure 3). (In 2016, six times the poverty threshold will be roughly $120,000 for a family of three and $150,000 for a family of four, CBO projects.) According to CBO's estimates, the increase in earnings for the few low-wage workers living in that last group of families would be more than offset by income reductions, in part because the losses in business income and in real income from price increases would be concentrated in those families (see Table 3).

Families whose income will be below the poverty threshold in 2016 under current law will have an average income of $10,700, CBO projects (see Table 4 on page 14). The agency estimates that the $10.10 option would raise their average real income by about $300, or 2.8 percent. For families whose income would otherwise have been between the poverty threshold and 1.5 times that amount, average real income would increase by about $300, or 1.1 percent. The increase in average income would be smaller, both in dollar amounts and as a share of family income, for families whose income would have been between 1.5 times and six times the poverty threshold. And for families whose income would otherwise have been greater than six times the poverty threshold, the total effect of the $10.10 option would be a reduction in average real income of about $700, or 0.4 percent. But the effects of a minimum-wage increase on family income would vary even among families with similar incomes under current law. For example, many families with income less than six times the poverty threshold would see their income rise; but income for a smaller set of those families would decline, because some low-wage workers would lose jobs that they would otherwise have.

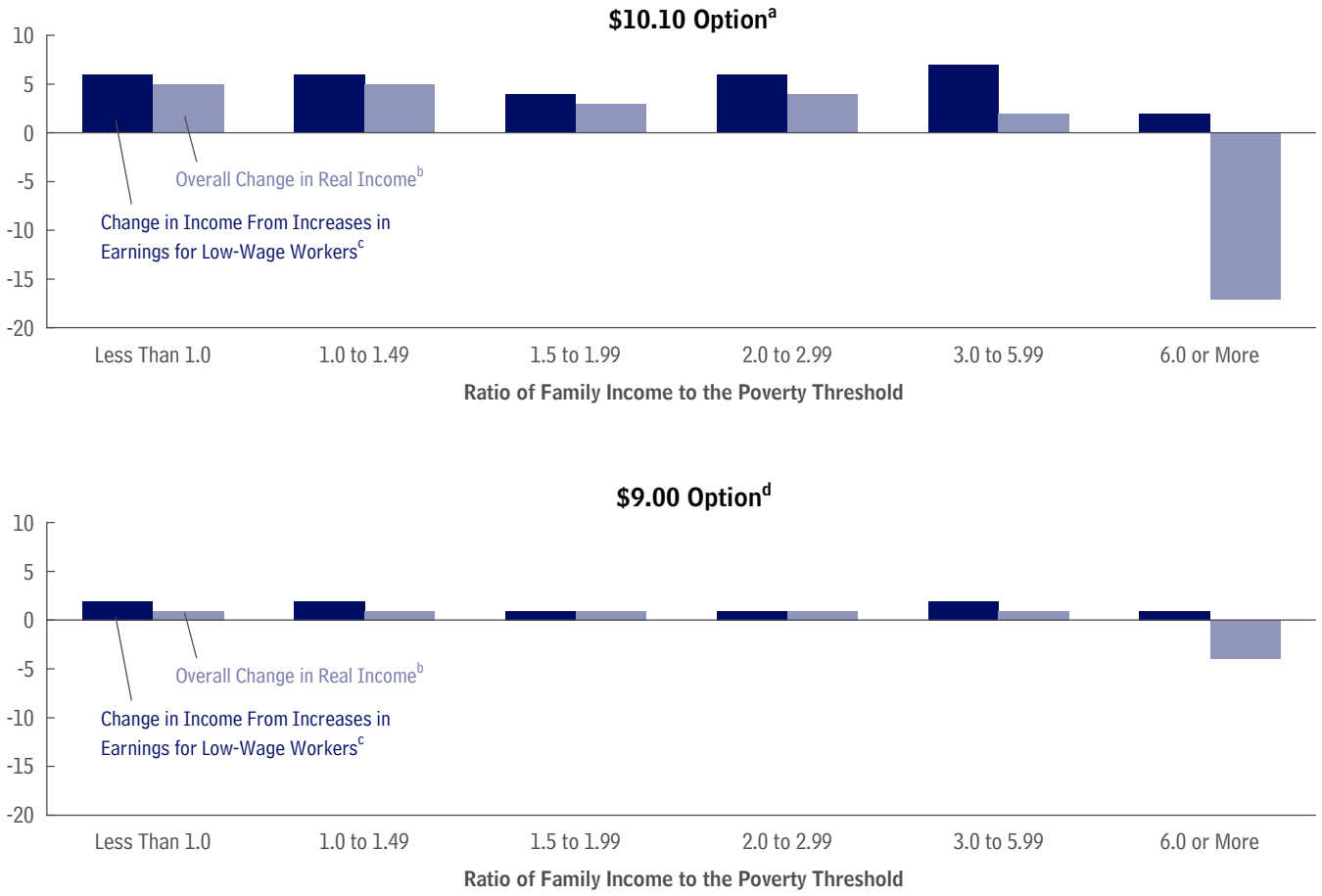
Under current law, CBO projects, there will be roughly 45 million people in families whose income is below the poverty threshold in 2016. The $10.10 option would reduce that number by about 900,000, or 2 percent, according to CBO's estimate. That estimate takes into account both families whose income would increase and move them out of poverty and families whose income would fall and move them into poverty. The estimate uses a measure of family income called cash income, which is used to determine the official poverty rate. Cash income includes earnings and cash transfers from the government, such as Supplemental Security Income benefits. It excludes noncash transfers, such as benefits from Medicaid and the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp program); taxes; and tax credits, such as the earned income tax credit (EITC). (Because the EITC provides cash to many lower-income families, it is sometimes compared with the federal minimum wage in discussions about how to boost lower-income families' resources.)

