



168 West State St. – Trenton, NJ 08608 – Phone: 609-393-7163 – Fax: 609-393-7072 – Email: mail@njfb.org

Minimum Wage Increase Proposal – Impacts on Agriculture

In the 2012-2013 legislative session, certain legislators are seeking an increase to the state's minimum wage rate. Currently, New Jersey's minimum wage rate is the same as federal rate, \$7.25/hour. The bill (S-3/A-2162) would increase the state minimum wage by \$1.25/hour, bringing the minimum wage rate to \$8.50/hour. Additionally, the bill would require that annual adjustments be made to the state's minimum wage rate based on increases in the Consumer Price Index (CPI), effectively tying increases in the minimum wage rate to cost-of-living increases.

This proposal could have a significant impact on New Jersey's small businesses. This is especially true for certain sectors of New Jersey agriculture for which hired labor costs are a major component of overall farm production expenses. A marked increase in the minimum wage rate, coupled with the introduction of a mechanism to tie annual increases to CPI, would effectively boost production costs at a time when some farmers can ill afford it.

With this in mind, NJFB is compelled to outline some of the potential impacts that the abovementioned proposal could have on agriculture:

- The most obvious and immediate effect of increasing the minimum wage rate is an increase in overall farm production expenses. A 2006 report by NJAES' Food Policy Institute ("The Impacts of Recent Minimum Wage Increases on the New Jersey Farm Sector") found that the 2005-2006 two-phase state minimum wage increase resulted in a \$14.2M increase in total farm production expenses. The proposed increase being considered by the Legislature now would have a similar effect. Raising the state minimum wage rate to \$8.50/hour represents a 17% increase, to which would be added other upward impacts on total operating costs on farms. Prices paid for farm products in the wholesale market have remained relatively flat, so any substantial increase in farm production expenses could have a detrimental impact on the industry.
- Any increase in the state minimum wage rate would also have a disproportionate impact on certain sectors of agriculture. In 2007, only 23% (2,415) of all New Jersey farms reported using hired labor. These operators would be acutely impacted by an increase in the state minimum wage rate. New Jersey's fruit, vegetable and nursery/greenhouse sectors would bear the brunt of increased production costs.
- Though many farm workers are already earning wages in excess of the state minimum wage, an increase to the state's minimum wage rate could have a "trickle up" effect, raising hourly wages across-the-board and impacting any farmer with hired labor.
- Agricultural employers are also unique because they face the added costs of non-wage benefits (i.e. housing, transportation, etc.). These ancillary costs – an added benefit for employees over and above the hourly wage rate - also figure prominently in overall on-farm production costs, though aren't typically accounted for when compiling agricultural employment data.
- An increase in the state minimum wage rate would also result in an across-the-board increase in payroll and unemployment taxes. FICA payroll taxes are imposed on employers at a rate of 7.45% to help fund employee Medicare and social security payments. Employers also pay state unemployment taxes. This rate ranges from a minimum of 0.6% to a maximum of 6.4% based on each employer's individual level of experience. Raising the state minimum wage would increase employer payroll and unemployment tax payments since these rates would now be applied to higher wages. These added costs, when coupled with the wage rate increase itself and the non-wage benefits provided by agricultural employers, could be particularly impactful for New Jersey's agricultural employers.
- It should also be noted that farmers are "price takers", not "price makers". Farmers don't set prices for their goods and are instead bound by what the market is willing to pay. With this in mind, farmers can't guarantee that production cost increases will be recouped through increased product prices at the wholesale market. Growers in states with lower minimum wage rates wouldn't have to account for this drastic increase in production costs, giving them a competitive advantage over New Jersey farmers.

With these issues in mind, NJFB is concerned about the impact of a state minimum wage rate increase on the state's agricultural industry. Any effort to increase the wage rate must take into account the small businesses impacts of such an increase and the unique features of agricultural employment that would make this same increase especially difficult for the state's farm sector to bear.

#

Updated: 2/2/12