Prevailing Wage Laws in Construction: The Costs of Repeal to Wisconsin

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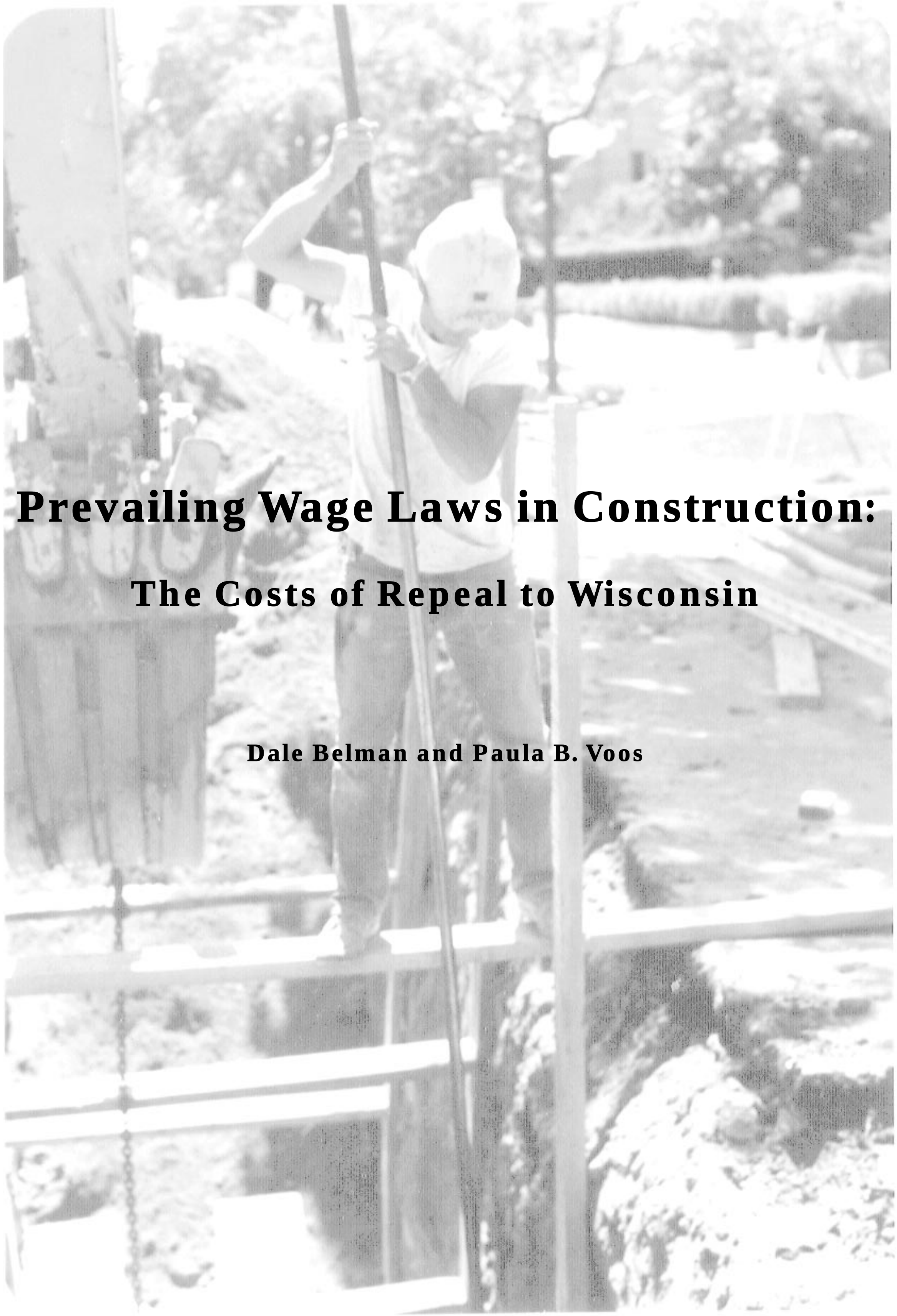

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THE INSTITUTE FOR WISCONSIN'S FUTURE

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BACKGROUND

Definition of Prevailing Wage Laws

The federal Davis-Bacon Act and the state prevailing wage standards require construction contractors working on government funded projects to pay their employees wages no less than the average wage paid in their occupation by private contractors in the locality. The first prevailing wage statute was passed by the state of Kansas in 1891. Laws applying to federally funded contracts were passed in 1931. Prevailing wage laws were enacted to maintain community wage standards, support local economic stability and to protect taxpayers from sub-standard labor on state and federal projects.

