

# **POLICY BRIEF**

***Working Well in Washington  
An Evaluation of the  
1998 Minimum Wage Initiative***

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***January 2003***





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The Economic Opportunity Institute is a nonpartisan, nonprofit, public policy institute focused on creating economic security for working Americans. The institute builds a bridge to economic security through research, policy, and public dialogue. The Economic Opportunity Institute is currently developing pragmatic policies in the following areas: Social Security, retirement security, tax and public revenue, early learning and care, health care, family leave, and workforce development as well as minimum wage.

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## EXECUTIVE SUMMARY

In November of 1998 Washingtonians voted overwhelmingly in favor of increasing Washington's minimum wage from \$4.90 per hour to \$6.50 per hour over a two-year period. The law also requires annual cost-of-living adjustments (COLAs) every year thereafter. In January 2003, Washington's minimum wage is scheduled to increase by 1.6% to \$7.01 per hour.

In effect for four years and through times of economic growth and decline, the minimum wage law has had a significant impact on the income of the state's lowest-paid workers and has had no significant impact on job or business growth. Research on Washington's 1998 minimum wage initiative shows these results:

- A full-time worker making the minimum wage makes \$3,868 more today than in 1998. However, Washington's minimum wage still remains 16% below the level achieved in 1968 when the minimum wage in Washington was at an inflation-adjusted \$8.14 per hour.
- Significant job losses have not occurred as a result of raising the minimum wage. Recent increases in the state unemployment rate are the result of a national economic recession that has disproportionately affected the regional pacific northwest economy.
- There has been little difference in inflationary trends between Washington and other western states, where the minimum wage has remained constant. This suggests that Washington's minimum wage has had little effect on price levels.

Most minimum wage workers are adults over the age of 20 who support themselves and their families. Washington's minimum wage law has helped these individuals keep pace with inflation instead of experiencing a loss of earning power as they did between 1976 and 1988. In addition, employment in the predominately low-paying restaurant industry increased by 3.6% between 1997 and 2001.

For agricultural workers the minimum wage provides an important wage floor, but even with this protection agricultural workers earn an average income of only \$8,803 annually and experience among the lowest living standards in the state. Since 1998, wage growth among agricultural workers trails far behind increases in the minimum wage. Meanwhile, the total value of agriculture products in Washington has increased steadily since 1998.



## I. INTRODUCTION

For over sixty years the minimum wage has been an important policy for providing a wage floor for American workers. Proponents of raising the minimum wage argue that it is an effective policy for improving the economic security of low-wage workers. Opponents of a rising minimum wage assert that it causes job losses among the low-wage workers that it is intended to help while also contributing to higher inflation. Opponents also argue that increasing the minimum wage is poorly targeted because many minimum wage workers are teenagers. This report provides an assessment of the impact of Washington's minimum wage policy on the state's lowest wage workers and the industries that employ them. First, we profile the demographic and economic conditions of the typical minimum wage worker in Washington state. Second, we discuss the minimum wage in the context of recent changes in the economy. Next, we utilize available economic data to assess the employment and inflationary impacts of the increasing minimum wage. Finally, we assess the minimum wage in the context of Washington's agricultural economy.

## II. THE MINIMUM WAGE IN WASHINGTON

Washington state first implemented a minimum wage of \$1.00 per hour in 1959. After several interim increases, voters passed an initiative in 1988 that raised the state minimum wage from \$2.30 per hour to \$4.25 per hour over a two-year period.<sup>1</sup> The 1988 initiative also brought agricultural employment under the protections of the minimum wage. State lawmakers increased the minimum wage to \$4.90 per hour in 1994. In 1997 the minimum wage increased for most Washington workers as the federal minimum wage increased to \$5.15 per hour. With the passage of Initiative 688 in 1998, Washington's minimum wage made two incremental increases to \$5.70 per hour in 1999 and \$6.50 per hour in 2000, with an annual cost-of-living adjustment (COLA) thereafter. As a result of the COLA, the minimum wage increased to \$6.72 per hour in 2001 and to \$6.90 per hour in 2002. In January 2003, Washington's minimum wage will increase to \$7.01 per hour.

Minimum wage increases in the past could only be implemented with the passage of specific state or federal legislation. The political debate surrounding the issue has often allowed long periods of time to pass without upward adjustments in the minimum wage. Consequently, even with the periodic increases, the minimum wage is worth significantly less to workers now than it was 30 years ago. Washington state has taken the lead in attempting to stop the erosion in value by requiring an annual minimum wage increase that is linked to inflation. Oregon and Alaska have more recently also passed laws requiring annual minimum wage increases indexed to inflation.<sup>2</sup>

In previous legislative sessions a variety of interest groups have mounted efforts to dismantle Washington's minimum wage policy. Proposals have been put forth that would have established a sub-minimum wage for tipped employees, created separate wage rates for training periods, exempted agricultural workers from future COLAs, or discontinued future minimum wage COLAs.<sup>3</sup> These efforts have occurred despite the fact that income inequality continues to grow. In Washington state the average income of the richest fifth of families increased by \$32,270 between the late 1980s and the late 1990s. During this period the average income of the poorest fifth of families increased by only \$670.<sup>4</sup> As Washington policymakers meet for the 2003 legislative session, proposals to modify Washington's minimum wage will likely resurface.

### III. PROFILE OF WORKERS AFFECTED BY THE MINIMUM WAGE

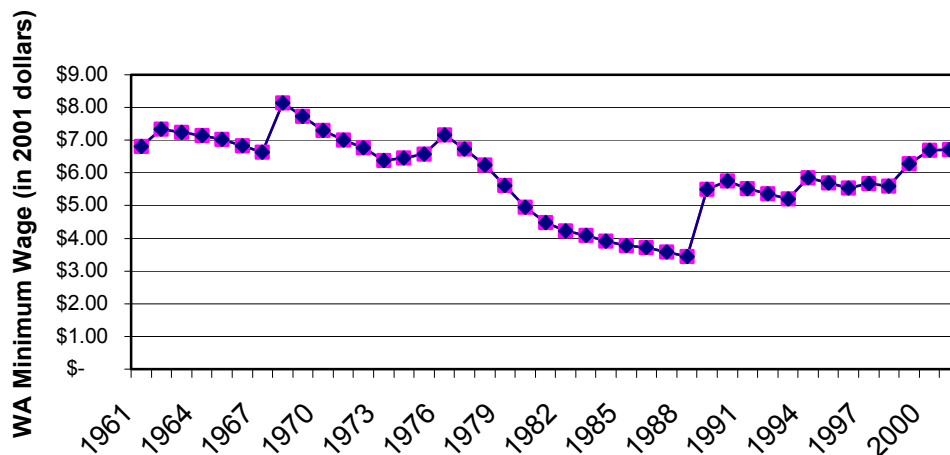
Workers affected by the minimum wage in Washington tend to be female, over 20 years of age and disproportionately Hispanic. Approximately 242,000 individuals, or 8.6% of workers in Washington, earned between \$6.90 and \$7.90 per hour in the first three quarters of 2002.<sup>5</sup> Approximately 75% of these workers were over 20 years of age and nearly 60% were female. Nearly half of workers making within \$1.00 of the minimum wage were employed full time.

### IV. ADEQUACY OF WASHINGTON'S MINIMUM WAGE

#### Purchasing Power

The minimum wage has increased several times in the past 30 years, but the increases have failed to keep pace with inflation. Although Washington currently has among the highest minimum wage in the nation, its real purchasing power still remains below the level achieved in 1968 when the minimum wage was at an inflation-adjusted \$8.14 per hour (Figure 1).

**Figure 1. Purchasing Power of Washington's Minimum Wage**



After a sharp decline in the 1980s, the purchasing power of Washington's minimum wage grew substantially with voter-approved wage increases in 1989 and 1990. Throughout the 1990s Washington state experienced unprecedented economic prosperity; however, the value of the state's minimum wage remained stagnant. With the additional increases as a result of Initiative 688, the real purchasing power of Washington's minimum wage had increased by 20% in 2001.



