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POLICY BRIEF

The negative effects of Initiative 1433's wage and paid leave mandates on Washington agriculture

By Madilynne Clark
Agriculture Policy Research Director

October 2016

Key findings

- Washington currently ranks tenth in total farm labor costs as a portion of sales at 20 percent and third in total amount spent on labor at $1.84 billion.

- To accommodate the effects of state-imposed costs under Initiative 1433, farmers would have to cut back somewhere else, by reducing work hours, hiring fewer workers, shifting to less labor-intensive crops, and adopting mechanization equipment.

- By 2020, the implementation of Initiative 1433 would increase the median agricultural wage by 40 percent to $18.63 and would increase total labor costs to $2.4 billion, ranking Washington highest in total agricultural labor cost for the United States.

- Mandating paid sick-leave for agricultural laborers would increase food waste, create market loss, and reduce income due to late or incomplete work during pruning and harvest.

- Small farms, averaging $100,000 to $249,999 in sales, devote a higher portion, 25 percent, to labor.

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Introduction

In November Washington voters will consider Initiative 1433, to raise the mandatory state minimum wage to $13.50 by 2020 and, for the first time, require all employers to give up to one hour of paid sick leave for every 40 hours worked, starting in 2018.[1] Future minimum wage increases would be imposed automatically each year, based on the Seattle-area inflation rate. The state minimum wage is already indexed to inflation, and is scheduled to increase on January 1st under current law.

As mandatory legislation, Initiative 1433 would have a major effect on jobs and job creation across the state. This Policy Brief looks at how a higher mandated minimum wage, and indexing to Seattle-area inflation, in addition to paid sick leave would affect Washington's agricultural communities. A larger, broader WPC Citizen's Guide is also available for Initiative 1433 on the Washington Policy Center website, www.washingtonpolicy.org.[2]

Background

Creating jobs and providing money for payroll and employee benefits are major economic aspects of Washington's agricultural sector. Washington agriculture makes up 13% of the state's GDP and is the third largest exporter of food and agriculture products in the U.S.[3] In 2014 Washington exported $16.5 billion of agricultural products; 50 percent were of Washington origin.[4]

Washington farmers reach consumers around the world, so high in-state labor costs as a percent of sales can make it difficult to compete in both national and

1 "Initiative Measure No. 1433," filed January 22, 2016, at http://sos.wa.gov/_assets/elections/initiatives/FinalText_954.pdf.

2 "Citizens Guide to Initiative 1433: to increase the state minimum wage and to require paid sick leave," by Erin Shannon, Policy Brief, Washington Policy Center, September 28, 2016 at http://www.washingtonpolicy.org/publications/detail/citizens-guide-to-initiative-1433-to-increase-the-state-minimum-wage-and-to-require-paid-sick-leave.

3 "Agriculture: The cornerstone of Washington's Economy," by Chris Cargill, Policy Note, Washington Policy Center, March 23, 2016 at http://www.washingtonpolicy.org/publications/detail/agriculture-the-cornerstone-of-washingtons-economy.

4 "Export Statistics," Washington State Department of Agriculture, December 22, 2015 at http://agr.wa.gov/marketing/international/statistics.aspx.

international arenas. Already Washington agriculture ranks tenth in total labor costs as a portion of sales, at 20 percent. In terms of total dollars spent on agricultural labor Washington ranks third after California and Texas.[5]

Impact of Initiative 1433 on agriculture

Unlike local retailers, farmers must participate in a globally competitive market - in both buying of crop inputs and selling of their crops. Washington farmers cannot simply raise the price of their product to pay for mandated wages and benefits imposed by state law when supplying a commodity.[6] To accommodate the effects of state-imposed costs under Initiative 1433, farmers have to cut back somewhere else, by reducing work hours or hiring fewer workers in the first place.

Other options for farmers include shifting to less labor-intensive crops and adopting more mechanization and automation in processing. All these required adjustments would have the effect of reducing agricultural employment and take-home pay for rural families.

Neighboring states like Idaho compete for Washington workers and businesses. Higher mandated wage costs create incentives for farms and processors to move away from Washington to areas where it is more affordable to operate.[7] For example, Idaho's labor costs as a portion of sales averages 8.5 percent, less than half of that in Washington.