Along with 31 other states and the District of Columbia, Wisconsin has its own prevailing wage law, known as “little Davis-Bacon.” The provisions of Wisconsin law are similar to those of the federal statute, except that Wisconsin law does not apply to projects as small as those covered by federal statute, and the prevailing wage is defined as the modal (most common) wage. The Wisconsin law is also broader in scope, applying to truck drivers and truck rental rates. Prevailing wage standards in Wisconsin are determined by the market rate of a given community, measured with data from union and non-union firms by the Department of Industry, Labor and Human Relations.

Basis for Establishment of Prevailing Wage

Prevailing wage laws were passed at the national and state level in the 1930’s to protect state jobs threatened by out-of-state contractors who hired itinerant laborers at low wages and won federal contracts by bidding lower than local companies could afford. These laws set clear parameters to ensure that contractors bid on public projects on the basis of skill and efficiency, not on how poorly they pay their workers.

The construction industry differs from most industries in the brevity of most projects, the short-lived attachment between employers and employees, and the methods used by government to contract for work. These factors combine to create fierce downward pressures on wages and benefits in public construction projects which go to the lowest bidder. As materials’ costs are fairly standard for all contractors, wages are one of the few areas in which contractors can gain a competitive advantage. Unlike employees in most industries, employees in construction are seldom employed for long by a single firm. Instead they work for one firm on one project and when that is completed, seek work on another project, often with another firm. Weather and industry cycles may cause long delays between jobs. Except in periods when construction is booming, employees are not in a position to refuse a job because pay and benefits are substandard. Prevailing wage laws were developed to protect wage levels under this competitive bid system.

EXECUTIVE SUMMARY

The Davis-Bacon Act, established to protect local wage levels on publicly-funded construction projects, is being challenged in Congress. Attempts to repeal Davis-Bacon and weaken state prevailing wage laws are based on the claim that repeal will bolster state and federal budgets. However, in the nine states in which prevailing wage laws were repealed in the 1980's, state budgets and taxpayers did not benefit. In fact, repeal of these regulations actually resulted in a loss to state budgets and had a negative impact on state economies. The problematic consequences of repeal included:

- Lower wages for all construction workers
- Reduced tax revenues available to state governments
- Lower quality construction and increased cost overruns
- A severely weakened system of construction apprenticeship training
- Increased occupational injuries and increased costs for workers' compensation
- Lowered minority participation in construction job training and increased minority unemployment in the skilled trades.

Findings:

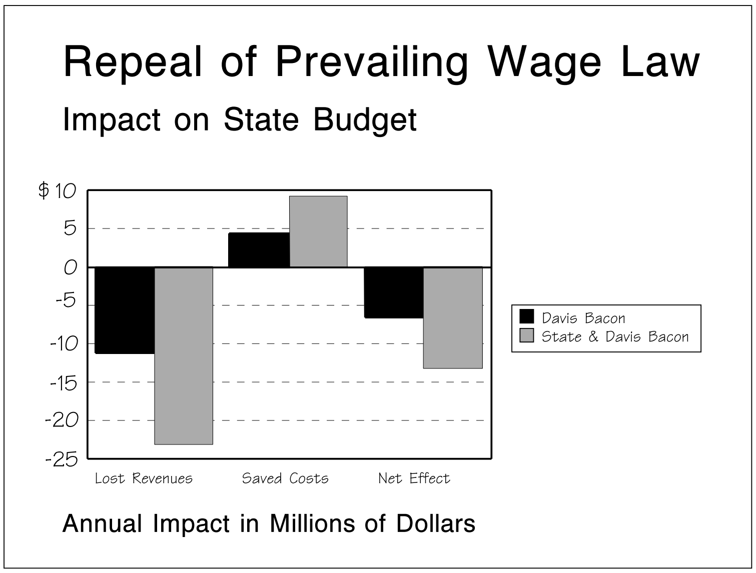
1. The decrease in wages to construction workers due to repeal of wage standards results in a major loss of tax revenue to state governments. In Wisconsin, repeal of the federal wage statute, the Davis-Bacon Act, would lead to a $11.6 million annual loss in tax revenues. Repeal of the state statutes in addition to the federal law would lead to an overall loss of $23 million.

In states which repealed prevailing wage laws, average earnings dropped for all construction workers — union, non-union, those working on public projects, and those working on private projects. Repeal itself caused an average decline of $1,350 in earnings (5.1% of construction income).

Repeal of Davis-Bacon would cost Wisconsin's 100,000 construction workers approximately $123 million a year in lost income. This estimate includes projected employment changes subsequent to repeal, but does not include possible "ripple effects" occurring when other state residents experience income declines due to reduced spending by construction workers. With simultaneous repeal of federal and Wisconsin wage laws, construction workers in Wisconsin could lose almost $250 million in income.