Implementing the $9.00 option would have a smaller effect on family income and on the number of people in poverty than implementing the $10.10 option would. About 7.6 million workers who will earn less than $9.00 per hour under current law would receive higher wages, CBO estimates, and so would some workers who will earn more than $9.00 per hour under current law. Once all factors are taken into account, CBO estimates that the net changes in total real income would be an increase of about $1 billion for families whose income would otherwise have been below the poverty threshold; increases totaling $4 billion for families whose income would have been between one and six times the poverty threshold; and a decrease of about $4 billion for families with higher income, as the declines in income for business owners and the loss of purchasing power would more than offset the increases in earnings for low-wage workers in that group. The agency estimates that average real family income would increase by about $100, or 0.9 percent, for families whose income would have been

Figure 3.

Estimated Effects on Real Family Income of an Increase in the Federal Minimum Wage, Second Half of 2016

(Billions of 2013 dollars, annualized)



Source: Congressional Budget Office based on annual data from the Census Bureau's Current Population Survey.

Note: Calculated using before-tax family cash income. Poverty thresholds vary with family size and composition. The definitions of income and of poverty thresholds are those used to determine the official poverty rate and are as defined by the Census Bureau. CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

a. The minimum wage would rise (in three steps, starting in 2014) to $10.10 by July 1, 2016, and then be indexed to inflation.

b. Changes in real (inflation-adjusted) income include increases in earnings for workers who would receive a higher wage, decreases in earnings for workers who would be jobless because of the minimum-wage increase, losses in income for business owners, decreases in income because of increases in prices, and increases in income generated by higher demand for goods and services.

c. Increases in earnings for workers who are projected, under current law, to be paid less than $11.50 per hour.

d. The minimum wage would rise (in two steps, starting in 2015) to $9.00 by July 1, 2016, and would not be subsequently indexed to inflation.

below the poverty threshold, and that the number of people living in such families would decline by about 300,000, or two-thirds of one percent. That is one-third of the decline in the number of people in poverty that would occur under the $10.10 option, CBO projects. For families whose income would otherwise have been six times the poverty threshold or more, average real family income would be lower by 0.1 percent.

The effects of the two options on average family income and on the number of people living in poverty are difficult to project accurately. Those effects depend on many things, including the extent to which the higher

Table 3.

Projected Shares of Workers, by Family Income Group, Second Half of 2016

Ratio of Family Income to the Poverty Threshold	Percentage of All Workers	Percentage of Low-Wage Workers[a]
Less Than 1.0	6	20
1.0 to 1.49	6	16
1.5 to 1.99	7	14
2.0 to 2.99	16	18
3.0 to 5.99	39	24
6.0 or More	26	9
Total	100	100

Source: Congressional Budget Office based on annual data from the Census Bureau's Current Population Survey.

