



# **The Economic and Fiscal Impacts of Prevailing Wage Laws**

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# Purpose of Prevailing Wages

- **Main purpose is to protect local wages:**
  - Davis-Bacon Act: Large government contracts may attract low wage contractors with competition depressing local wages.
  - Wage floor creates a level playing field allowing all contractors to compete without depressing local wage standards.

# Three Consequences of Prevailing Wages that are Important to Research

- Prevailing wages and construction costs:
  - Peer-reviewed versus other research.
- Protecting local wages protects local work:
  - An economic impact on the region/state.
- Impact on apprenticeship training:
  - More training with prevailing wages.
- Impact of construction worker poverty:
  - Less reliance on public assistance and lower taxpayer burden.
- Repeal? Cost savings? Lower economic activity, less training, and increased poverty and tax burden.

# Research Based on Publicly Available Information

- **U.S. Census Bureau:**
  - *Economic Census of Construction* (2012)
    - Information on value of construction and costs.
- **U.S. Department of Labor:**
  - Bureau of Labor Statistics:
    - *Current Population Survey* (construction worker income and employment status).
- **U.S. Department of Commerce:**
  - Bureau of Economic Analysis:
    - Information for economic impact.
- **Research is reproducible.**

# Research on Prevailing Wages and Construction Costs

- Difference in results between peer-reviewed research and research without expert review.
  - Purpose of peer-review is to insure quality, credibility, and maintain standards.
  - Peer-reviewed research takes years to complete.
- Peer-reviewed studies have examined:
  - Federal, state and local polices,
  - Schools, highways, low-income housing, etc.

# Peer-Reviewed Research in the Last 15 Years

- 75% of all research finds *no prevailing wage cost effect*.
- 80% for studies on school construction.
- Colorado highway resurfacing studies as example.
  - CDOT Bid data, 2000-2011.
  - No cost difference between fed and state projects.
  - No difference in bid competition for fed and state projects.
  - No cost difference in fed projects with change from union to average wages.
  - No change in bid competition with union/average wage change.
  - No bid cost difference when contractors switch from fed to state projects.

# Why No Prevailing Wage Cost Effect? It's Counter-Intuitive?

- Other costs and factors change with wages:
  - Peer-reviewed research: when wages are high, skilled replace unskilled workers and more equipment is used.
  - *Economic Census of Construction*: high wages & benefits: Lower material, fuel costs and profits.
  - Labor costs are a low percent of total construction costs (23%).

# Preponderance of Peer Reviewed Research Suggests:

- **Eliminating prevailing wages does not reduce construction costs.**
- Peer-reviewed research doesn't stop prevailing wage opponents:
  - It's intuitive: wages and costs.
  - Claims up to 36% cost savings with repeal.
  - Claims generally supported by low quality, "back-of-the envelope" cost estimates.
  - Low quality studies promise savings with repeal that cannot be delivered.



# Economic Impact of Prevailing Wages

- By protecting local wages, prevailing wage laws protect work for local contractors and construction workers.
- Supporting evidence from the *Economic Census of Construction* (2012):
  - **States with weak/no prevailing wages:**
    - 2.4% more of total construction value completed by out-of-state contractors.

# What Would Prevailing Wage Repeal Mean to New Jersey?

- New Jersey law is considered strong.
- A change to the typical weak or no law state (2.4<sup>0</sup>%):
  - About \$900 million (2012) in **additional** construction value completed by out-of-state contractors.

# New Jersey Construction Value by New Jersey Contractors

- **91.4%** of NJ value is due to NJ contractors.
  - 8.6% completed by out-of-state contractors.
- National averages:
  - Strong/Average PW law states = **93.2%**
  - Weak/No PW law states = 90.8%
- Value completed in-state depends on PW and state size.

# New Jersey Construction Work Completed by Contractors in Nearby States

State	Value of Work in New Jersey
Pennsylvania	\$2.1 billion (5.5%)
New York	\$840 million (2.2%)
Massachusetts	\$155 million (0.4%)
Delaware	\$100 million (0.3%)
Maryland	\$77 million (0.2%)

Source: 2012 Economic Census of Construction

# Prevailing Wages and Local Economic Development

- Prevailing wages reduce the leakage out of the area.
- More local employment, more local spending.
- Benefit to industries unrelated to construction.
- **Built-in economic development tool.**
  - Local tax dollars to employ local companies and workers.

# Economic Impact of Prevailing Wage “Weakening” on the Wisconsin Economy

- Along with researchers from Smart Cities Preval and the Illinois Economic Policy Institute, examined impact on:
  - California, Nevada, Wisconsin, Michigan, New Hampshire, and New Mexico.
- Wisconsin as an illustration:
  - Leakage = \$500 million.
  - Leakage Impact = -\$1.1 billion, -6,700 jobs, -\$41 million in state and local tax revenue.

# Impact on Apprenticeship Training

- Joint labor-management programs are responsible for most training: (Peter Philips, University of Utah).
  - Wisconsin: joint programs = 95% of training expenditures, ABC = 5%.
  - Wisconsin graduates: joint programs = 82%, ABC = 18%.
- Repeal reduces resources for training and apprenticeships:
  - Approximate 40% decrease in apprenticeships with repeal in Colorado and Kansas.
- Greater reliance on other states for skilled workers:
  - Adds to the leakage impact.

# Prevailing Wages on Construction Worker Poverty

- Repeal lowers construction worker wages and benefits, increases poverty, dependence on public assistance, and reduces participation in health and retirement benefits.
- Based on a comparison of states with strong/average prevailing wage laws and states with no/weak laws.



# Wisconsin Construction Worker Income and Poverty Status with Weakened Prevailing Wages

Category	Current Estimate: # of construction workers	Estimate with a weakened /repealed prevailing wage
Below Poverty Level income	3,800	6,100 (61%)
Food Stamps (SNAP)	2,900	5,300 (83%)
Earned Income Tax Credit	8,300	9,200 (11%)
Health Insurance	56,400	48,700 (-14%)
Retirement Plan	29,600	26,600 (-10%)

Source: Current Population Survey

# Conclusion

- Prevailing wage repeal proponents typically claim construction cost savings.
- Peer-reviewed research: Significant savings are unlikely.
- More leakage and reduced economic activity.
- Less apprenticeship training overall.
- Increased construction worker poverty and tax payer burden.