2. Repeal of the prevailing wage laws would hurt, not help, the Wisconsin state budget. This study shows that the decline in state income and sales tax revenues would exceed the minimal savings in construction costs to the state derived from decreasing worker wages.

If the Davis-Bacon Act is repealed, the tax revenue loss of $11.6 million exceeds the $4.8 million savings in construction costs creating a net loss to the state of $6.8 million per year. If both the state and federal statutes are eliminated, this loss would be doubled to $13.6 million. At the national level, researchers predict that the repeal of the Davis-Bacon Act would lead to an increase in the federal deficit of $1 billion. Wisconsin taxpayers would ultimately bear a portion of the negative impact of this increase in federal debt.



3. In states that have repealed prevailing wage laws, occupational injuries have increased. This results in higher workers' compensation costs.

Serious construction injuries increased in the states where prevailing wage laws were repealed. Plumbers and pipefitters experienced an average of 15% more serious injuries per year following repeal. This increase in injuries is due to a combination of factors — the use of inexperienced workers, a decline in training and cut-throat competition. When contractors are forced to reduce labor costs, workers are often pressured to speed up and take more chances. These and other factors increase accidents in an already hazardous industry. Of the $62 billion spent on workers' compensation nationwide, about 30% covers construction-related injuries and illnesses. Repeal of Davis-Bacon and/or state statutes would cause a substantial increase in workers' compensation costs in Wisconsin.

4. Elimination of prevailing wage statutes leads to increased costs associated with the use of low-wage workers.

Lower construction wages in repeal states have led to reduced levels of worker skill and efficiency, higher maintenance costs and a dramatic increase in project cost overruns. According to a HUD Audit Report, poor workmanship resulting from the use of inexperienced or unskilled workers and short cut construction leads to excessive maintenance costs and increased risk of defaults and foreclosures. Use of high-wage, high skill labor may lead to lower total final costs, particularly in complex projects where productivity and skill is important. In addition, quality construction lowers maintenance costs. Repeal of laws in Utah resulted in additional direct construction costs as cost overruns on state road construction tripled. In addition, with repeal, fewer construction workers are likely to receive paid health insurance. This could cause publicly-financed health care costs to rise, increasing the burden on state budgets.

5. Current proposals to eliminate prevailing wage statutes threaten the stability of the apprenticeship training system. This system ensures a skilled labor force and provides minorities with increased access to construction jobs.

Prevailing wage statutes have proven to be a crucial foundation for the apprenticeship training system in construction. In Utah, repeal led to the virtual collapse of the apprenticeship system. Union capacity to sustain apprenticeship training dwindled. State vocational training did not fill the gap and non-union training systems lacked stability. As competition increased, apprentice employees were not released from work for training classes and the graduation rate among enrolled apprentices dropped from 95% prior to repeal to 15% after repeal of the statutes. Utah now faces a significant shortage of skilled workers. Arizona has had a similar experience.

Proponents of repeal often claim that prevailing wage laws are detrimental to minority groups attempting to enter the construction trades. In fact, minority access to construction training in repeal states dropped 22%. In addition, the ratio of African-American unemployment to white unemployment did not decrease as supporters of repeal had predicted. In fact, after repeal, the percentage of African-Americans facing unemployment grew at a faster rate than whites in construction.

Conclusion

The evidence reviewed in this study indicates that the Davis-Bacon Act and Wisconsin's prevailing wage laws are beneficial to the State of Wisconsin and its citizens.

1) The elimination of prevailing wage laws would cost the state more in tax revenue than it would save in construction costs. Prevailing wage laws benefit the public budget.

2) Prevailing wage statutes make economic sense. Wage standards result in lower maintenance costs by ensuring construction quality and contractor stability, a decrease in cost overruns, a lower incidence of construction-related injuries and reduced workers' compensation costs. The prevailing wage structure supports a strong system of apprenticeship training in the construction trades which provides access to high-skill work for young people and minorities and ensures the availability of skilled labor to the state.

3) Prevailing wage laws ensure that the competitive bidding process is not used to undermine community wage levels and living standards.