Note: Calculated using before-tax family cash income. Poverty thresholds vary with family size and composition. The definitions of income and of poverty thresholds are those used to determine the official poverty rate and are as defined by the Census Bureau. CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

a. Low-wage workers are people who are projected, under current law in the second half of 2016, to be paid less than $11.50 per hour.

minimum wage would reduce employment, the length of time that people are not working, and the rate at which wages will grow over time under current law. The larger the reduction in employment for a given increase in the minimum wage, the less effective the policy would be at raising families out of poverty. And if wages grew more quickly under current law than CBO projects, fewer workers would have their wages increased under the options, and the effect on poverty would be smaller. (If those wages grew less quickly than CBO projects, the effect would be larger.)

The Effect of an Increase in the Minimum Wage on the Federal Budget

An increase in the federal minimum wage would directly affect the federal budget by requiring the government to increase wages for a small number of hourly federal employees. A minimum-wage increase would also indirectly affect the budget by boosting the prices of some goods and services purchased by the government. Most of those added costs for wages, goods, and services would need to be covered by discretionary appropriations, which are capped through 2021 under current law. If the caps were not adjusted, federal budget deficits would not be affected by the higher costs, but the benefits and government services that could be provided under the existing caps would be reduced. If, instead, lawmakers adjusted the caps to cover the higher costs, and if future appropriations equaled those higher caps, then deficits would be larger.

In addition, an increase in the federal minimum wage would indirectly affect the federal budget by changing people's income—raising real income for some workers while reducing the real income of people who would be jobless because of the minimum-wage increase, of business owners, and of consumers facing higher prices. As a group, the workers receiving an earnings increase would pay more in taxes and receive less in benefits than they would have otherwise, reducing the federal budget deficit; however, the workers, business owners, and consumers with reduced income would pay less in taxes and receive more in benefits, increasing the deficit.

CBO anticipates that the increases in income would be larger than the decreases in income for a few years after an increase in the minimum wage but would be smaller thereafter, as discussed earlier. Further, for reasons discussed below, CBO anticipates that the effective marginal tax rate—that is, the combination of increased taxes and decreased benefits for each additional dollar of income—for the increases in income would probably be slightly larger than the effective marginal tax rate for the decreases in income. Combining those factors, CBO concludes that the net effect on the federal budget of raising the minimum wage would probably be a small decrease in budget deficits for several years but a small increase in budget deficits thereafter. It is unclear whether the effect for the coming decade as a whole would be a small increase or a small decrease in budget deficits.[15]

15. Cost estimates produced by CBO and the staff of the Joint Committee on Taxation (JCT) typically reflect the convention that macroeconomic variables, such as nominal output and the average price level, remain fixed at the values that they are projected to reach under current law. That is a long-standing convention—one that has been followed in the Congressional budget process since it was established in 1974 and by JCT since the early 1960s. Therefore, in producing a cost estimate for legislation that would increase the minimum wage, CBO and JCT would not incorporate some of the effects that such an increase would probably have on the economy. CBO was not able to assess how that approach might affect the estimated budgetary impact of increasing the minimum wage.

Table 4.

Estimated Effects on Average Real Family Income of an Increase in the Federal Minimum Wage, Second Half of 2016

Ratio of Family Income to the Poverty Threshold	Average Real Family Income Before the Wage Change (2013 dollars, annualized)	Change in Average Real Family Income	
		2013 Dollars, Annualized	Percent
		$10.10 Option[a]	
Less Than 1.0	10,700	300	2.8
1.0 to 1.49	26,300	300	1.1
1.5 to 1.99	36,300	200	0.6
2.0 to 2.99	51,400	200	0.4
3.0 to 5.99	86,600	*	**
6.0 or More	182,200	-700	-0.4
		$9.00 Option[b]	
Less Than 1.0	10,700	100	0.9
1.0 to 1.49	26,300	100	0.4
1.5 to 1.99	36,300	100	0.3
2.0 to 2.99	51,400	100	0.2
3.0 to 5.99	86,600	*	**
6.0 or More	182,200	-200	-0.1

Source: Congressional Budget Office based on annual data from the Census Bureau's Current Population Survey.

Notes: Changes in real (inflation-adjusted) income include increases in earnings for workers who would receive a higher wage, decreases in earnings for workers who would be jobless because of the minimum-wage increase, losses in income for business owners, decreases in income because of increases in prices, and increases in income generated by higher demand for goods and services. Results are weighted by the number of people in the family; for example, when CBO calculated the averages, a family of three would be represented three times.

