



EXECUTIVE SUMMARY

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February 14, 2003

Urban Inflation for the Minimum Wage: The Correct Measure for Oregon's Farm Workers

By Jeff Thompson

In November 2002, Oregon voters approved Measure 25, which raised the state's minimum wage by 40 cents to \$6.90 on January 1, 2003, and provided for annual increases indexed to the rate of inflation in coming years. Two prominent opponents of Measure 25, the Oregon Farm Bureau Federation (OFBF) and the Oregon Restaurant Association, recently introduced House Bill 2624, which would eliminate the inflation adjustment provision of Measure 25. The OFBF continues to claim that the measure of inflation used to adjust the minimum wage reflects urban price increases, and will harm Oregon's agriculture industry and rural areas in general.

This report evaluates the OFBF claims, and finds that the inflation adjustor used in Measure 25 is the most appropriate one to use.

Most of Oregon's agricultural workers work in urban areas. Half of all farm workers work in the Portland-Salem area alone, and 62 percent live in urban areas along the I-5 corridor. Since most farm workers see "urban" increases in their cost of living, moves to adopt a lower measure of inflation would allow their wages to fall behind their cost of living.

The price index contained in Measure 25 is conservative and does not overstate prices in small cities, and there is no measure for rural inflation. The US Consumer Price Index for all urban consumers (US CPI-U), the price index included in Measure 25, rose 26 percent between 1992 and 2001. Over that same period, consumer prices in the Portland-Salem area rose by more than 30 percent, and prices in US cities with populations under 50,000 increased by 26 percent. There is no measure for rural inflation.

The US Bureau of Labor Statistics advises using the US CPI-U in local wage adjustment clauses. The US CPI-U is the most reliable and least volatile data available for consumer price inflation.

Eliminating the inflation adjustment of the minimum wage directly overturns a key component of a voter-approved initiative, and would mean reduced wages for tens of thousands of Oregon workers in coming years.



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In November 2002, Oregon voters approved Measure 25, which raised the state's minimum wage by 40 cents to \$6.90 on January 1, 2003, and provided for annual increases indexed to the rate of inflation in coming years. The Oregon Farm Bureau Federation (OFBF) and the Oregon Restaurant Association support eliminating the inflation adjustment and have introduced House Bill 2624 toward that end.¹

One of the key interest groups that opposed the minimum wage initiative, the OFBF continues to claim that the measure of inflation used to adjust the minimum wage reflects urban price increases, and will harm Oregon's agriculture industry and rural areas in general.

This report documents that most of Oregon's agricultural workers work in urban areas along the I-5 corridor. Since most farm workers see "urban" increases in their cost of living, moves to adopt a lower measure of inflation would allow their wages to fall behind their cost of living.

The price index contained in Measure 25, the US Consumer Price Index for all urban consumers (US CPI-U), has risen at a lower rate than the Portland-Salem price index in recent years and at the same rate as inflation in small cities. There is no measure for rural inflation.

Eliminating the inflation adjustment of the minimum wage directly overturns a key component of the voter-approved initiative, and would mean reduced wages for tens of thousands of Oregon workers in coming years.

The Oregon Farm Bureau's opposition to the minimum wage.

The Oregon Farm Bureau Federation's opposition to the minimum wage is not new. The OFBF was one of the key lobbying groups pushing for full or partial repeal of the 1996 voter-

approved initiative that raised Oregon's minimum wage from \$4.25 to \$6.50. In the 1997, 1999, and 2001 legislative sessions, the OFBF supported legislation to partially repeal minimum

wage coverage for agricultural workers, which would have resulted in lower wages for thousands of workers.²

In its opposition to Measure 25, the OFBF claimed that the measure of inflation that will be used in 2004 and beyond to raise Oregon’s minimum wage is particularly harmful to the agriculture industry and rural areas. The OFBF argued that because prices are higher in urban areas, an “urban” measure of inflation will be too high for

rural areas and the agriculture industry. Having failed to persuade voters with these arguments, the OFBF has turned to the legislature. House Bill 2624, introduced at the request of the OFBF and the Oregon Restaurant Association, would overturn part of the voter-approved initiative. By repealing the inflation-adjustment provision of Measure 25, HB 2624 would result in decreased wages for tens of thousands of minimum wage workers in coming years.

Most of Oregon’s agriculture workers live in urban areas.

Most of Oregon’s agricultural employment is located in urban areas.³ The rolling hills of Eastern Oregon are an important component of Oregon’s agriculture industry, but even more important are the fertile lands in the Willamette Valley and the large and growing nursery industry in the Portland area. One-third of Oregon’s agriculture employment is in the five-county Portland metropolitan area alone (Table 1).⁴ Half of Oregon’s agriculture employment is in the seven counties that make up the Portland-Salem metropolitan area.⁵ Over 60 percent of agriculture employment in Oregon is in the metropolitan areas along Interstate 5.