PREVAILING WAGE STATUTES: IMPACT ON THE STATE ECONOMY

Maintaining Local Wage Levels

Prevailing wage laws were enacted to maintain community wage standards, promote economic stability and protect taxpayers from substandard labor on state and federal projects. The Congressional Budget Office (CBO) estimates that the Davis-Bacon Act regulates minimum wages for 19 to 24% of all construction in the United States (Thieblot 1986). Allowing for state statutes, as much as 30% of all construction is subject to prevailing wage statutes. Prevailing wage laws ensure that construction employees are paid the same wages on government and private projects. This is done by requiring that contractors on publicly-funded projects pay the locally prevailing wage, the typical wage paid for a building trades occupation in an area. This does not ensure high wages, since wages vary greatly by trade and location. Laws do not require that contractors pay union wages. Wisconsin sets prevailing wages at the modal (or most common) wage in a given area in private projects. Work by Goldfarb and Morrall, Bourdin and Levitt, and Allen indicate that the prevailing wages set by the U.S. Department of Labor are, at most, slightly above the average construction wage. Likewise, these authors find that the Department of Labor does not use union rates in areas where such rates are inappropriate. Nationwide, real or inflation-adjusted, earnings in the construction industry have been declining in recent years. Allen (1994) estimates that real earnings in the industry declined 17% between 1980 and 1992. Repeal of prevailing wage laws exacerbates this trend.

Impact of Repeal on Employees

What happens when prevailing wage laws are repealed? In the nine states that repealed their prevailing wage laws during the 1980s (Alabama, Arizona, Colorado, Florida, Idaho, Kansas, Louisiana, New Hampshire, and Utah)[1] actual construction wages fell 7.5% after repeal.

One recent study evaluated the extent to which this decline in wages was the result of the repeal of prevailing wage laws, as opposed to other factors in the 1980's. Controlling for the general downward trend in real construction earnings, variations in state unemployment rates and regional differences in wages, repeal cost construction workers a 5.1% reduction in wages, or $1,350 per person per year. (Philips et al. 1995). The effects of state repeals of prevailing wage laws are not isolated to union workers or publicly-financed construction. All construction workers were hurt – union and non-union, workers on private projects, as well as workers on government projects.

In Utah, which repealed its statute in 1981, wages declined and skilled workers left the state or sought employment in other industries. Various researchers have found that construction wages fell markedly throughout the state following repeal (Azari-Rad et al. 1994; Philips et al. 1995). Low wages have caused experienced workers to leave the industry and younger workers to leave when they form families. The subsequent decline in the availability of skilled workers has forced employers to carry larger permanent crews, increasing their labor costs (Azari-Rad 1994). Arizona, which also repealed a state prevailing wage law in the 1980s, has similar problems in its construction labor market. The *Wall Street Journal* reports that, even in boom periods, wages and benefits for private residential construction are so low that contractors are unable to retain skilled workers (Tomsho 1994).

What would happen in Wisconsin if the state prevailing wage law were repealed? Proponents of repeal agree that wages would fall sharply (*Wisconsin State Journal* 1/13/95) but they have produced inflated estimates of the likely decrease.[2] The best estimate – from the study of what happened in the nine repeal states – is that annual earnings would fall between $1,350 and $1,477 on average for the approximately 100,000 construction workers in Wisconsin. (Construction employment varies seasonally from 85,000 to 115,000 workers). This would generate a first-order loss of employee income of between $135.0 and $147.7 million dollars. (By first-order, we mean the loss estimates ignore further economic effects – that of reduced income to other state residents generated from the drop in spending on the part of construction workers, and also increased income from an expected slight increase in construction employment). Higher figures represent the actual experience in the states that repealed prevailing wage laws; lower estimates are from the Philips regression analysis. ***Considering likely employment effects, Wisconsin would lose $123 million dollars in construction income from the repeal of a prevailing wage law.***[3] Wisconsin construction workers and their families, whether or not they work on public projects, would lose from the repeal of state prevailing wage laws.

The impact of repealing the federal prevailing wage law, the Davis-Bacon Act, is less certain. However, it seems reasonable to assume that repeal of the federal statute would have an impact on construction earnings at least equal to the impact of repeal of an average state statute. Wisconsin construction workers could potentially lose an additional $1,350-$1,477 per year from repeal of the federal prevailing wage law, for an additional loss of about $123 million in construction income. ***If both statutes are repealed at the same time, Wisconsin residents would have almost $250 million less in income to spend.***

Income is not the only thing that would be lost; job safety would also suffer. In the nine states which repealed their statutes in the 1980s, serious occupational injuries in the construction industry increased by 15% (Philips et al. 1995). In Utah, for example, construction workers suffered 13.54 injuries per 1,000 workers before repeal; after repeal, with an influx of untrained and inexperienced low-wage employees into construction, injuries jumped to 15.42 per thousand. Construction is a dangerous industry and repeal of prevailing wage statutes compounds the problem. Since construction accounts for approximately 30% of all workers' compensation costs, a 15% increase in workers' compensation costs in construction could be predicted to increase all such compensation costs by 4.5%. Reduced job safety is not only a tragedy for the workers killed or injured, but also has a negative fiscal impact on the community at large.

