Insight

Assessing CBO's Report on the Raise the Wage Act

ISABEL SOTO | FEBRUARY 10, 2021

Executive Summary

- The Congressional Budget Office released a report that analyzes the budgetary and employment effects of the Raise the Wage Act of 2021, which would raise the national minimum wage to $15 per hour.
- According to the report, the Raise the Wage Act would lead to a $333 billion net increase in wages between 2021 and 2031 and 0.9 million fewer people would be below the federal poverty level by 2025.
- The Raise the Wage Act would also result in job loss for 1.4 million workers by 2025 as well as a cumulative budget deficit increase of $54 billion over the 2021 to 2031 period.

Introduction

The Raise the Wage Act, introduced January 26, 2021, by Representatives Bobby Scott, Pramila Jayapal, and Stephanie Murphy along with Senators Bernie Sanders and Patty Murray, would raise the federal minimum wage from $7.25 an hour to $15 an hour by June 2025, and then index it to rise at the same rate as median hourly wages. On February 8, the Congressional Budget Office (CBO) released a report on how raising the minimum wage would affect the federal budget and affect various aspects of the economy such as employment, poverty, prices, and interest rates. This report indicates that while raising the minimum wage would benefit some, it also has substantial drawbacks that could harm workers and the economy as a whole. While these drawbacks will always exist, this report suggests that it would be particularly imprudent to bring them during a fragile economic recovery.

Details of the Raise the Wage Act of 2021

The Raise the Wage Act of 2021 would increase the minimum wage annually from its current level ($7.25) to $15 by 2025, after which the minimum wage would be indexed to median hourly wage growth.

Date	Federal Minimum Wage
Today	$7.25
June 1, 2021	$9.50
June 1, 2022	$11.00
June 1, 2023	$12.50
June 1, 2024	$14.00
June 1, 2025	$15.00
June 1, 2026 and later	$15.00 + increase in median hourly earnings

This bill would also phase out the use of subminimum wages for three types of workers: tipped workers, youth workers, and workers with disabilities. Currently employers are able to pay youth and individuals with disabilities below minimum wage under the justification that these lower rates of pay better reflect productivity or ability. Additionally, these lower rates of pay incentivize employers to hire from these populations that typically see lower rates of employment. Tipped workers' hourly pay is below minimum wage (often called tipped minimum wage) and is supplemented by the tips they receive to reach the federal minimum wage. Under the Raise the Wage Act, all three types of workers described above would be paid a $15 minimum wage by 2027.

Wages

CBO finds that at current employment levels, the legislation would require pay to increase by nearly $509 billion between 2021 and 2031. The increased cost to employers, however, are likely to spur layoffs or cuts in worker hours equal to $175 billion in wages. As a result, wages would increase on net by $333 billion over 10 years. To make up for higher costs, firms are likely to increase the price of goods and services.

Poverty Reduction

CBO estimates that increasing the minimum wage to $15 per hour by 2025 would raise 0.9 million people out of poverty. It is important to keep in mind, however, that prior to the pandemic income was rising faster for workers on the lower end of the distribution than others, inequality had not increased by any Census measure, and poverty went down by 0.5 percentage points between 2017 and 2018. Prior to the pandemic the economy was already heading toward a period of low (or at least not increasing) inequality, and rising wages. There is no guarantee that this legislation would lead to sustainable rising wages, or a quick fix to income inequality. While such a significant increase to the minimum wage would benefit those lower-skilled, low-wage workers who manage to keep their jobs, it would also price some workers out of the market and drive long-term unemployment.

Employment

One of the primary negative consequences of the legislation would be its effect on employment: The Raise the Wage Act is projected to reduce employment by 1.4 million workers by the year 2025. Negative employment effects resulting from minimum wage increases are well documented in previous CBO analysis in addition to other economic research. CBO's latest report finds that in response to a minimum wage increase, employers may choose to shift spending toward employing fewer higher-wage workers or investing in technology at the expense of low-wage workers. The drop in employment would be felt most strongly by the youngest and least educated workers. Previous American Action Forum research identified some of the workers who could be at risk of being priced out of the labor market in the event that a minimum wage increase were enacted. Unfortunately, the workers who are most likely to feel the negative effects of this legislation are also the lowest paid and most vulnerable. The current economic climate is likely only to exacerbate this outcome, as the majority of those who are experiencing unemployment at the moment are coming from industries with high concentrations of low-wage workers with no guarantee of returning to work.

Federal Budget

On net, the bill would increase the deficit by $54 billion over a 10-year period as spending on unemployment compensation, Social Security, and health care programs is expected to increase because of increased unemployment. Revenues are expected to increase by $19 billion over the same period as a result of some low-wage workers paying more payroll, income, and Social Security taxes, as well as reductions in the net amount of refundable tax credits and reductions in the use of certain federal programs as workers' wages place them above eligibility thresholds.

Conclusion

The CBO report offers additional clarity on how a significantly higher minimum wage would impact workers, the economy, and the federal budget. While it finds that an increase in the minimum wage would clearly benefit low-wage workers that are able retain employment, it would also price others out of the market, driving up long-term unemployment. It also threatens to drive up prices on goods and services, as well as federal spending.