A separate analysis by the Employment Department in 2002 found that the urban share of agricultural employment is even higher than the data in Table 1 suggest.⁶ Including only “covered employment” – jobs covered by Unemployment Insurance – the Portland metropolitan area and the largely urban Willamette Valley provided 70 percent of agricultural employment in 2000.⁷ Using a broader

definition of agricultural employment, which includes related industries, the Portland and Willamette Valley share was 67 percent.

Table 1. Agricultural employment in Oregon

	2001 Employment	Share of employment
Oregon	54,200	100%
Portland MSA	17,700	33%
Salem MSA	9,100	17%
Eugene MSA	2,900	5%
Corvallis MSA	870	2%
Medford-Ashland MSA	2,850	5%
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PDX + Salem	26,800	49%
I-5 Corridor Urban Areas Combined	33,420	62%

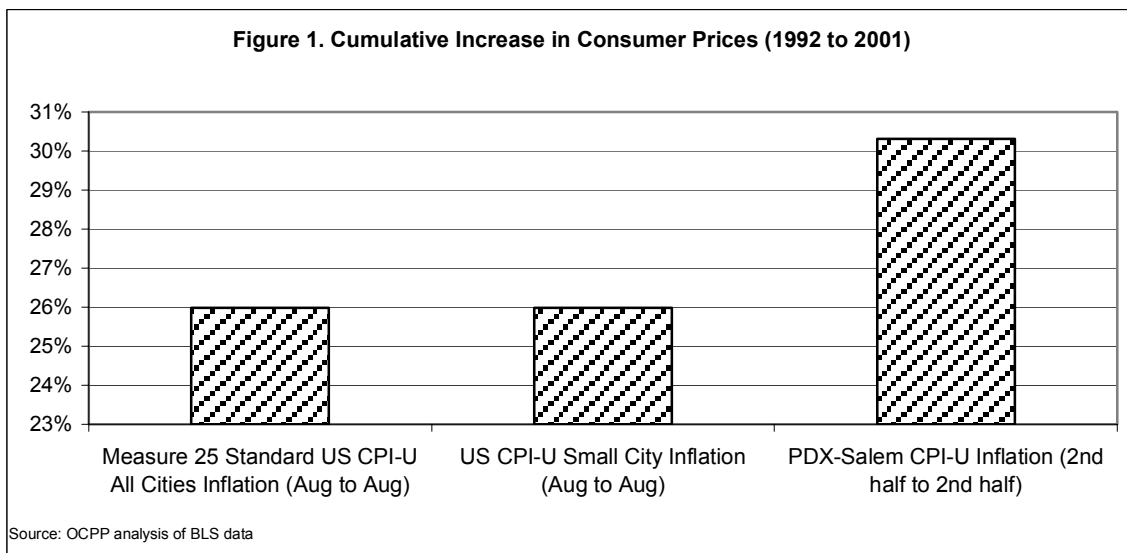
Source: OCPP analysis of OED data.

Since most farm workers are employed in urban areas, urban measures of inflation will best reflect increases in their cost of living. Switching to a lower measure of inflation would allow their wages to fall behind the cost of living over time.

How the US CPI-U compares.

Oregon’s Measure 25 adjusts the minimum wage annually along with changes to the US CPI-U. The Bureau of Labor Statistics (BLS), the federal agency that gathers price data, strongly advises using the US CPI-U in local wage or contract “escalator clauses.”⁸ National statistics are the most reliable and least volatile inflation data available.

In recent years, the US CPI-U has been less volatile and risen more slowly than the CPI for the Portland-Salem metropolitan area. The US CPI-U has, however, risen at the same rate as the CPI-U for small cities with populations under 50,000. Between 1992 and 2001, the US CPI-U rose 26 percent (Figure 1).⁹ Prices in the Portland-Salem metropolitan region rose more than 30 percent over the same period.¹⁰



Although the BLS does not calculate price indexes for rural areas, it does gather consumer price data for “non-metropolitan” urban areas with populations under 50,000. Between 1992 and 2001, consumer prices in cities smaller than 50,000 rose 26 percent, the same increase as the US CPI-U for all cities.

consumer prices in the Portland area rose more than 4 points higher than in the average of all urban areas in the US or cities under 50,000.

Annual differences between these indices are often small and not always in the same direction. In 1999, for example, the Portland-area CPI rose 1.5 points more than the US CPI-U. In 2000, though, the US CPI-U rose 0.5 points more than the Portland area CPI. Over the entire 1992 to 2001 period,

Prices in the Portland area rose faster than in the rest of the country over the last decade, but this is not true for comparisons across all time periods. Between 1979 and 2001, consumer prices rose at virtually the same average annual rate in small cities, the Portland area, and the average of all urban areas in the US (Table 2).¹¹

Table 2. Annual Average Price Change

	US (Aug)	Small City (Aug)	PDX (Annual)
1979 to 2001	4.4%	4.3%	4.4%
1992 to 2001	2.6%	2.6%	3.0%

Source: OCPP analysis of BLS data.