Impact on State of Wisconsin Revenues

States which have repealed prevailing wage laws have experienced substantially reduced tax revenues. Given the decrease in wages, construction workers buy fewer goods and services, reducing sales taxes collected by the states. In addition, reduced wages result in lower taxable income, thus decreasing income tax revenues.

The State of Wisconsin will simply collect less in taxes if total income to construction workers falls. The state sales tax is 5% and some expenditures (e.g. gasoline) are subject to excise taxes; if construction workers spend 50% of their income on items that are subject to sales or excise taxes, then sales tax revenue would fall about $3.1 million from repeal of the state prevailing wage law.[4] State sales tax revenues would fall by approximately the same amount if the federal prevailing wage law were to be repealed, and by about $6.2 million if both laws were to be simultaneously repealed. State income tax revenues would fall even more sharply. Repeal of one law (state or federal) would generate losses of state income tax revenues of about $8.5 million, or double that amount (about $17 million) if both laws are simultaneously eliminated.[5]

In short, the impact of repeal on the state budget is potentially substantial on the revenue side. ***If either the state or the federal prevailing wage statute is repealed, the state stands to lose about $11.6 million in both sales and income tax revenues. These losses could easily exceed $23 million if both laws are simultaneously repealed.***

Because revenues fall when prevailing wage laws are repealed, arguments that the elimination of prevailing wage regulations will save taxpayers money are typically overstated (Shenan 1985). Philips estimates that repeal of the federal prevailing wage statute would actually cause the federal deficit to soar by nearly $1 billion, since the savings on construction expenditures would be dwarfed by reductions in federal tax revenues. This is what happened in several states which experimented with repeal in the 1980s. Philips and his colleagues report that when revenue as well as expenditure effects are considered, in Utah decreased tax revenues exceeded savings on construction costs in five out of the seven years since repeal.

Moreover, repeal of prevailing wage laws raises costs to taxpayers in other ways beyond the simple loss of state tax revenue. Use of low-wage labor on construction projects also imposes costs for medical care and other services needed by employees without benefits. States without prevailing wage laws experience escalated demands on public services, as low-wage workers lacking health care coverage and other benefits increasingly depend on publicly provided services. Research by Dr. Marshall Barry and Joy Greyer (1990) finds that, while 15.5% of the nation's work force is not covered by health insurance, 27.7% of the construction labor force lacks this benefit. Such employees seek health care in public clinics, imposing a cost on all other citizens and businesses.

A study by the Institute of Industrial Relations at the University of California Berkeley demonstrates the potential costs to the public of using low-wage labor without health insurance in construction. In one private-sector construction project, only 53% of the labor involved had health insurance. The costs to the State of California of providing health insurance to the 408 employees without coverage, and their dependents, was estimated to be about $1 million (Davidson 1989).

Maintaining Quality Standards on Public Construction

Prevailing wage statutes help maintain standards in the construction industry. With prevailing wage standards, contractors have every incentive to use fully skilled journeymen and well supervised apprentices. These workers know how to do their jobs correctly and efficiently. Such workers are more effective than supervisors or government inspectors in ensuring that work is done properly.

Evidence of the gains in using appropriately trained employees paid prevailing wages can be found in the *HUD Audit Report on Monitoring and Enforcing Labor Standards.* The Inspector General of HUD has written:

> "Competitive bidding frequently results in use of less skilled workers paid below prevailing wage rates and shortcut construction methods leading to poor quality work… Direct correlation between labor violations and poor quality construction on 17 projects are shown in Appendix 3. On these 17 projects, we found violations and construction deficiencies in the same construction trades.
>
> Poor workmanship quality, in our opinion, results from the use of inexperienced or unskilled workers and shortcut construction methods. Roofing shortcuts result in leaks and costly roof and ceiling repairs. While shortcuts in painting may not be as serious, it does require future maintenance expense by requiring repainting sooner than anticipated. Electrical shortcut deficiencies are not as readily detected but may lead to serious problems such as fires and shocks… Poor quality work led to excessive maintenance costs and increased risk of defaults and foreclosures… this systematic cheating costs the public treasury hundreds of millions of dollars, reducing workers' earnings, and driving the honest contractor out of business or underground." (Report p. 13).

Repealing prevailing wage laws also threatens to increase the long-run costs of maintaining public construction. Low-ball bidding, high rates of business failure in the construction industry, lower wages, higher worker turnover, inexperienced workers and/or lower-quality workmanship do not produce the high-quality construction which is less costly to maintain in the long-run.

Supporting Comprehensive Employee Training

Prevailing wage statutes provide incentives to maintain an effective apprenticeship training system in construction; these apprenticeship programs guarantee that construction employees have the needed skills and technical capacity to earn family supporting wages.