**Table 1. Characteristics of Washington Workers Affected by Increases in the Minimum Wage, 2002**

	<b>Workers earning between \$6.90 and \$7.90</b>	<b>All workers</b>
Average wage	\$7.25	\$17.29
Employment	242,700	2,820,574
Share of total	8.6%	100%
All females	59.3%	48.2%
Age 16-19	15.8%	3.3%
Age 20+	43.5%	45.0%
All males	40.7%	51.8%
Age 16-19	9.3%	2.7%
Age 20+	31.5%	49.1%
Whites	79.8%	84.4%
Males	30.5%	43.3%
Females	49.2%	41.1%
Blacks	1.6%	3.3%
Males	1.1%	2.0%
Females	0.5%	1.4%
Hispanics	12.8%	5.0%
Males	6.2%	3.0%
Females	6.6%	1.9%
Full-time	46.5%	78.8%
20-34 hours	34.5%	14.7%
1-19 hours	19.0%	6.4%
Manufacturing	6.5%	13.1%
Retail trade	42.4%	17.4%
Union	5.9%	20.1%
Nonunion	94.1%	79.9%

*Economic Policy Institute Analysis of Current Population Survey Data*

### **Cost-of-Living Adjustments (COLAs)**

Since 2001, Washington's minimum wage has increased annually to reflect the rate of inflation in the economy. Washington's minimum wage is adjusted every January based on inflation, as measured by the national Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The CPI-W is a sub-sample of the larger Consumer Price Index for all Urban Consumers (CPI-U), which is calculated by the U.S. Bureau of Labor Statistics. The CPI-W includes goods and services purchased by wage earners and clerical workers and is sometimes referred to as "the blue collar measure".

Annual COLAs ensure that the purchasing power of Washington's minimum wage remains constant into the future. Annual COLAs are widely used in the private sector and are also used to annually adjust entitlement payments such as the nation's Social Security program. In the past, infrequent minimum wage increases in combination with continued inflation have made the minimum wage less effective as a tool for helping the poorest working families. For example, between 1976 and 1988 high inflation combined with a lack of minimum wage increases caused Washington's minimum wage to decrease in value by 52%. The modest annual COLAs that are now in place will ensure that Washington's minimum wage keeps pace with the cost of most basic household purchases.

However, even with annual COLAs, Washington's minimum wage is not keeping pace with increases in costs that working families are experiencing for some essential services. For example, employee health care insurance costs rose by 15% between 2001 and 2002.<sup>6</sup> Over the last 10 years licensed childcare costs in the Seattle metro area have increased at an average annual rate of 6.8% per year.<sup>7</sup>

Annual COLAs also provide a level of predictability to both employees and employers. Previously both were subject to a high amount of uncertainty regarding minimum wage increases. For example, between 1988 and 1990 the state minimum wage was increased from \$2.30 per hour to \$4.25 per hour, an 85% increase in two years. In comparison, the minimum wage increases in 2001 and 2002 were limited to a modest 3.4% and 2.7% respectively. When comparing today's modest annual COLAs with the previous policy of making a periodic major adjustment, it is clear that COLAs offer a more stable and predictable alternative for both employers and employees.

### ***A Seattle-Based COLA?***

Critics have questioned whether workers in rural Washington should be subject to the same COLAs as urban area workers. Consequently, the CPI-W has been mistakenly termed as a Seattle-based measure. In fact, the CPI-W is a national measure that uses data from over 80 urban areas, some of which have populations as small as 50,000. Because 75% of the U.S. population does not live in rural areas, the U.S. Census Bureau does not specifically measure rural inflation.

### **Poverty and the Minimum Wage**

In Washington state the annual poverty threshold for a family of three (one parent and two children) was \$14,269 in 2001. According to 2000 Census Bureau data, 10.6% of all Washingtonians, or 625,000 people, were living in poverty.<sup>8</sup> Poverty rates in rural Washington average 4.3% higher than the state average.<sup>9</sup> Since 1999, Washington's minimum wage has increased to a level that allows a full-time worker supporting two dependents to almost meet the federal poverty threshold (Figure 2).<sup>10</sup> When wages are combined with the Federal Earned Income Tax Credit program, this same worker will realize an annual income slightly above the federal poverty threshold (Figure 3).<sup>11</sup> This is a notable increase from 1998 wage levels.

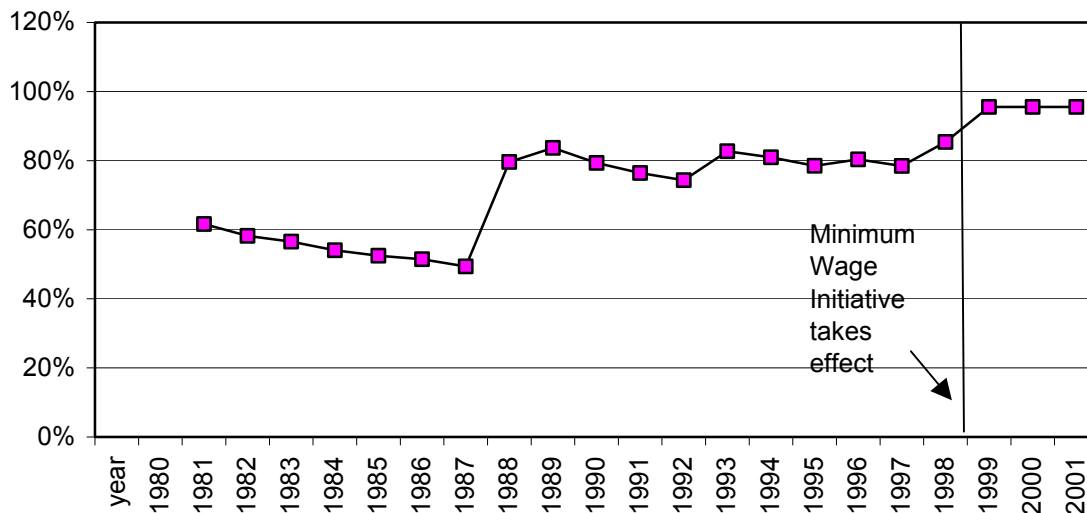
Although the federal poverty threshold is often used as a gauge for measuring the adequacy of wages, it is widely cited as being an insufficient measure of people's ability to provide for their basic needs.<sup>12</sup> In reality, Washington's minimum wage still remains inadequate to meet basic family needs related to child care, housing, transportation, and health care. The *Self-Sufficiency Standard for Washington State* estimates \$20.70 per hour to be an adequate living

wage for a single adult with two children living in metropolitan Seattle.<sup>13</sup> In rural Washington the cost of living is lower, but the self-sufficiency standard remains well above the income provided by the state minimum wage. A single adult with two children living in Chelan County would require an hourly wage of \$12.54 in order to be able to adequately cover costs related to housing, child care, food, transportation, and health care.