If the pattern in recent years holds, adjusting Oregon’s minimum wage

Conclusion.

If the minimum wage is not adjusted for inflation, the purchasing power of low paid workers falls as prices rise. As supporters of Measure 25 successfully argued, it is better to gradually adjust the minimum each year than to play “catch-up” with prices through large, unplanned increases every few years.

Using the US CPI-U to adjust Oregon’s minimum is likely the best option available. The US CPI-U is the least volatile measure of consumer prices, and the federal agency that gathers

annually with the US CPI-U will accurately reflect price increases in small cities, but will fall short of rising prices in the Portland metropolitan area, where most Oregonians and most farm workers work. Longer-term price increases suggest no differences in inflation.

price statistics advises using it in wage “escalator” clauses. The US CPI-U is also conservative, rising slower than prices experienced by consumers in the Portland-Salem area.

Relying on shaky arguments, HB 2624 would overturn key minimum wage protections recently enacted through voter initiative. HB 2624 would result in lower wages for tens of thousands of minimum wage workers in coming years.

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Endnotes

- ¹ The Oregon Farm Bureau Federation's legislative agenda is discussed in a recent article in *The Oregonian*. Pulaski, Alex, "Farmers see Kulongoski as chance to pass collective-bargaining bill," *The Oregonian*, January 20, 2003.
- ² Some of the minimum wage legislation in the 1999 session includes House Bills 3196 and 2458. Text of these bills is available at www.leg.state.or.us/99reg/measures/hb3100.dir/hb3196.int.html and www.leg.state.or.us/99reg/measures/hb2400.dir/hb2458.int.html.
- ³ Oregon Employment Department data on agricultural employment is for workers aged 16 years and older working in establishments categorized as Standard Industrial Classification Code (SIC) 01 (Crop production), 02 (Livestock production), and 0761 (Farm Labor Contractors). The data include covered employment and estimates for employment that is not covered by Unemployment Insurance. Available at <http://www.qualityinfo.org/pubs/ag/oregon.pdf>. The OED data have employment estimates for each month of the year, while the recent 2000 Census data only reflect employment as of April, 2000. The Census estimates also include forestry and fishing, reporting only a broader industry category than available from the OED estimates, which focus solely on agriculture.
- ⁴ The Portland metropolitan statistical area includes Multnomah, Washington, Clackamas, Yamhill, and Columbia counties. OED data published on the Portland Metropolitan region include data for Clark County, but the Clark County Washington component can be excluded. OCPP has calculated the Oregon portion of the Portland metropolitan region.
- ⁵ The Salem metropolitan region includes Marion and Polk Counties. The Eugene metropolitan region covers Lane County, while the Corvallis metropolitan region covers Benton County, and the Medford-Ashland MSA covers Jackson County.
- ⁶ Fridlay, Dallas, "Agricultural Employment in Oregon," *Oregon Labor Trends*, August, 2002.
- ⁷ Most agriculture employment in Oregon is "covered employment." The definition of "Willamette Valley" used covers the Salem, Corvallis, and Eugene-Springfield MSAs in addition to Linn County. It excludes, however, the Ashland-Medford MSA. Since agricultural employment in Linn County is similar to that in the Ashland-Medford MSA, the comparison between I-5 corridor MSAs and the Willamette Valley plus the Portland area is adequate.
- ⁸ Bureau of Labor Statistics, "Consumer Price Index: December 2002," Press Release on January 16, 2003. Available at www.bls.gov/news.release/pdf/cpi.pdf. See note to Table 3.
- ⁹ The data in Figure 1 calculate August to August price increases in the US CPI-U because Measure 25 commands the Labor Commissioner to determine in September what the adjustment will be for the following January. In September, the most recent inflation data available for the US CPI-U is for the month of August. The Portland-Salem metropolitan area consumer price index is available for the first and second halves of the year. Using annual averages or other months does not systematically impact the results.
- ¹⁰ The Portland-Salem Metropolitan region used by the Bureau of Labor Statistics in calculating inflation includes Clark County, Washington.
- ¹¹ Selecting different years will result in slightly different results. Excluding the high-inflation years of the late 1970s and early 1980s the inflation gap between Portland and the rest of the country reappears. Between 1984 and 2001 prices rose 3.0 percent, on average, in cities under 50,000, 3.2 percent annually in the US all-city average, and 3.5 percent annually in the Portland area.