What happens to apprenticeship programs when prevailing wage statutes are repealed? Azari-Rad and his colleagues found that with repeal of the Utah statute, state apprenticeship programs collapsed. With repeal of the state statute, the incentive to support apprenticeship programs was greatly weakened. In repeal states, training rates dropped 40% (Philips et al. 1995). In Utah, although employees registered in programs, employers did not allow these employees time to attend classes. Graduation rates plunged from 95 to 15%, and, partially because of this, Utah now faces a shortage of adequately trained employees in the construction trades (Azari-Rad et al. 1994).[6]

The shortage of skilled labor is also apparent in Arizona, another state without prevailing wage laws or strong apprenticeship systems. According to the *Wall Street Journal* (1/27/94), the labor shortage during the recent construction boom has disrupted construction as contractors have tried to meet their needs by stealing workers from one another. The current lack of skilled workers is so severe that even the president of the anti-prevailing wage Association of Building Contractors, Dan Bennett, admits that the supply of skilled employees is no longer adequate to meet the needs of the industry.

> "We can always find enough people to slam together some forms and do the grunt work. It's the skills where we are going to have a problem and already do."
> -Dan Bennett, WSJ, 1/27/94

The Wisconsin prevailing wage law is written to encourage apprenticeship programs by exempting participants in registered apprenticeship programs from prevailing wage standards. This exception recognizes that trainees are less productive than journeymen, that the training process is expensive and that, as employees move between employers over the course of their careers, employers may not be able to recapture their training costs. Contractors who participate in apprenticeship systems gain the benefit of reduced wages and benefits. The employee and community gain the benefits of new workers whose increased productivity commands a living wage.

Prevailing wage laws also encourage training by eliminating low bids based on low wages. Contractors who wish to remain competitive, who wish to be the low bidder, can only do so by increasing productivity and efficiency. Successful contractors must continually improve their methods, engage in ongoing training of employees, and invest in new technologies. This does more over the long-term to improve efficiency, reduce public costs, and maintain living standards than cost reduction efforts based on cutting wages.

OPPOSITION TO PREVAILING WAGE STATUTES

Do Prevailing Wage Laws Increase the Costs of Government Construction?

Opponents of prevailing wage laws argue that these laws increase the cost of public projects. Their arguments typically cite estimates which indicate that Davis-Bacon wage standards increase the cost of federal construction. The Associated Builders and Contractors (ABC) of Wisconsin, the force behind efforts to repeal the Wisconsin statutes, has produced figures which claim that raising the threshold for coverage to $100,000 and altering the method of determining the prevailing wage would reduce the public's cost of construction by $23.3 million (ABC, 1993).

Such figures overestimate the savings realized by repeal. In fact, labor costs are only about one-quarter of total costs on public construction projects (Philips et al. 1995). If labor costs fall 5.1% following repeal then total costs fall only by 1.28% (assuming similarly productive labor, which is unlikely, and no increase in maintenance or other costs, which is equally unlikely). At most, direct public construction costs would only fall slightly.[7] Moreover, this assumes that wage savings are automatically passed on in cost savings – an assumption that is probably not warranted. This assumption has been criticized widely (Dunlop, Bourdin and Leavitt) and researchers have produced evidence that the use of low-wage labor in construction does not generate corresponding savings because low-wage workers are typically less skilled and require more supervision (Mandelstamm 1965; Belman 1992; Allen 1994; IUOE 1991).[8] At the federal level, the Congressional Budget Office has recognized this fact:

> "Higher wages do not necessarily increase costs, however. If these differences in wages were offset by hiring more skilled and productive workers, no additional construction costs would result." (Reischauer 1993).

The U. S. Department of Housing and Urban Development found:

> "In order to assess how great an effect high wages have on project costs, [HUD] examined the Davis-Bacon wage rates applicable to each project and compared wage rates with dwelling construction costs… A comparison of average wage rates with average construction costs shows no correlation between high wages and high construction costs."
> -*Evaluation of the High Cost of Indiana Housing,* HUD (1979), pp, 23-7.

Moreover, use of poor quality labor likely increases maintenance costs. Such costs, which the inspector general of HUD estimates in the hundreds of millions of dollars, would more than offset any initial construction savings from the use of low-wage labor.

In Utah, where prevailing wage laws were repealed, the size of cost overruns on state road construction has tripled in the ten-year period following repeal of the statutes compared to the period from 1971 to 1981. The shift to low-skilled labor and lowered productivity led to expensive change orders and added cost overruns that increased substantially the cost of construction.