Case study – lost asparagus production

Washington's once-thriving asparagus industry is an example of the harmful effects caused by high agricultural wages. Starting in the late 1980s the U.S. sought to improve the Peruvian economy by fostering an asparagus industry abroad in order to provide economic opportunity for Peru.[8] The plan worked well.

An increasingly harsh agricultural business climate in Washington caused production for this global product to shift to areas where costs are more competitive,

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5 2012 Census of Agriculture. United States Department of Agriculture.

6 "The real costs of minimum wage hikes," by Norm Groot, Article, *The Californian,* April 12, 2016, at http://www.thecalifornian.com/story/news/local/2016/04/12/real-costs-minimum-wage-hikes/82953640/.

7 "Future of Farming Project – 2008 Competitive Advantages of Washington Agriculture – Current and Future," Document, Washington State Department of Agriculture, June 19, 2008, at http://agr.wa.gov/fof/docs/Competitiveness.pdf.

8 "War on Peruvian Drugs Takes a Victim: U.S. Asparagus," by Timothy Egan, Article, *New York Times*, April 25, 2004, at http://www.nytimes.com/2004/04/25/us/war-on-peruvian-drugs-takes-a-victim-us-asparagus.html.

specifically Peru.[9] The average agricultural wage in Peru is significantly less than $2.15 per hour, driven by abundant labor supply.[10]

In 1998, Washington voters approved Initiative 688 which raised the states minimum wage and required an annual cost-of-living adjustment based on the federal Consumer Price Index (CPI). Costly public policies, like Initiative 688, imposed by the state made it difficult for Washington farmers to compete in a global market.

As a result, Washington asparagus production declined sharply. From a peak of 32,000 acres in 1988, Washington's asparagus acreage declined to 3,800 acres by 2015.[11] Four hundred full-time jobs and 5,000 seasonal jobs were lost as Washington asparagus production declined and three rural processing plants closed in Washington and relocated to Peru.[12]

Initiative 1433's high-mandated wage and paid-leave requirements would have the effect of further depressing asparagus production, and would put producers of other crops and their workers at risk of suffering a similar decline.

Small farmers would be disproportionately harmed

Small and mid-sized farms would be disproportionately hurt by minimum wage increases. Smaller farms have less access to capital and have fewer managers to administer the complications and record-keeping of calculating paid leave.

The head of the Washington State Farm Bureau summed up the problem, noting, "A law to increase the minimum wage without providing support for starting jobs, or those that get young adults their first work experience will hit farming operations, particularly smaller ones, and their employees hard."[13]

Increased mechanization and fewer jobs

Washington's crop diversity ranks second to California with over 300 commodities - many of these crops are labor intensive. Increasing the minimum wage would lead farmers to cut jobs and adopt more mechanization. This effect has already been

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9 "Peru: An Emerging Exporter of Fruits and Vegetables," by Birgit Meade, Katherine Baldwin and Linda Calvin, Report, United States Department of Agriculture Economic Research Service, December 2010, at http://www.ers.usda.gov/media/134648/fts34501.pdf.

10 "Peru: An Emerging Exporter of Fruits and Vegetables," by Birgit Meade, Katherine Baldwin and Linda Calvin, Report, United States Department of Agriculture Economic Research Service, December 2010, at http://www.ers.usda.gov/media/134648/fts34501.pdf.

11 United States Department of Agriculture National Agriculture Statistics Service.

12 "Foreign agriculture bruising "Grown in Washington" label," by Alwyn Scott, Article, *The Seattle Times*, June 27, 2004, at http://community.seattletimes.nwsource.com/archive/?date=20040627&slug=econperu27.

13 "I-1433 will increase the minimum wage, but job seekers deserve a better law," Press Release, Association of Washington Businesses, July 6, 2016, at https://www.awb.org/press-releases/?id=997.

seen in the tomato and citrus industries in California, where high-mandated wage costs are driving increased automation, replacing workers with machines.[14]

The high cost of agricultural technology favors large producers and puts small farmers at a competitive disadvantage. Small and midsize farms tend to be squeezed between high labor costs and the cost of buying large-scale automation. When creating agricultural jobs is affordable, small and median-size farms tend to benefit, allowing them to keep pace with their larger competitors.

Further, replacing workers with machines reduces labor demand and leads to an exodus of workers from rural areas, as people move away to find work.[15] People living in Washington's rural counties already suffer some of the highest unemployment rates in the country. The policies that would be imposed under Initiative 1433 would make the job market more restricted in small communities.

