

Social and Business Implications of the 2023 Increase in Adverse Effect Wage Rates

Wednesday, March 1, 2023

In 2023, the adverse effect wage rate (AEWR), which is the reference minimum hiring rate for H-2A workers, increased by 2.66 to 15.47 percent in all U.S. states (except Alaska). Florida registered the highest annual increase, with incremental rates in six other states exceeding 10 percent (Table 1).

There are two possible explanations for these 2023 AEWR growth differentials across states. First, sharp spikes in 2023 AEWRs may be associated with lower historical AEWR growth trends. From 2019 to 2022, AEWRs in states with the ten

highest 2023 AEWR increases grew annually by only about 3 percent, while states with the ten smallest 2023 AEWR change registered an average growth of almost 6 percent. Figure 1 shows that these two trends are negatively correlated, thus supporting the contention that larger 2023 AEWR increases may have been designed to make up for lower annual AEWR growth rates from 2019 to 2022.

The other explanation revolves around gaps between AEWRs and livable wage levels in 2022. Livable wage, calculated by the World Population Review, measures the amount of income that can adequately cover basic family needs. In this analysis, a gap exists when AEWR is less than the livable wage per hour (LWH), indicating that AEWR could not adequately satisfy all basic needs; a surplus exists when AEWR exceeds LWH. Based on the summary in Table 1, all Top 10 states have AEWR-LWH gaps in 2022 as their ratios are below 100%. In contrast, five of the bottom ten states registered AEWR-LWH surpluses in 2022. Figure 2 plots the relationship between these two trends, where a no-gap demarcation line is drawn at the 100% level to distinguish surplus (above 100%) and gap (below 100%) situations.

From a business standpoint, stark increases in 2023 AEWRs may cause potentially harmful economic effects on labor-intensive, H-2A-dependent segments of each state's agricultural industry. These are serious concerns, especially for states where H-2A workers account for a larger proportion of their annual hired farm labor complement. Last year, H-2A workers in Georgia and Florida comprised 62.88 and 55.31 percent of their hired farm labor force. Notably, Florida and Georgia had the two highest annual AEWR increases in 2023.

From a social standpoint, there will always be pressure to correct gaps between actual and livable wages. At the same time, it is important to understand the broader impacts of such corrective measures. One-time (abrupt) sharp increases in AEWRs may fix one problem but create a challenge

elsewhere. Alternatively, corrective adjustments implemented in tranches, or gradually over time, could avoid the development of large living wage gaps while allowing farm businesses to make gradual strategic adjustments in preparation for additional costs.

Table 1. Relating 2023 AEWR Increases to Annual AEWR Growth and Livable Wage-AEWR Gaps Among States with Ten Highest and Ten lowest 2023 AEWR Growth Rates

STATE (RANK of 2023 AEWR Increase)	2022-2023 INCREASE	AEWR ANNUAL CHANGE (2019-2022)	LIVABLE WAGE GAP (AEWR/LWH)	2022 AEWR-LWH GAP RANK Worst (#1) to Best (#49)
Florida (1)	15.47%	3.36%	70.35%	6
Georgia (2)	14.01%	2.53%	68.63%	4
South Carolina (2)	14.01%	2.53%	54.52%	1
Alabama (2)	14.01%	2.53%	54.80%	2
Minnesota (5)	12.82%	4.33%	89.15%	25
Wisconsin (5)	12.82%	4.33%	79.23%	13
Michigan (5)	12.82%	4.33%	69.90%	5
Louisiana (8)	9.80%	3.21%	78.25%	12
Mississippi (8)	9.80%	3.21%	60.53%	3
Arkansas (8)	9.80%	3.21%	77.09%	9
South Dakota (40)	5.22%	4.63%	101.42%	43

Nevada (41)	4.88%	5.89%	95.64%	37
Utah (41)	4.88%	5.89%	93.86%	34
Colorado (41)	4.88%	5.89%	102.16%	44
Hawaii (44)	4.29%	3.96%	102.22%	45
Washington (45)	3.22%	5.03%	110.26%	48
Oregon (45)	3.22%	5.03%	106.29%	47
West Virginia (47)	2.66%	6.10%	93.54%	33
Tennessee (47)	2.66%	6.10%	90.37%	28
Kentucky (47)	2.66%	6.10%	88.98%	24

Figure 1. 2023 AEW R Increases and Average Annual AEW R Growth (2019-2022), All U.S. States

