Arguments for raising the minimum wage rate and commodity loan rates greatly overlap

One of the more contentious elements of the Biden $1.9 trillion coronavirus stimulus plan, besides its sheer size, is raising the minimum wage for all covered, nonexempt workers from its current level of $7.25 per hour to $15.00 per hour.

Before reacting, let's step back a little and look at the issue a little more deeply.

The proposed increase will not be done in one step but will be increased over time from the present level to $15.00 per hour, giving small businesses time to adjust.

As of July 2019, 28 states plus Guam and Virgin Islands already have higher minimum wage rates with 16 of them between $10.00 and $12.00.

The idea of $15 an hour has been around since the end of 2012 when fast food workers in New York City walked off their jobs in support of the higher wage. If inflation were taken into consideration today that wage request would be $17 per hour.

The federal minimum wage rate roughly tracked increases in productivity between 1950 ($0.75/hr.) and 1968 when it was $1.60 per hour (https://tinyurl.com/yn7y3obb). Since then the minimum wage rate has increased more slowly than productivity. If the minimum wage rate had tracked the growth in productivity since 1968, it would now be at $24 per hour.

At this point, you may be wondering why a couple of agricultural economists are yakking on about a minimum wage that has minimal effect on farmers who have seen lower net farm income for most of a decade. Yes, crop prices are projected to be higher next year, but will they last?

Over the years, we have consistently argued for non-recourse loan rates that are at or near the full cost of production with loan rates for other crops determined by their historic price-ratio to corn. Importantly, the full cost of production includes returns to capital items (land, buildings, equipment), hired labor, and management (including the farmer and the farm family's time and labor).

We think that agricultural support programs that result in anything less than that simply provide an indirect subsidy to the processors of the crops and livestock that farmers raise. In addition, what looks like a farm subsidy could easily be seen as a subsidy to the machinery and input supply chains, with farmers left trying to figure out how they are going to make it to next year.

As we see it farmers and workers are in the same boat. Farmers have little leverage when it comes to the prices that they receive for their production. Similarly, wage workers have little leverage when it comes to the hourly rate that they are paid for the work they do. Like farmers, they are in a take it or leave it situation and they can't afford to leave it if they want to eat and feed and house their families.

The argument is often made that consumers benefit from low wages in the form of lower prices. And that sounds nice. But much of the money that is saved on workers' wages ends up in the salaries of upper management and thus in the price of goods and services sold. Also, federal, state, and local taxpayers pick up the tab for goods and services that workers require but aren't fully covered by the workers' paychecks. It's programs, such as SNAP, Medicaid, and income tax credits, that fill the gap.

A 2019 study by the Economic Policy Institute (https://tinyurl.com/lg97jzi7) written by Lawrence Mishel and Julia Wolfe reported that while the CEO-to-typical worker compensation ratio was 20-to-1 in 1965 by 2018 the ratio was 278-to-1. They wrote: "From 1978 to 2018, CEO compensation grew by 1,007.5%.... In contrast, wages for the typical worker grew by just 11.9%."

Farmers might want to give serious thought to supporting the $15 minimum wage proposal before Congress. Then when the next farm bill comes around workers might want to support a nonrecourse loan rate that is in the vicinity of 95 percent of the full cost of production for corn, with proportional loan rates for other crops.

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