Agriculture under Initiative 1433

This negative impact on rural job growth is indicated by the large jump in labor cost that Initiative 1433 would impose. The wage paid by growers is determined by demand for both skilled agricultural laborers and high seasonal demand for pruning, harvesting and processing of time sensitive crops. When minimum wage increases are imposed, it is difficult for growers to meet higher labor costs.

The mandated wage increases proposed by Initiative 1433 would create a minimum wage shock of 16 percent in 2017 alone. In contrast, under current law the minimum wage increase in Washington has averaged three percent annually over the last ten years.

Washington agriculture already pays above minimum-wage with a 2013 median wage of $11.40 to $21.00 per hour depending on agricultural subsector.[16] Since 2005, this difference has averaged 38 percent above the state's minimum wage.[17]

A compression of agricultural wages is unlikely to occur under Initiative 1433 due to extreme seasonality, high labor competition, and the time sensitive nature of the work.

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14 "Mechanized agriculture: Machine adoption, farm size, and labor displacement," by Andrew Schmitz and Charles Moss, Journal Article, *The Journal of Agrobiotechnology Management and Economics,* AgBioForum, 18(3), 278-296, 2015, at http://www.agbioforum.org/v18n3/v18n3a06-schmitz.htm.

15 "Mechanized agriculture: Machine adoption, farm size, and labor displacement," by Andrew Schmitz and Charles Moss, Journal Article, *The Journal of Agrobiotechnology Management and Economics,* AgBioForum, 18(3), 278-296, 2015, at http://www.agbioforum.org/v18n3/v18n3a06-schmitz.htm.

16 "2013 Agricultural Workforce Report," by Dale Peinecke, Cynthia Forland, Ernst Stromsdorfer and John Wines, Labor Market and Performance Analysis, Washington State Employment Security Department, May 2015, at https://esdorchardstorage.blob.core.windows.net/esdwa/Default/ESDWAGOV/labor-market-info/Libraries/Industry-reports/Annual-Ag-Report/Annual-Ag-2013.pdf.

17 "Occupational Employment and Wages – OES Data," Data Source, Bureau of Labor Statistics, at http://www.bls.gov/oes/tables.htm.

Table 1. Minimum wage versus agricultural wage comparison for Washington State and the United States.

Year	WA Minimum Wage	WA Median Agricultural Wage	US Median Agricultural Wage	WA Ag Wage Difference vs. US Ag Wage	WA Ag Wage Difference vs. Minimum Wage
2005	$7.35	$10.74	$8.41	28%	46%
2006	$7.63	$11.30	$8.63	31%	48%
2007	$7.93	$11.78	$8.94	32%	49%
2008	$8.07	$11.78	$9.34	26%	46%
2009	$8.55	$11.33	$9.43	20%	33%
2010	$8.55	$11.38	$9.44	21%	33%
2011	$8.67	$11.41	$9.36	22%	32%
2012	$9.04	$11.59	$9.31	24%	28%
2013	$9.19	$11.62	$9.32	25%	26%
2014	$9.32	$12.60	$9.74	29%	35%
2015	$9.47	$13.27	$10.46	27%	40%
Average				**26%**	**38%**

Overall, Initiative 1433 would impose average wage increases of nine percent per year, a 300 percent rise in the rate of state-mandated wage increases. If the median agricultural wage remains 38 percent above the Washington minimum wage, then by 2020 the median agricultural wage will be $18.63 – a 40 percent increase from 2015.

The agricultural median wage influences the net farm income of Washington's farming operations. Net income is the profit derived from farming operations and is the amount available to provide for the owner's living expenses. The higher cost burden would fall hardest on farms that hire outside labor, an agricultural category that produces 95.6 percent of Washington's total net farm income.[18, 19]

Table 2. Net income statistics for farms including those with labor.

	Value ($1,000)
Net Farm Income	$1,752,459
2012 Farms Operations with Labor *(# of operations)	11,746*
Farm Labor Expense	$1,713,124
Net Income Minus Farm Labor Expense	$3,465,583
Net Income of Farms without Labor	$77,376
Net Income of Farms with Labor	$1,675,083
Percent of Net Income Contribution by Farms with Labor	**95.6%**

18 2012 Census of Agriculture. United States Department of Agriculture.