**Table 2. 2001 Budget for a Three-Person Family**  
*As measured by the Self-Sufficiency Standard for Washington State*

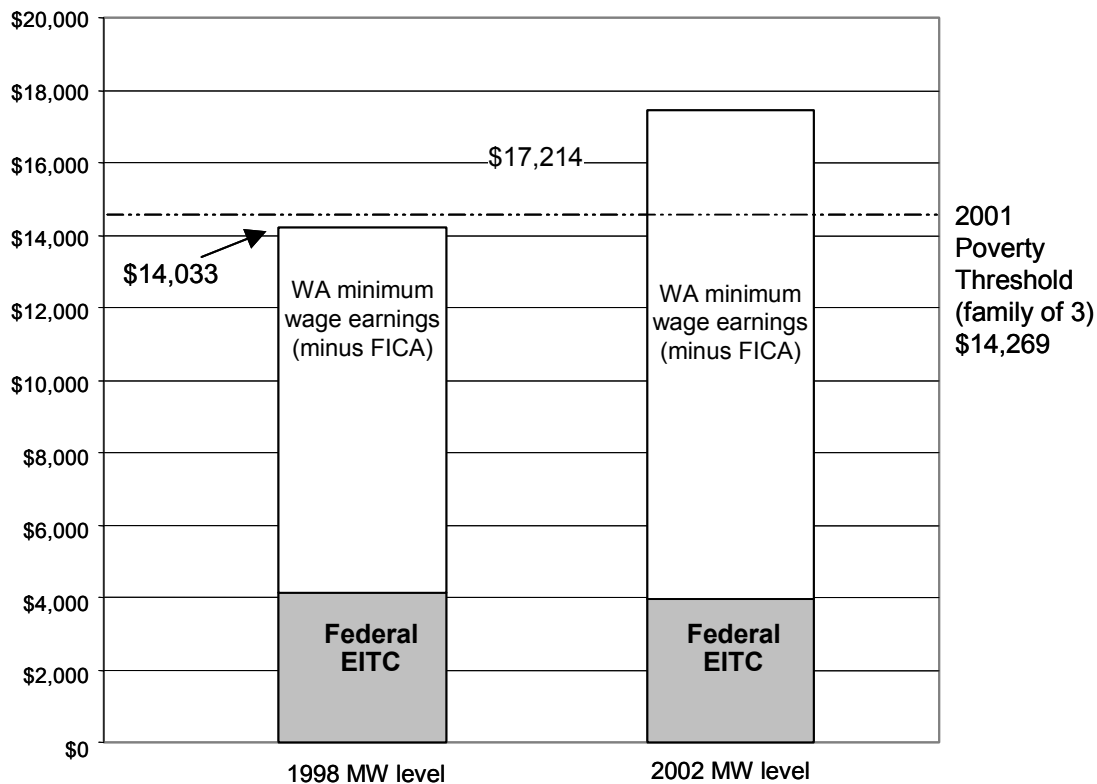
	<b>Seattle Family Monthly Cost</b>	<b>Chelan County Family Monthly Cost</b>
Housing	\$971	\$497
Child Care	\$1,025	\$594
Food	\$379	\$379
Transportation	\$265	\$236
Health Care	\$222	\$222
Miscellaneous	\$286	\$193
Taxes	\$658	\$324
Earned Income Tax Credit	\$0	-\$99
Child Care Tax Credit	-\$80	-\$84
Child Tax Credit	-\$83	-\$55
<b>Self-Sufficiency Hourly Wage Needed</b>	<b>\$20.70</b>	<b>\$12.54</b>
Monthly	\$3,644	\$2,207
Annual	\$43,728	\$26,484
<b>Washington Minimum Wage 2002</b>	<b>\$7.01</b>	<b>\$7.01</b>
Monthly	\$1,215	\$1,215
Annual	\$14,580	\$14,580

**Figure 2. Full-Time Work at Minimum Wage  
as a Percentage of Poverty  
(Family of Three)**



**Figure 3. Annual Income of a Full-Time Minimum Wage Worker in Washington**

(Assumes one parent and two children and includes the net effect after the Federal Earned Income Tax Credit and Social Security payroll taxes)



## V. ASSESSING THE ECONOMIC DATA

Minimum wage proponents value the minimum wage as a tool for improving the incomes of low-wage workers. The actual effects of raising the minimum wage will depend on various factors, including the conditions of the labor market, the size of the wage increase, and the ability of employers to pass on, absorb, or offset higher labor costs. As a result, predicting and assessing the economic effects of a minimum wage increase with precision are not simple tasks. Despite the difficulties, regional economic data is readily available that can help to answer these general questions:

- How are employment trends in industries that predominately employ minimum wage workers affected by changes in the minimum wage?
- How has increasing the minimum wage affected inflationary trends in Washington state?
- How do these changes in Washington compare with changes in other nearby states that have not increased their minimum wage?
- What are the main drivers of the current economic recession and how does Washington's minimum wage relate to the recession?

The following section utilizes data from the Washington Employment Security Department and the U.S. Bureau of Labor Statistics to assess the employment and inflationary impacts associated with Washington's recent increases in the minimum wage.

## The Minimum Wage and the Regional Economy

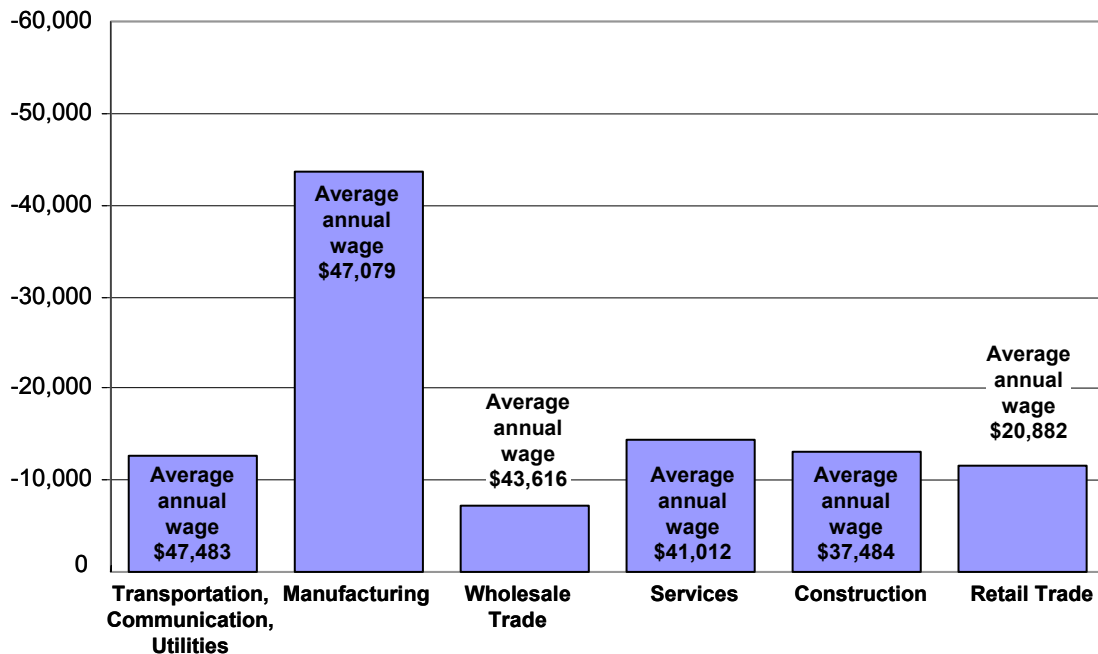
Washington's economy has been disproportionately affected by recent downturns in the national economy. After a decade of unprecedented growth, the U.S. economy began to show signs of slowing down in early 2001. By Autumn 2001 economists had verified that the United States was experiencing its first recessionary period since 1991.<sup>14</sup>

The terrorist attacks of September 11, 2001, undermined economists' predictions of a speedy economic recovery.<sup>15</sup> Of particular importance to Washington state was the negative impact of September 11 events on the airline industry, which translated into huge job losses at the region's biggest employer, the Boeing Company. The direct impact to Washington state has been a Boeing workforce downsized from 104,000 in 1998 to 62,600 as of October 2002, a loss of over 40,000 jobs.<sup>16</sup>

The continuing contraction of the national high-tech sector has also had a substantial impact on Washington's economy, resulting in the loss of 20,000 high-paying local jobs.<sup>17</sup> Recent corporate accounting scandals have further eroded confidence in the stock market leading many economists to predict a slow and arduous recovery.<sup>18</sup>

Although unemployment in Washington state is currently among the highest in the nation at 6.7%, there is no evidence that would suggest that Washington's higher minimum wage is adversely affecting unemployment.<sup>19</sup> If the minimum wage was substantially contributing to unemployment, job losses would be considerably higher in Washington's lowest-wage sectors, such as retail trade (average annual wage \$20,882). However, between March 2001 and September 2002 the majority of job losses in Washington state have been in the manufacturing sector of the economy which pays well above the average annual wage of \$37,070 (Figure 4).

**Figure 4. Washington State Job Losses, March 2001 - September 2002**



Source: U.S. Bureau of Labor Statistics

## **Minimum Wage Employment Effects**

The following section illustrates employment trends in industries that employ many of Washington's minimum wage workers. The data indicate that employment grew in low-wage sectors of the economy between 1998 and 2001. The recent decline of employment in low-wage sectors reflects the onset of the national economic recession, which officially began in March 2001, and was far less than the decline in higher-wage sectors.

### ***Retail Trade***

The retail trade sector of the economy employs the majority of minimum wage workers in Washington and is therefore most likely to be affected by increases in the minimum wage. Retail trade employment levels grew throughout the 1990s and continued to rise even after Washington increased its minimum wage in 1999 and 2000. In fact, employment levels within retail trade in Washington experienced similar rates of growth to that of nearby Oregon. This occurred despite the fact that Washington state increased its minimum wage in 2000 while Oregon did not (Figure 5). Not until 2001 did employment levels in the retail trade sector begin to decline in all western states as the national economic recession began to take effect. The data suggest that the employment losses in the economy are due to the national economic recession, not to Washington's increasing minimum wage.