Finally, most studies of the cost of Davis-Bacon assume that all wage savings are passed on to the public body contracting for the work. This assumption is inaccurate, as much of the savings remain with the contractor. In a comparison of high and low bids on specific public construction projects in Arizona, Deerman and Martin found that although the low bid saved between $271,000 and $350,000 on wages and benefits, only $100,000 was passed on to the contracting agency. The balance, $171,000 to $250,000, went to increased profit for contractors and was absorbed by reduced worker efficiency. The public realized only 25% to

35% of any cost savings associated with paying less than the prevailing wage. In summary, the minimal savings obtained through repeal of prevailing wage projects are further decreased by hidden costs, including increased maintenance and change orders.

What then is a reasonable estimate of the degree to which elimination of prevailing wage statutes might reduce construction costs? A 5.1% reduction in wages constitutes the sole source of savings. Since wages constitute only 25% of total construction costs, the first level of construction savings is actually 1.28%. It is estimated that 50% of this amount is offset by lower productivity, higher profits to the contractor, and higher maintenance and supervision costs. Thus the repeal of prevailing wage laws reduces construction costs by 0.64% or less than two-thirds of one percent.

The State of Wisconsin spends somewhat less than $750 million on construction each year. The figures indicate that state construction costs would be lowered by at most $4.8 million by the repeal of one prevailing wage law (either Davis-Bacon or the state statute) and by $9.6 million by the repeal of both. These savings to state taxpayers are overshadowed by the loss of revenues resulting from the repeal of the laws ($11.6 million for one law or $23 million for both laws). ***Clearly, repeal of prevailing wage statutes would not benefit the Wisconsin state budget.***

Do Prevailing Wage Laws Disadvantage Minorities?

The most recent line of attack on Davis-Bacon and other prevailing wage legislation has been that the laws were passed to exclude African-Americans from construction employment. It is also argued that by requiring payment of prevailing wages, the laws prevent minority employees from being hired into the construction trades.

These arguments originated with ABC (an association of nonunion contractors and construction users) to argue for repeal of prevailing wage laws and for the creation of a low-wage ‘helper’ category (BNA 1975). They have since been repeated by the CATO Institute (a conservative think tank) and received considerable play from editorial writers and opinion columnists. It is clear, however, that repetition, no matter how frequent, does not make an argument true.

The first allegation, that the Davis-Bacon Act was passed specifically to exclude African-Americans from the construction trade, is based on remarks of two congressmen, which are quoted out of context, and from creative interpretation of the remarks of other members of Congress. The CATO Institute publication makes reference to the remarks by Rep. Upshaw of Georgia in a 1927 debate over a prevailing wage bill which was not passed. CATO fails to note that the bill's sponsor (Rep. Bacon) immediately took issue with the racist remarks of Upshaw:

> "I merely mention that fact because that was the fact in this particular case, but the same thing would be true if you should bring in a lot of Mexican laborers or if you brought in any nonunion laborers from any other State… In the case that I cite the contractor has also brought in skilled nonunion labor from the South to do this work, some of them Negroes and some of them white, but all of them are being paid very much less than the wage scale prevailing in New York."
>
> -Hours of Labor and Wages on Public Works: Hearings on H.R. 17069 before the Committee on Labor, 69th Congress, 2d Session, 2 (February 18, 1927).

The second leg of the argument that Davis-Bacon is discriminatory is that by requiring payment of prevailing wages to all but apprentices, the law precludes the hiring of 'helpers' at wages suited to their skills. Since a higher percentage of minority workers fall in the low wage category, the lack of a lower wage 'helper' classification supposedly reduces their employment prospects in the industry.

Do these arguments have any basis in fact? Did minorities gain when states repealed prevailing wage laws? Contrary to these claims, ***repeal of prevailing wage laws has typically hurt minorities.*** The repeal of prevailing wage laws has caused a reduction in resources for construction training which has had a disproportionately negative impact on minorities. In the nine states which repealed their laws in the 1980's, minority participation in apprenticeship programs fell from 19.4% of all apprentices to 12.5% of all apprentices after repeal. In states that retained prevailing wage laws, minority participation in apprenticeship programs rose slightly in the same period. By 1993, minorities were somewhat over-represented in construction apprenticeship programs in the states with prevailing wage laws (at 103% of their population in the same states). In repeal states, minority participation dropped to reflect only 85% of the minority population, almost reaching the low level of states that never had the prevailing wages laws. Moreover, repeal did not increase minority employment in construction. The ratio of African-American to white unemployment in these states did not improve with repeal. In fact, African-American-white unemployment ratios increased after repeal.