19 "The Economic Impact of Minimum Wage Increase on New York State Agriculture," Knowledge Exchange Report, Farm Credit East, February 2016, at https://www.farmcrediteast.com/-/media/farm-credit-east/knowledge-exchange/Reports/2016/economic-impact-nys-minimum-wage-increase-22016.ashx.

Effect of paid-leave mandate on Washington farms

Under Initiative 1433 employers would be required to give each worker paid sick-leave. For every 40 hours worked an employee would receive one hour of leave with 40 hours allowed to be rolled over annually. The seasonal nature of agricultural work would make this rule extremely expensive. Workers receiving overtime would be able to accumulate in excess of 11.5 days per year – overtime is a common occurrence within the agricultural workforce.

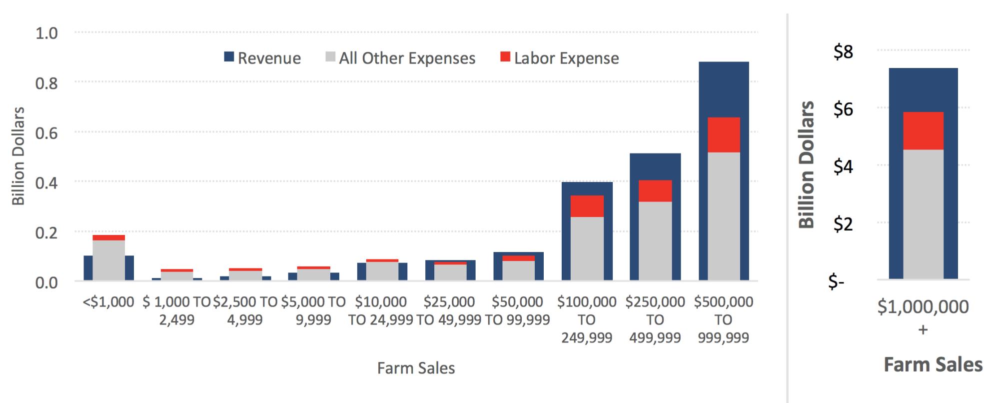
The cost and uncertainty incurred by employers would increase food waste, create market loss, and reduce farm income due to delays and incomplete work during pruning and harvest.

Agriculture experiences high fluctuation in the need for labor. A paid-leave mandate would add to the unpredictability and variability of labor supply.[20] Farmers are already careful to ensure healthy workers in order to provide a safe and clean food product and to promote the health of employees. If workers are sick, growers do not want workers to spread the illness. Current, flexible employment policies take this need into account, without rigid rules imposed by state law.

Initiative 1433 would reduce farm income

As noted, farmers cannot set their own prices. They must accept payment on the global market or not sell any food at all. Washington farm operations devote an average of 16.7 percent of total expenses to labor. Small farms, averaging $100,000 to $249,999 in sales, devote a higher portion, 25 percent, to labor. The average net income of family farms of this size is only $26,334 a year. The new costs imposed by Initiative 1433 would lower the net family farm income further, to cover the higher minimum wage and state-imposed paid leave.

Figure 1. Net Income and farm labor expenses from 2012 based on farm sales intervals in Washington state.[21]



20 "Farm exemption to paid sick leave bill rejected," by Mareusz Perkowski, Article, *Capital Press,* June 11, 2015, at http://www.capitalpress.com/Oregon/20150611/farm-exemption-to-paid-sick-leave-bill-rejected.

21 2012 Census of Agriculture. United States Department of Agriculture.

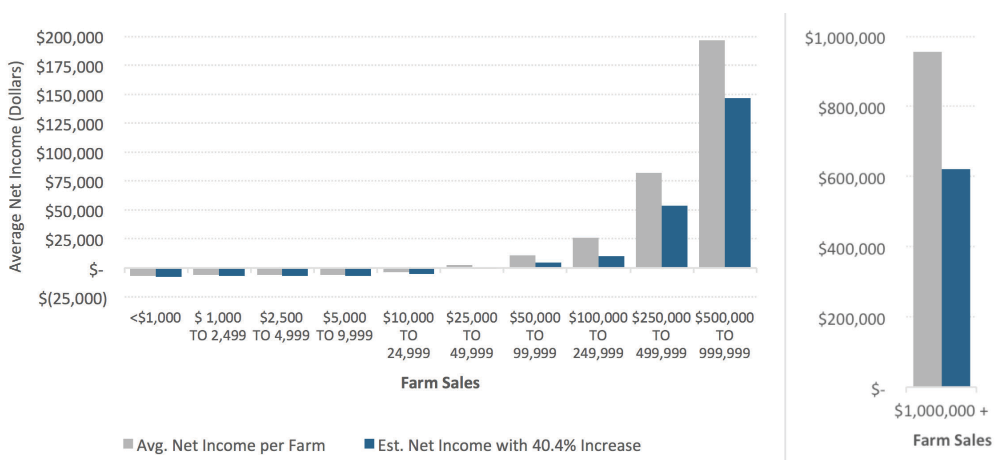
Assuming agriculture maintains its margin above minimum wage then the average paid to Washington agricultural labor will increase by 40.4 percent. This burden will be borne by the 30 percent of Washington farms which employ labor – these farms contribute to the bulk of Washington agriculture production.