### ***Restaurants and Hospitality***

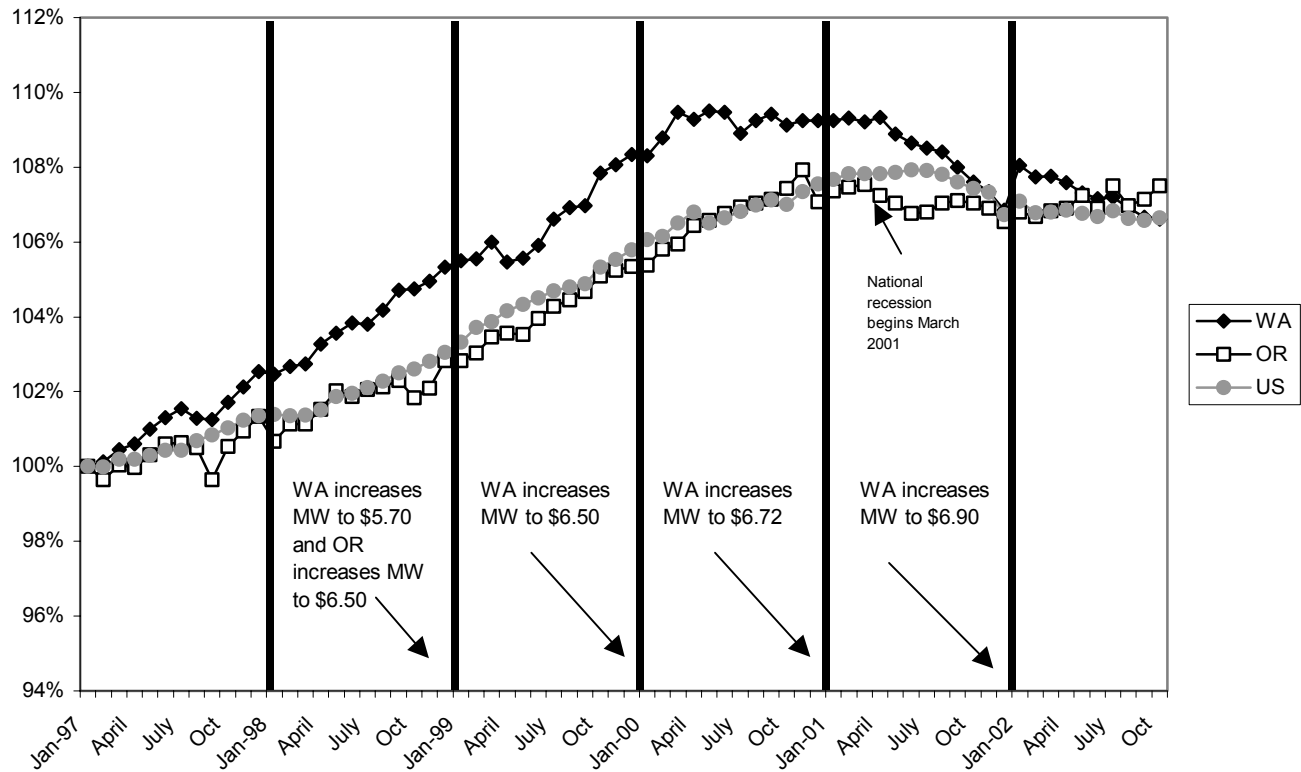
At an average annual wage of \$13,558, eating and drinking establishments (Standard Industrial Classification [SIC], 58, a subset of the retail trade sector) account for a substantial amount of employment among minimum wage workers.<sup>20</sup> Despite increases in the minimum wage, the number of eating and drinking establishments rose from 11,150 in 1998 to 11,481 in the year 2001.<sup>21</sup>

During the years when Washington's minimum wage grew most quickly, between 1999 and 2000, employment in eating and drinking establishments also rose. Specifically, employment at eating and drinking establishments rose from an annual average of 174,700 in 1998 to an annual average of 181,000 in 2001, or a 3.6% increase. In 2002, with the national economic recession in full swing, employment in eating and drinking establishments declined slightly, but far less than in higher-wage sectors such as manufacturing.

In their *2002 Washington State Labor Market and Economic Report*, the Washington State Employment Security Department projects that eating and drinking establishments will add 28,100 new jobs by 2010 growing at a pace of about 1.2% a year, which is on par with overall employment projections in the economy.<sup>22</sup>

Approximately half of all jobs in Washington's hospitality industry (hotels and other lodging places, SIC 70) pay an average wage that is within \$1.00 of the minimum wage.<sup>23</sup> Even with increases in the minimum wage, employment in Washington's hospitality sector rose slightly from an annual average of 28,700 in 1998 to an annual average of 29,100 in 2001. With the onset of the national recession and a reduction in travel due to September 11 terrorist events, employment in the hospitality industry has declined slightly in 2002.<sup>24</sup>

**Figure 5. Retail Trade Employment Growth  
January 1997 Index**



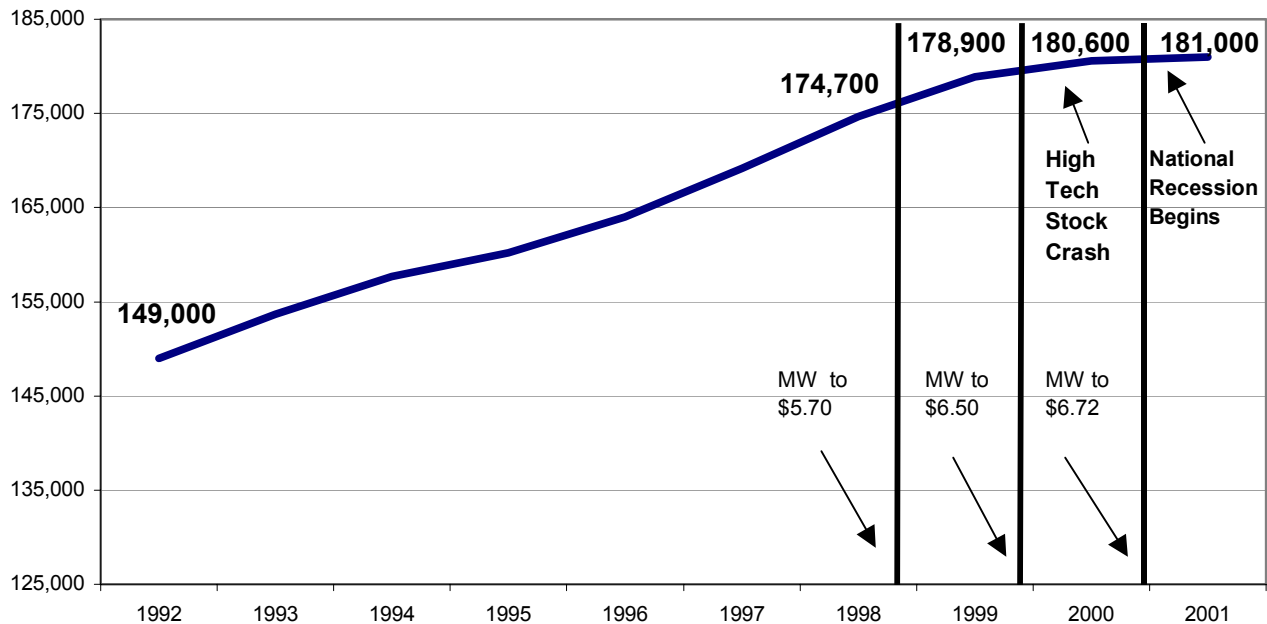
Source: U.S. Bureau of Labor Statistics

**Table 3. Washington Employment by Industry**

Industry	1998	1999	2000	2001
Eating and Drinking Places	174,700	178,900	180,600	181,000
Hotels and other Lodging Places	28,700	28,500	29,200	29,100
Retail Trade	469,700	482,000	493,900	490,400
<b>Total Non-Farm Employment</b>	<b>2,594,900</b>	<b>2,648,700</b>	<b>2,711,300</b>	<b>2,697,800</b>