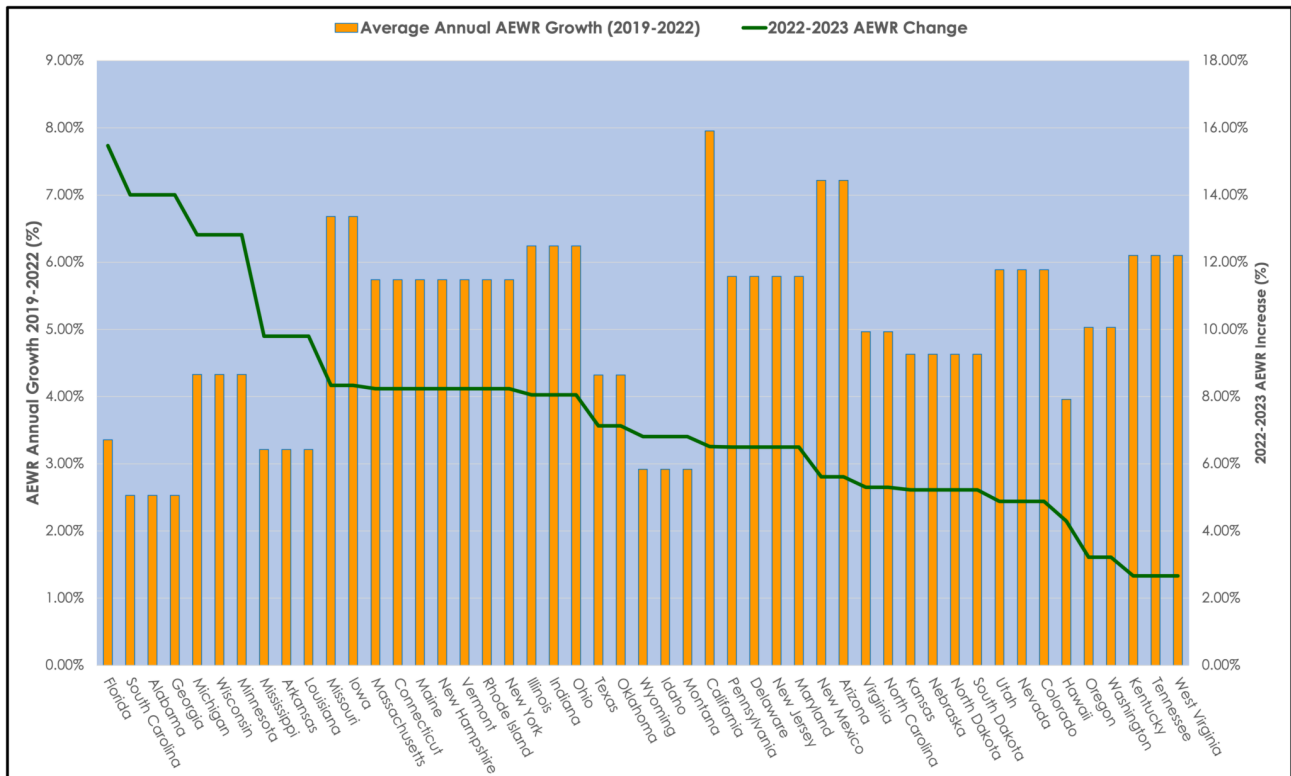
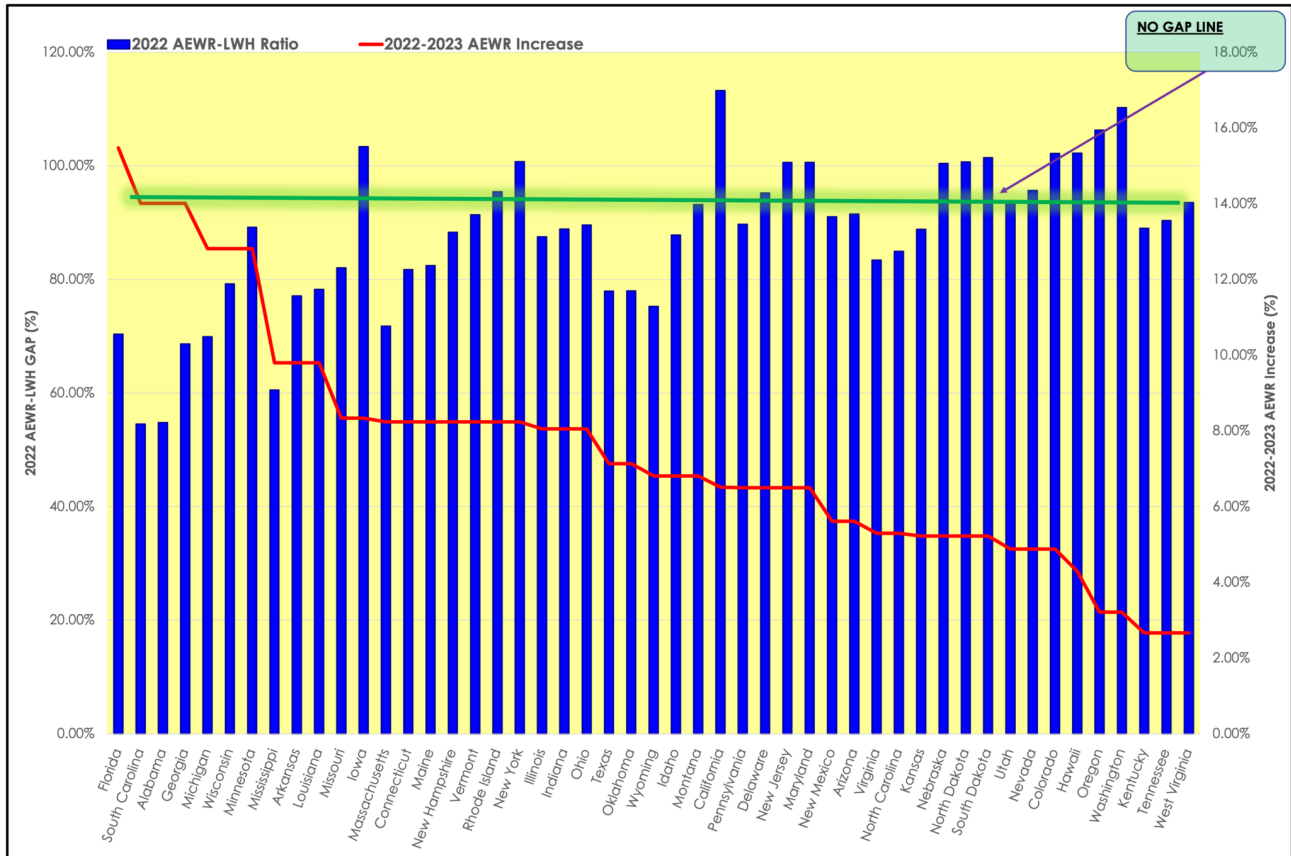


Figure 2. 2023 AEWR Increases and 2022 AEWR-Livable Wage Ratio, All U.S. States



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