In contrast, prevailing wage laws help minorities in several ways. First, the wage reporting requirements and anti-kickback regulations serve to protect members of minority groups from victimization by unscrupulous contractors. Equally important, the apprenticeship system in the building trades provides minority group members a means to achieve employment at the living wage. Nationally, minority participation in apprenticeship programs has risen to 22.5% on average (GAO 1992). In Wisconsin, minority enrollment in several construction apprenticeship programs exceeds their representation in the state's population – including the trades of plasterer, painter/decorator, iron worker, cement mason, and sprinkler fitter. Although progress is still needed in other trades, minority representation has been growing. Repeal of prevailing wage statutes, and the subsequent decline in apprenticeships, will reduce rather than increase minority access to good jobs.

To conclude, there is no evidence that the position of minorities in the building trades will be improved either by repeal of the Davis Bacon Act or by repeal of the Wisconsin prevailing wage law. Neither the weakening of the prevailing wage laws through the exemption of more projects from regulatory standards nor the creation of a low-skill, low-wage helper category will increase minority participation in the trades. ***Rather, prevailing wage laws aid disadvantaged groups by providing well-paid employment and a system of training which provides access to those jobs.***

CONCLUSION

The evidence reviewed in this study indicates that:

- The elimination of prevailing wage laws would cost the State of Wisconsin more in lost tax revenues than it would save in reduced construction costs.
- Prevailing wage laws are beneficial to the State of Wisconsin and its citizens. These laws ensure that government purchasing power is not used to undermine community wages and living standards.
- Prevailing wage standards are economically productive. Wage standards have minimal impact on public construction costs, while repeal of these laws in nine states has generated higher maintenance costs, consistent cost overruns, increased numbers of work related injuries and a subsequent rise in both workers' compensation costs and publicly financed health services.
- Prevailing wage statutes support the system of apprenticeship training and provide family supporting jobs to minority groups which have suffered from discrimination.

In summary, the state prevailing wage laws and federal Davis-Bacon Act together create a system of employment equity that is in the interest of not only construction workers, but the citizens and the state government of Wisconsin.

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NOTES

1. Georgia, Iowa, Mississippi, North Carolina, North Dakota, South Carolina, South Dakota, Vermont, and Virginia have never had prevailing wage laws.

2. In an editorial, 1/13/95, the *Wisconsin State Journal* reports that laborers hired under the prevailing wage statute in Wisconsin are paid $15.12 per hour in wages and $3.90 per hour in benefits. It is also reported that PAS, a compensation research firm, found laborers, of unspecified skills, could be hired for $8.68 per hour. Based on these figures, the annual earnings of a construction laborer protected by prevailing wage laws would be $26,460 in wages and an additional $6,825 in benefits and without the laws, they would earn $15,190 and would have no benefits. (This assumes they work an average of 1750 hours per year). In repeal states, the actual drop in earnings was 7.5%, a fraction of this "estimate."

3. Employment would rise slightly with lower wages, since lower wages make profitable the employment of less productive workers. Using conventional estimates of the elasticity of labor demand (e = .1), a 5.1% wage reduction would generate 500 additional construction jobs. Assuming these new lower-productivity employees earn $23,000 a year on average, an additional $11.5 million dollars in construction income would be generated in the state. This would slightly cushion the $135 million dollars in predicted income loss.

4. This estimate is based on sales/excise tax receipts and personal income figures for all persons in the state, contained in the State of Wisconsin's '93-'94 Blue Book for 1991 and fiscal 1991-92.

5. A state marginal tax rate of 6.93% was used in these calculations; this marginal tax rate applies to married-joint returns with taxable income over $20,000 per year, or individuals with more than $15,000 per year (Legislative Fiscal Bureau, February 24, 1992).

6. The inadequacy of non-union apprenticeship programs has compelled non-union contractors to depend on the graduates of union apprenticeship programs to provide the skills needed on their projects. While this has reduced these contractors costs, the decline of union programs has left the industry with too few adequately trained employees.

7. This figure is comparable to estimates by the Congressional Budget Office that repeal would save 1.5% in construction costs, plus a savings in “paperwork” of 0.2% (Reischauer 1993).

8. In a series of sophisticated studies Professor Steve Allen of North Carolina State University, has found that, although unionized construction employees earn 40% more than their non-union counterparts, construction done with union workers is only slightly more expensive. The better trained union employees are between 29% and 51% more productive than non-union workers; the increased productivity counterbalances their higher wages. The productivity advantage is particularly important on complex projects, where high wages are associated with reduced final costs. A study of highway construction also finds that high wages are associated with reduced construction costs. Although union rates were, on average, 20% higher than non-union rates, projects using union employees used 44% fewer employee-hours, and had 10% lower costs, per mile of highway construction (IUOE 1991), pp.23-27.

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