Source: U.S. Bureau of Labor Statistics

**Figure 6. Annual Average Employment Eating and Drinking Places  
Washington State**



Source: U.S. Bureau of Labor Statistics

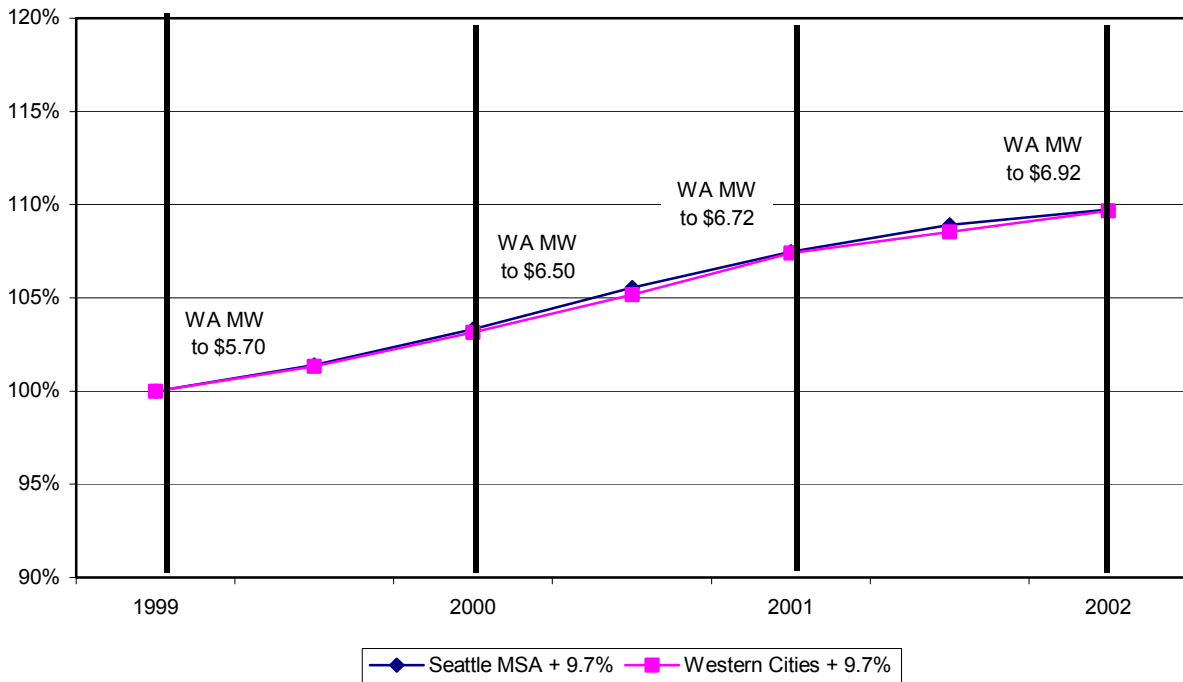
### Does the Minimum Wage Affect Inflation?

Opponents of an increasing minimum wage assert that it can lead to higher prices for goods and services as producers pass on the higher cost of labor. According to economic data available from the U.S. Bureau of Labor Statistics, the higher minimum wage in Washington has not resulted in a significant difference in prices for goods and services in Washington state.<sup>25</sup>

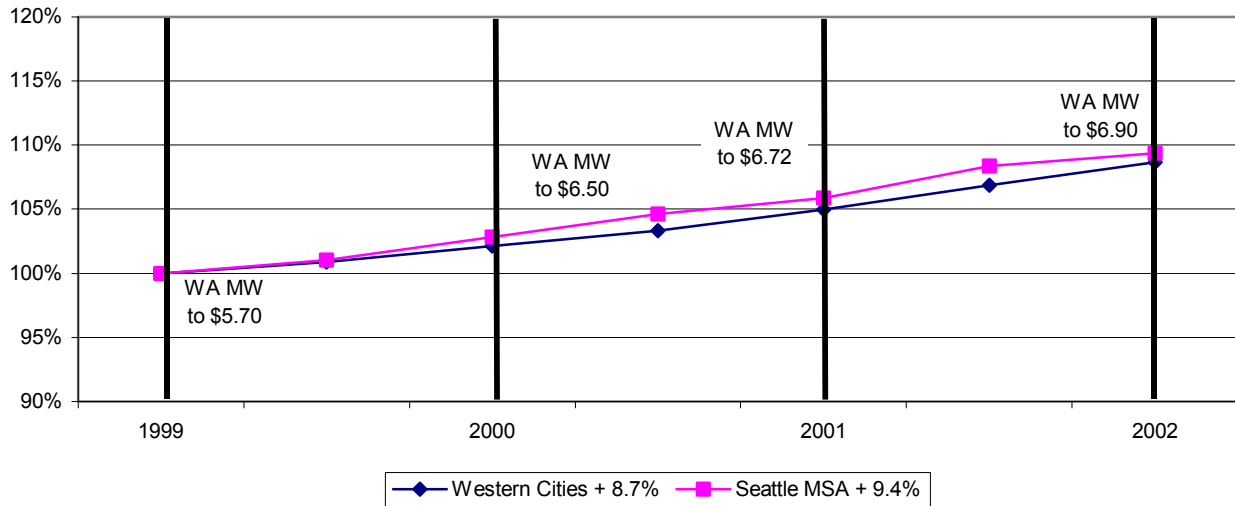
Washington state has had the highest minimum wage among western states since 2000; therefore, any increase in price levels would be revealed when comparing inflationary trends between Washington and other western states.<sup>26</sup> However, the Seattle CPI and the CPI for other western U.S. cities grew at the same rate of 9.7% between 1997 and 2002 (Figure 7). When comparing prices in Washington with other states, as measured by food consumed away from home, there appears to be only a minor difference.<sup>27</sup> Between 1999 and 2002 the consumer price index, as measured by food away from home purchases, increased by 9.4% in Seattle compared to an 8.7% increase for all other western U.S. cities (Figure 8). To better illustrate this difference a meal that cost \$20.00 in Seattle in 1999 increased to \$21.88 in 2002 compared to \$21.74 in all other western cities, a 14-cent difference.



**Figure 7. General Inflation: Seattle Versus Western Cities  
(1999 Index)**

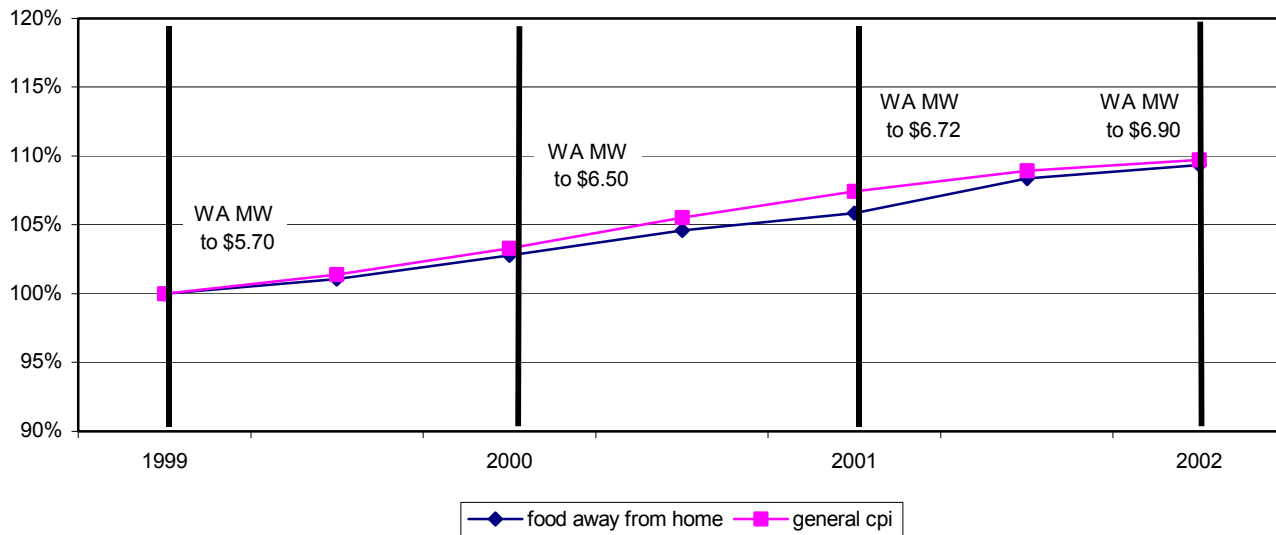


**Figure 8. Inflation: Food Away From Home  
Seattle Versus Western Cities  
(1999 Index)**



However, when looking specifically at food consumed away from home only within Washington, price increases have been below the rate of general inflation in Washington (Figure 9).