Table 3. Estimated net income of all Washington farms and all farms with labor by 2020 with 40.4% increase in labor costs. Value figures are $1,000.[22, 23]

	Before I-1433	After I-1433	% Change
2012 WA State Total Net Farm Income	$1,752,459	$1,060,528	-39.5%
Net Farm Income of Farms with Labor	$1,675,083	$983,152	-41.3%
Estimate of labor expense	$1,713,124	$2,405,055	40.4%

This will have a disproportionate impact on small to midsize farms defined by the United States Department of Agriculture (USDA) as farms with sales from $1,000 to $999,999.[24] Small to midsize farms will bear a 43% decrease in net income per farm compared to 35% of large farms. This analysis does not quantify the additional cost of labor on agricultural businesses.

Figure 2. Average net income per farm in Washington based on Farm Sales in 2012 and estimated net income with increase in labor costs.[25]



22 2012 Census of Agriculture. United States Department of Agriculture.

23 Based on the assumption that production remains even and all other expenses are stable.

24 Updating the ERS Farm Typology by Robert A. Hoppe and James M. MacDonald, Economic Information Bulletin Number 110, USDA Economic Research Service, April 2013 at http://www.ers.usda.gov/media/1070858/eib110.pdf.

25 2012 Census of Agriculture. United States Department of Agriculture.

Conclusion

The incorporation of a higher minimum wage of $13.50 by 2020 would increase Washington's total farm labor costs to $2.4 billion. Based on the 2012 Census of Agriculture this would raise total in-state labor expense as a portion of agriculture product sales to 26.3 percent, ranking Washington as eighth in the nation for total labor as a percentage of sales and first in the nation for total labor cost. The labor cost increase proposed by Initiative 1433 would make Washington agriculture less competitive on a global market and would increase the negative economic forces that tend to force agricultural businesses to move out of the state or go out of business.

Instead of improving lives of low-income families, in many cases a high-mandated minimum wage hurts low-skill and entry level workers by reducing job opportunities. A further result is that minimum wage increases reduce the competitiveness of Washington's crops.[26]

The real-world experience of Washington's asparagus farmers illustrates the negative effects of an artificially high minimum wage imposed by the state. The policies required under Initiative 1433, by cutting work hours and job opportunities, would have a similar and much more widespread negative effect on workers, families and communities across the state, particularly in rural Washington.

A larger, broader WPC Citizen's Guide by Erin Shannon is available on Initiative 1433 at www.washingtonpolicy.org

26 "Future of Farming Project – 2008 Competitive Advantages of Washington Agriculture – Current and Future," Document, Washington State Department of Agriculture, June 19, 2008, at http://agr.wa.gov/fof/docs/Competitiveness.pdf.

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An Oregon native, Madilynne brings a lifetime of experience in agriculture to WPC. Her passion for agriculture grew as she helped her dad on veterinary calls and then became active in FFA.

Before joining WPC, she worked for Ag Association Management in Kennewick as an Account Manager and field rep for the Far West Spearmint Marketing Order. She worked with growers and industry across Washington, Oregon, and Idaho. She also spent two years as an associate of The Context Network. Her time involved working as a business analyst on various agriculture projects in production, wholesale, retail, and policy Ag sectors.

Madilynne holds a Master's Degree in Agricultural and Resource Economics from Colorado State University as well as a B.S. in Environmental Economics, Policy and Management from Oregon State University. When not working for WPC, she enjoys knitting, running, and every minute with her husband, newborn son, and their dog, Parli.