Calculated using before-tax family cash income. Poverty thresholds vary with family size and composition. The definitions of income and of poverty thresholds are those used to determine the official poverty rate and are as defined by the Census Bureau. CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

* = between zero and $50; ** = between zero and 0.05 percent.

a. The minimum wage would rise (in three steps, starting in 2014) to $10.10 by July 1, 2016, and then be indexed to inflation.

b. The minimum wage would rise (in two steps, starting in 2015) to $9.00 by July 1, 2016, and would not be subsequently indexed to inflation.

Effects for People Whose Income Would Rise

As a group, the workers whose income rose because of a minimum-wage increase would consequently pay more in taxes and receive less in benefits.[16] CBO has previously estimated that the effective federal marginal tax rate on earnings for low- and moderate-income workers is 32 percent, on average; that is, the combination of increased taxes and decreased benefits equals, on average, about one-third of such a worker's added earnings.[17] CBO expects that workers receiving an increase in earnings from a boost to the minimum wage would face a similar rate, on average. Therefore, CBO expects that the reduction in the deficit associated with people whose earnings would rise would be about 32 percent of the increase in earnings for those workers.

16. In the short term, some people would also see an increase in income because, as discussed earlier, an increase in the minimum wage would boost economywide demand for goods and services and thereby generate an increase in the nation's total output and income. That additional income would raise federal taxes and lower benefits. By contrast, in the long term, and also as discussed earlier, an increase in the minimum wage would generate a decrease in total output and income. That loss in income would lower federal taxes and raise benefits; those effects are incorporated in the discussion in the following section.

Part of that deficit reduction would result from increased tax payments for the workers who were earning more. The largest part of that increase would consist of payroll taxes assessed for Social Security and Medicare, which are paid at a combined rate of 15.3 percent by most employees and employers.[18] The increase in earnings for some workers would also increase the amount that they owed in income taxes before refundable tax credits were taken into account, although almost all of them would owe no tax or be in one of the two lowest federal income tax brackets. In addition, benefits from the EITC would fall for workers whose annual income was in the range where the credits decrease with income. (However, those benefits would rise for workers whose annual income remained in the income range where the credits increase with income, and some workers with increased earnings would qualify for a larger child tax credit.)

The rest of the deficit reduction would result from less federal spending (aside from the effects on refundable earned income and child tax credits) for the workers receiving an increase in earnings. Spending on cash and near-cash transfer programs (such as SNAP and Supplemental Security Income) would decline for those workers, because the amount of those benefits generally falls as income rises.[19] In addition, spending for premium assistance tax credits and cost-sharing subsidies for health insurance purchased through exchanges would decline for people who will be receiving such support under current law, because the amount of that support also generally falls as income rises.[20]

The estimated effective federal marginal tax rate of 32 percent does not include the budgetary effects of some people's moving out of Medicaid coverage or into subsidized insurance coverage through exchanges because their earnings had increased.[21] Some of those effects would raise federal costs and others would lower them. In particular, some people who will be eligible for Medicaid under current law and would receive higher earnings because of a minimum-wage increase would lose eligibility for Medicaid. Some of those people would gain eligibility for subsidized coverage through exchanges and would choose to take up that coverage; for those people, federal costs would rise. However, some of the people who would lose eligibility for Medicaid would not gain eligibility for subsidized coverage through exchanges (because their income would still be too low) or would gain eligibility but would choose not to take up that coverage (in part because they would have to pay a portion of their premiums themselves); for those people, federal costs would fall. Moreover, some people who, under current law, will not be eligible either for Medicaid or for subsidized coverage through exchanges (because they live in a state that has not expanded Medicaid coverage under the Affordable Care Act but will have too little income to qualify for the subsidies) would gain eligibility for subsidized coverage through exchanges and would choose to take up that coverage; for those people, federal costs would rise. The net federal cost of those various shifts would be small, CBO expects.

17. Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers* (November 2012), www.cbo.gov/publication/43709. Table 6 in that report shows an aggregate marginal rate for 2014 of 34.8 percent. Subtracting the marginal rate attributable to state income taxes yields a federal marginal rate of 32.2 percent. That rate includes the effects of federal income and payroll taxes and of refundable earned income, child, and premium assistance tax credits for health insurance purchased through exchanges. It also includes changes in benefits under SNAP and cost-sharing subsidies provided to some participants in health insurance exchanges. That report was published before the enactment of the American Taxpayer Relief Act of 2012, but CBO estimates that the average federal marginal rate for 2014 would remain at about 32 percent after incorporating the effects of that act.