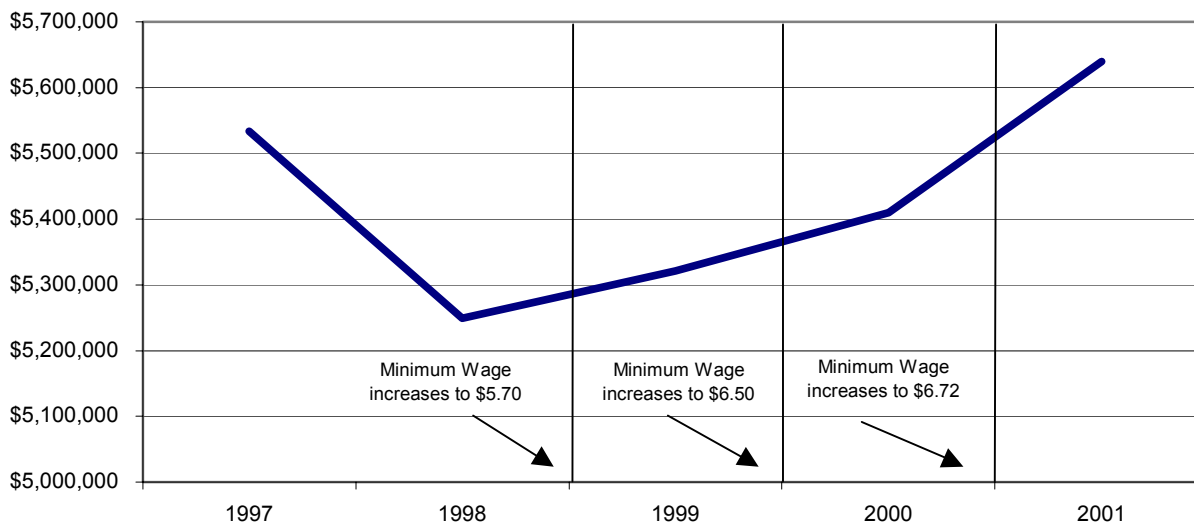
**Figure 9. Restaurant Inflation Versus General Inflation:  
Seattle CPI (1999 Index)**



## VI. AGRICULTURE AND THE MINIMUM WAGE

Agriculture is an important component of Washington state's economy, particularly in eastern Washington where 80% of all agricultural related employment in the state is located.<sup>28</sup> Washington's total agricultural economy provided \$29 billion worth of output in 2001, or about 3% of the annual gross state product.<sup>29</sup> Although overall agricultural production decreased in 2001, the overall value of agriculture in the state has been increasing since 1998 (Figure 10).<sup>30</sup> After declining earlier in the decade, the total value of all major crops increased from \$5.2 billion in 1998 to \$5.6 billion in 2001.

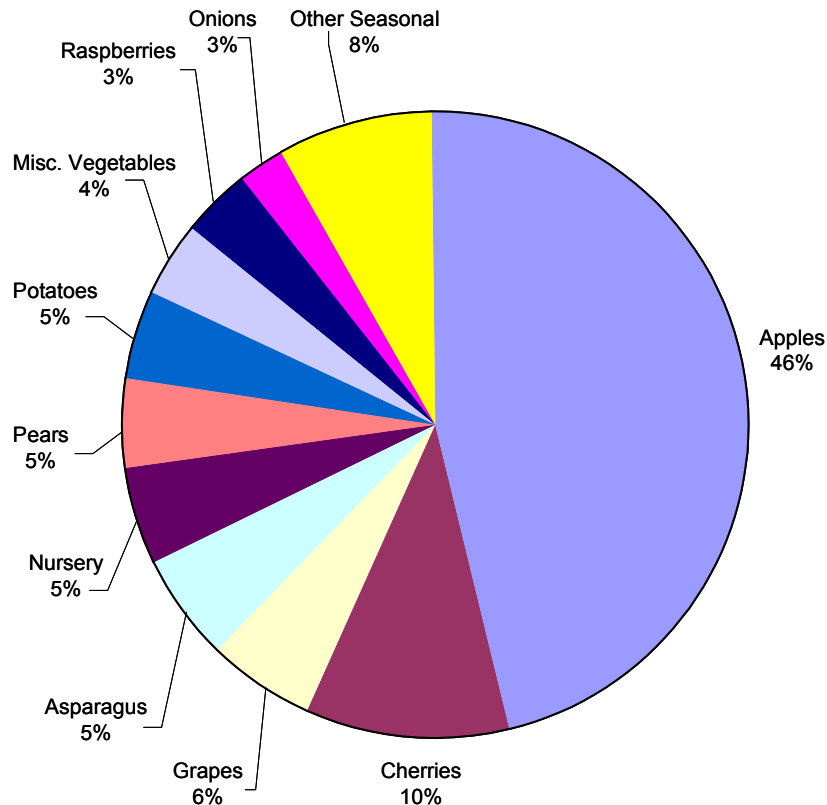
**Figure 10. Total Value of Major Crops in Washington State 1997-2001  
(in thousands)**



The most important products in terms of total value are apples, milk, potatoes, cattle and calves, wheat, and hay. Apple producers are by far the largest single agricultural employer, employing an annual average of 12,455 workers in 2001 (Figure 11). Other large employers include producers of cherries, grapes and asparagus. Thousands of workers are also employed in other agriculture related sectors such as fruit and vegetable processing.

Agricultural interests in Washington have consistently been among the most vocal opponents of Washington's indexed minimum wage policy. Thus, it is crucial to understand the relationship between the minimum wage and its effect on Washington's rural agricultural economy and the workers who participate in it.

**Figure 11. Washington State Seasonal Workers by Crop, 2001**



### **Agricultural Workers**

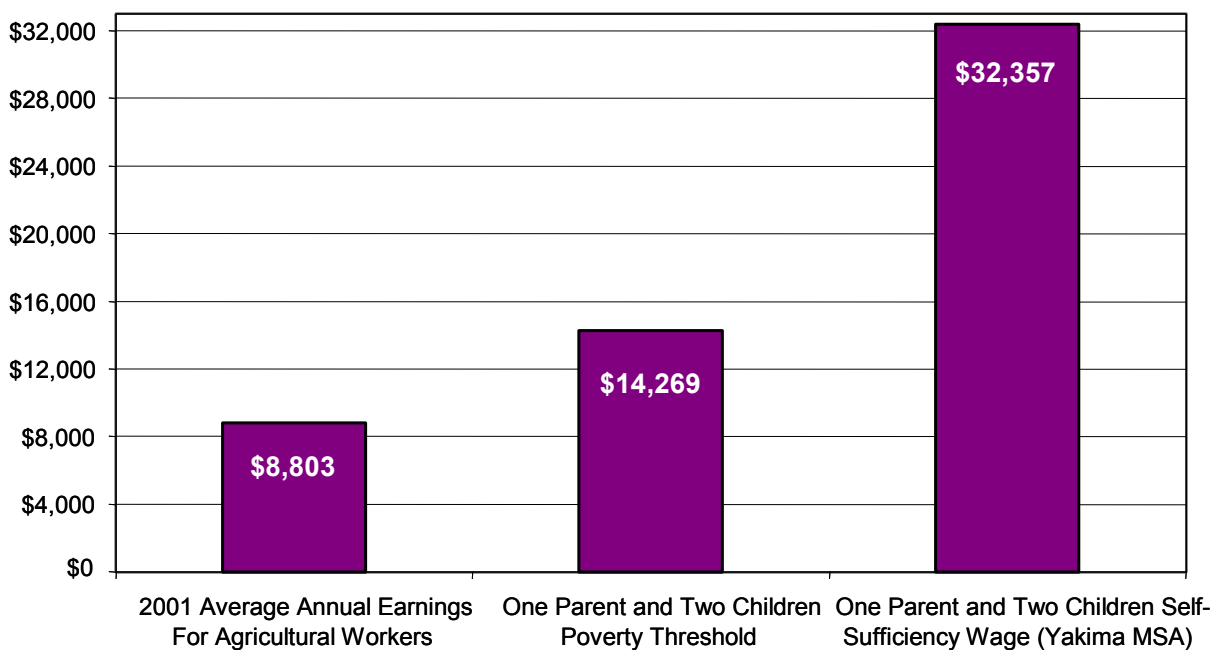
Agricultural workers in Washington are predominately male (70%), Hispanic (69%) and between the ages and 24 and 44 (58%).<sup>31</sup> In 2001, 150,315 individuals worked at some point in agriculture.<sup>32</sup> A special survey of apple growers completed in the year 2000 identified 74.8% of workers as permanent residents of Washington state.

Although agricultural workers earned an average of \$10.22 per hour in 2001, the average agricultural worker only worked 861 hours per year, or just under 6 months of full-time work.<sup>33</sup> This translates into average annual earnings of \$8,803, far below the three-person poverty threshold of \$14,269 (Figure 12). In 2001, 43,880, or 29% of workers employed in agriculture supplemented their income with non-agriculture employment as well, but annual incomes for most remained low. The average annual earnings for agriculture workers who supplemented

their work with non-agriculture employment was only \$12,458, well below the poverty level for a family of three.

With such low annual earnings it is not surprising that agricultural workers commonly experience among the lowest living standards in the state. It has been estimated that 60% of the state's migrant population is homeless.<sup>34</sup> Agricultural workers are subject to numerous occupational hazards such as exposure to dangerous pesticides and physically demanding working conditions. According to the Washington Employment Security Department, "A worker in agriculture faces a higher risk of being injured while at work than workers in other industries."<sup>35</sup> Furthermore, most agricultural workers have little access to health care. In the 2002 Washington legislative session Medicaid health benefits for many agricultural workers and their children were eliminated.

**Figure 12. Agriculture Earnings Related to the Federal Poverty Threshold and the Self-Sufficiency Standard for Washington State**



### Wage Trends in Agriculture

In addition to those paid on an hourly wage basis, agricultural workers are often paid on a piece-rate basis. Piece-rate determinations vary from crop to crop and from year to year; however, an individual's pay rate must always work out to be at least the hourly minimum wage. Neither the state nor the federal government collect data which show from year to year the number of individuals paid by the hour versus those paid by the piece. Even if the total number of agricultural workers making piece-rate pay was known, piece rates are not translated into hourly rates on an aggregate level. As a result, determining how many workers are actually making the minimum wage and how an increasing minimum wage affects production costs becomes difficult. Nonetheless, from the sparse data that is available some general conclusions can be made.

If the increasing minimum wage were having a substantial impact on the agricultural economy, then agricultural wages would be expected to increase at a rate similar to increases in the minimum wage. However, wage rates in agriculture in general increased more slowly than the

minimum wage. Between 1990 and 2001 the wages for covered agricultural employment increased by 54.6%, or 5% annually. In contrast, the state minimum wage increased by 58.1%, or 5.3% annually over the same time period.<sup>36</sup> Since Initiative 688 went into effect in 1999 the difference is more dramatic. Average hourly earnings for agricultural workers increased from \$9.01 per hour in 1998 to \$10.22 per hour in 2001, or a 13.4% nominal increase, which is on par with overall wage growth in the economy during the same period. In comparison, the state minimum wage increased from \$5.15 per hour in 1998 to \$6.72 per hour in 2001, or a 30% nominal increase.

### **External Pressures on Farmers**

Abolishing minimum wage protections for agricultural workers will do little to improve the long-term sustainability of agriculture in Washington state. In recent years, a host of economic challenges facing farmers have had a far greater impact on profitability than modest increases in the state minimum wage.

Certain problems have always been inherent to the U.S. agricultural economy. For example, the demand for food is highly static; therefore changes in the food supply (which can be caused by numerous factors such as weather conditions, pest problems, trade patterns, etc.) will result in large fluctuations in prices going to farmers. Contemporary problems that will continue to burden local farm families include an increasing consolidation in the food retailing and processing industries, increased conflicts related to U.S. foreign policy goals, and global competition from developing countries.

### **Consolidation in Food Industries**

In 1997, five corporate grocery retailers controlled 24% of the U.S. market. By the year 2000, the market share of the top five retailers had increased to 42%. According to a 2001 report to the National Farmers Union, "Most likely, farmers will continue to be at the mercy of cost-cutting and profit-improving strategies of more dominant firms in the food chain clusters."<sup>37</sup> This has become apparent in Washington state as large food-processing companies continue to look for ways to cut costs at the expense of both farmers and low-wage workers.<sup>38</sup>

Seneca Foods Corporation has been one of the most vocal opponents of Washington's increasing minimum wage. Seneca operates a large canning plant in Dayton, Washington, which processes vegetables for Pillsbury under a long-term contract. According to a recent article in the *Tri-City Herald*, Seneca officials claim that an unchanged minimum wage law "will be the reason that the Dayton plant and the asparagus industry in the state ceases to exist".<sup>39</sup> However, continuing cost-reductions due to consolidation in food production industries provides a more compelling explanation of the current conditions facing Seneca. According to Seneca's 2002 Annual Report, the Pillsbury Company (which sells vegetables processed at the Dayton facility) has been involved in a drawn-out acquisition by General Mills, Inc. and as a result the business has not been managed for sales growth. Consequently, sales declined by 11% in fiscal year 2002. Internally, Seneca reports that it has been continuing cost-reduction efforts and has reduced the number of employees by 14%.<sup>40</sup>

### **Washington Asparagus and U.S. Foreign Policy**

Increasing conflicts related to U.S. foreign policy goals have also affected Washington farmers. In an attempt to promote an agricultural alternative to cocaine production, Peruvian asparagus

growers receive duty-free access to U.S. markets.<sup>41</sup> As a result, American consumers purchased about 75% of Peru's asparagus crop in the year 2000.<sup>42</sup> As asparagus production in Peru continues to increase and Peruvian growers continue to receive duty-free access to U.S. markets, the result will be further competition for Washington's asparagus growers.

### ***Competitive Advantage in a Global Economy***

As globalization of the world economy increases, Washington's farm economy will be more subject to increased competition from overseas producers. By virtue of America's high living standards it is clear that farmers in Washington will never be able to compete with Third World countries in terms of labor costs. Therefore, a vibrant agricultural economy for Washington's future must involve marketing and exploiting Washington's clear competitive advantages.

Washington farmers enjoy a number of significant competitive advantages in the global marketplace. These include a world-class research institution at Washington State University, which has been instrumental in collaborating with Washington farmers on the latest agricultural technologies, an extensive state-of-the-art agricultural infrastructure, which includes an extensive network of dams and irrigation systems, and a location that provides easy access to global markets. In addition, Washington enjoys rich volcanic soils and a favorable climate, which allows state farmers to grow crops that are among the highest quality in the world. It is these important agricultural assets that will help Washington agriculture continue to thrive, not a reduction in the state minimum wage.

## **VII. CONCLUSION**

Today a full-time worker employed in a minimum wage job makes \$3,868 more annually than under the 1998 minimum wage. When adjusted for inflation, the purchasing power of the minimum wage has increased by 20% between 1998 and 2001. More importantly, annual COLAs will ensure that the real value of the minimum wage remains constant into the future. This is an important change from infrequent minimum wage increases of the past that resulted in real wage decline for the lowest-wage earners in Washington.

Claims that the minimum wage is partially to blame for Washington's current economic climate are not supported by the evidence. The current unemployment rate is due to the characteristics of the current national economic recession and its relation to Washington's regional economy. These factors include the negative impact of 2001 terrorist events on the airline industry, which translated into huge job losses at the Boeing Company and the contraction of the national high-tech sector.

Economic data indicate that modest increases in Washington's minimum wage have not led to large-scale layoffs in industries that employ minimum wage workers. In the restaurant industry, one of Washington's lowest-paying industries, employment increased by 3.6% between 1997 and 2001. The majority of recent job losses in the economy have been in the higher-paying manufacturing sector. In addition, inflationary data shows little difference in price levels when comparing Washington to other western states.