18. The 12.4 percent Social Security portion of that tax is paid on earnings up to a threshold ($117,000 in 2014).

19. Some researchers have examined the change in cash and near-cash transfer payments that would result from a minimum-wage increase. See Linda Giannarelli, Kye Lippold, and Michael Martinez-Schiferl, *Reducing Poverty in Wisconsin: Analysis of the Community Advocates Public Policy Institute Policy Package* (Urban Institute, June 2012), http://tinyurl.com/q7jb8v6 (PDF, 2.1 MB); and Linda Giannarelli, Joyce Morton, and Laura Wheaton, *Estimating the Anti-Poverty Effects of Changes in Taxes and Benefits with the TRIM3 Microsimulation Model* (Urban Institute, April 2007), http://tinyurl.com/p75lejh (PDF, 2.9 MB). The authors estimate that the reduction in transfer payments for those receiving an increase in earnings would be roughly 4 percent of that increase in earnings.

20. A small portion of the premium assistance tax credits represents a reduction in revenues.

21. There would also be budgetary effects of some people's moving between eligibility categories for Medicaid and some people's moving between Medicaid and the Children's Health Insurance Program.

Effects for People Whose Income Would Fall

Apart from the group of workers whose earnings rose because of a minimum-wage increase, other people would generally see a reduction in real income, CBO estimates. Some of the reduction would consist of lower earnings for workers who became jobless for at least part of a year because of the change in policy. Some would consist of lower profits for business owners. The remainder would come from higher prices, which would reduce real income. However, it is unclear how much of the total reduction in income would come from each of those sources, and that allocation would affect the impact of a minimum-wage increase on the federal budget. CBO has not estimated the effective federal marginal tax rate for that collection of reductions in income, but the agency anticipates that it would probably be slightly smaller than the effective federal marginal tax rate for the people who would receive higher income.

CBO estimates that workers who were jobless for at least part of a year because of the minimum-wage increase would suffer a loss of real income. As a result, those workers would pay less in taxes and receive more in benefits. The effective federal marginal tax rate for those workers would be similar in magnitude to the rate for workers whose earnings rose.

CBO estimates that profits would also be lower. The lower profits would mean less in personal and corporate income tax receipts. CBO expects that some of the reduction in profits would be for businesses subject to the corporate tax, which would lower corporate tax receipts; the reduction in profits would also indirectly reduce personal income tax receipts, because stockholders' dividend income and realized capital gains on corporate stock would be lower. For those firms, CBO estimates that the decline in corporate and personal tax payments would amount to roughly one-third of the decline in profits. However, some of the reduction in profits would be for firms not subject to the corporate tax, most of whose income is directly subject to the individual income tax. For those firms, the resulting reduction in individual income tax payments could be somewhat lower, as a share of the reduction in profits, than the estimated one-third decline for firms subject to the corporate tax.

Prices would rise as a result of a minimum-wage increase, according to CBO's analysis. That increase in prices would raise federal transfer payments, because some of those payments, such as Social Security, are automatically indexed to changes in the price level. An increase in prices would also reduce federal personal income taxes, because many parameters of the tax system change automatically when the price level rises. Federal spending that is not subject to statutory caps and is not indexed to changes in the price level might also increase, although the extent of that increase would depend on the concentration of minimum-wage workers in the sectors of the economy in which the federal government was doing such spending. CBO was not able to estimate the effective marginal tax rate from the collection of changes in taxes and spending that would take place because of price changes.

List of Tables and Figures

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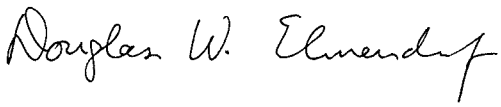
About This Document

This testimony reprises *The Effects of a Minimum-Wage Increase on Employment and Family Income*, a report that the Congressional Budget Office (CBO) released in February 2014. The report was written by Nabeel Alsalam, William Carrington, Molly Dahl, and Justin Falk, with contributions from Sarah Masi, Benjamin Page, Felix Reichling, Robert Stewart, and David Weiner and with guidance from Joseph Kile. In keeping with CBO's mandate to provide objective, impartial analysis, neither the testimony nor the report contains recommendations.

Jeffrey Kling and Robert Sunshine reviewed the testimony, Benjamin Plotinsky edited it, and Jeanine Rees prepared it for publication. Both the report and the testimony are available on the agency's website (at www.cbo.gov/publication/44995 and www.cbo.gov/publication/45138, respectively).



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Director

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