Washington's agricultural economy has faced a host of economic challenges that have had a far greater impact on profitability than modest increases in the state minimum wage. Yet, the

total value of agricultural products in Washington has increased steadily since 1998. Meanwhile, since 1998 wage growth among agricultural workers has trailed far behind increases in the minimum wage and Washington's agricultural workers continue to have the lowest incomes in the state. Washington's minimum wage COLAs provide an important floor of protection for these workers.

Recent minimum wage increases in Washington have been a very important policy tool for helping to raise and maintain the wages of the lowest-income workers without negatively impacting the state economy.

## Endnotes

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- <sup>1</sup> McIntire, James L. *The Impacts of the Minimum Wage Initiative in Washington State*, January 1991 Northwest Policy Center
- <sup>2</sup> Oregon voters recently passed an initiative that will index annual increases in its minimum wage with inflation. Alaska's annually indexed minimum wage policy will take effect in January 2003.
- <sup>3</sup> See Washington House Bills 2921, 2803 and 2820 as well as Washington Senate Bills 6220 and 6680 from the 2002 regular legislative session
- <sup>4</sup> Economic Policy Institute/Center on Budget and Policy Priorities, *Pulling Apart: A State-by-State Analysis of Income Trends*, April 2002
- <sup>5</sup> Often referred to as the "spillover effect", workers earning just above the minimum wage are often affected by increases in the minimum wage. (See Card and Kruger, *Myth and Measurement* 1995 p 160.)
- <sup>6</sup> Bradley C. Strunk, Paul B. Ginsburg, and Jon R. Gabel *Tracking Health Care Costs: Growth Accelerates Again in 2001* Health Affairs September 25, 2002 <http://www.healthaffairs.org/WebExclusives/2106Strunk.pdf>. According to the 2000 Consumer Expenditure Survey, individuals with annual incomes equivalent to the minimum wage pay a higher percentage of their personal incomes for health care compared to individuals in other income brackets.
- <sup>7</sup> Child Care Resources, June 2000. <http://www.childcare.org/community/child-care-king-county-19990-2000-report.pdf>.
- <sup>8</sup> <http://www.ofm.wa.gov/census2000/sf3/20020507.pdf>.
- <sup>9</sup> Economic Research Service, United States Department of Agriculture
- <sup>10</sup> A single mother with two children represents the typical participant in Washington's WorkFirst welfare reform program. See <http://www.wa.gov/WORKFIRST/about/StudyIndex2.htm>
- <sup>11</sup> In 2001 the U.S. General Accounting Office estimated that only 75 percent of households that were eligible for the Earned Income Tax Credit Program received the credit. Participation rates were higher for households with one or two qualifying children (96 percent and 93 percent respectively). The participation rates for households with three or more children dropped to 62.5%.
- <sup>12</sup> Constance F. Citro and Robert T. Michael, ed., *Measuring Poverty: A New Approach*, National Academy Press, 1995. See also *Proposed Changes in The Official Measure of Poverty*, Center for Budget and Policy Priorities, 1999
- <sup>13</sup> Pearce, Diana, *The Self-Sufficiency Standard for Washington State*, Washington Association of Churches, Washington Living Wage Movement and the Washington Self-Sufficiency Standard Committee, September 2001
- <sup>14</sup> National Bureau of Economic Research press release November 2001 <http://www.nber.org/cycles/november2001/>
- <sup>15</sup> Seattle Times, July 3, 2001, *US Outlook Improves with Latest Spending, Manufacturing Number* <http://archives.seattletimes.nwsourc.com/cgi-bin/texis.cgi/web/vortex/display?slug=econstox03&date=20010703&query=economic+recovery>
- <sup>16</sup> Seattle Post Intelligencer, November 14, 2002, *Economy's Worst is Over* [http://seattlepi.nwsourc.com/business/95345\\_economy13.shtml](http://seattlepi.nwsourc.com/business/95345_economy13.shtml)
- <sup>17</sup> Seattle Times, August 18, 2002, *Seattle's long road back: Return to economic health won't be rapid* <http://archives.seattletimes.nwsourc.com/cgi-bin/texis.cgi/web/vortex/display?slug=econseattle180&date=20020818&query=seattle%27s+long+road+back>  
According to 2000 data from the Washington Employment Security Department, high tech jobs (excluding prepackaged software) in Washington paid an annual average wage of \$70,717.

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- <sup>18</sup> Seattle Times, August 18, 2002, *Seattle's long road back: Return to economic health won't be rapid*  
<http://archives.seattletimes.nwsource.com/cgi-bin/texis.cgi/web/vortex/display?slug=econseattle180&date=20020818&query=seattle%27s+long+road+back>
- <sup>19</sup> As of November 12, 2001 see Washington Employment Security Department homepage  
<http://www.wa.gov/esd/lmea/>
- <sup>20</sup> The annual wage of \$13,558 does not include income reported from tips.
- <sup>21</sup> Covered Employment and Wage data as reported by the Washington Employment Security Department for Employment Eating and Drinking Establishments (SIC code 58)  
<http://www.workforceexplorer.com/cgi/dataanalysis/?PAGEID=94>
- <sup>22</sup> <http://www.wa.gov/esd/lmea/pubs/reports/02annrept.pdf>
- <sup>23</sup> Occupations by Industry Data from the Washington Employment Security Department  
<http://www.workforceexplorer.com/cgi/databrowsing/industryDetails.asp?menuChoice=indExplorer&searchType=quick&industryTitle=%A0%A0%A0A07000+Hotels+And+Other+Lodging+Places&areaTitle=Washington&ownership=50&lstIndustry=700021&geogArea=530100000&countyName=&Industry+Occupations+Matrix=on&search=Explore+Industry>
- <sup>24</sup> Seattle Times November 3, 2001, *Jobless rate rises to 5.4% in October*
- <sup>25</sup> This is consistent with a recent USDA study, which finds that a 50-cent increase in the minimum wage leads to a less than 1% increase in prices. See <http://www.ers.usda.gov/publications/tb1877/>.
- <sup>26</sup> Oregon's minimum wage has been \$6.50 since 1999, California's minimum wage was \$5.75 in 1998-99 and increased to \$6.25 in 2000, all other Western states are at or below the federal minimum wage of \$5.15.
- <sup>27</sup> Food consumed away from home includes food consumed at eating and drinking places, hotels and motels, retail stores, recreational places, schools and colleges and other.
- <sup>28</sup> *Agriculture Workforce In 2001* Washington Employment Security Department  
<http://www.wa.gov/esd/lmea/pubs/ag01.pdf>
- <sup>29</sup> *ibid*
- <sup>30</sup> *ibid*
- <sup>31</sup> *Agriculture Workforce In 2001* Washington Employment Security Department
- <sup>32</sup> *ibid*
- <sup>33</sup> This includes all seasonal and non-seasonal agricultural workers
- <sup>34</sup> *Agriculture Workforce In 2001* Washington Employment Security Department
- <sup>35</sup> Biddle, Jeff *The Impact of Work Related Injuries on Agribusiness Workers in Washington* Washington Employment Security Department <http://www.workforceexplorer.com/DEFAULT.ASP?PAGEID=121>
- <sup>36</sup> Personal communications with Washington Employment Security Department Staff and Employment Security Covered Wage and Employment Data 1990 - 2001
- <sup>37</sup> Mary Hendrickson, Ph.D., William D. Heffernan, Ph.D., Philip H. Howard Judith B. Heffernan *Consolidation in Food Retailing and Dairy: Implications for Farmers and Consumers in a Global Food System, A report to the National Farmers Union, University of Missouri, January 2001* <http://www.foodcircles.missouri.edu/whstudy2.pdf>
- <sup>38</sup> Yakima Herald July 31, 2002, *Snokist Workers Lose – Pay Reductions in Store*, <http://www.yakima-herald.com/>.
- <sup>39</sup> Tri City Herald May 20, 2002 *Business Climate Threatens Seneca's Reign in Dayton*, <http://www.tricityherald.com/news/2002/0519/story1.html>.
- <sup>40</sup> <http://www.senecafoods.com/website/headquarters/Financials/report.cfm#REPORT>.
- <sup>41</sup> *Agriculture Workforce In 2001* Washington Employment Security Department
- <sup>42</sup> United State Department of Agriculture; see <http://fas.usda.gov/hp2/circular/2000/00-09/Aspfea.htm>.