

The Facts

About **Prevailing Wage Laws**



**New study finds
no evidence
that repeal of
wage laws saves
taxpayers money**

Third Edition

A statewide debate is brewing surrounding the prevailing wage laws. Many opponents of the laws feel that significant reductions would be realized if the government repealed these laws on a state level. But a breadth of research is appearing that is proving this theory false. Two recent studies by University of Utah Professor Peter Philips, the country's preeminent labor economist, reveal that repealing such laws will not produce labor cost savings, but will reduce worker salaries, benefits, and training while increasing the number of worker injuries.

Prevailing wage laws are rooted in a philosophy of economic growth and were enacted to:

- **Encourage contractors to compete for government work based on skill, safety, and efficiency rather than by cutting wages.**
- **Allow good contractors to pay fair wages and hire well qualified workers.**
- **Promote the use of local labor force.**
- **Keep labor costs low by employing skilled labor to avoid cost overruns and safety problems.**
- **Improve working conditions for all workers.**
- **Promote a strong local economy by allowing local contractors with local workers to compete with out-of-region firms.**

The History

In 1965 Michigan enacted the Prevailing Wage Act (P.A. 166) to establish labor rates within construction projects contracted by state and local government. This act requires public-works contractors to pay trades people no less than the wages that prevail on similar projects within the same region. Included in these specifications are worker benefits, such as health insurance and pension contributions. Prevailing wage rate legislation is adopted by most states for bidding on state and local government projects.

What Does This Really Mean?

Use of prevailing wage rates actually saves taxpayers' money by reducing public health costs and strengthening the local economy and tax base.

Prevailing wage laws provide significant benefits to workers, local economies and government efficiency. **A brand new study** by Dr. Peter Philips of the University of Utah has found no significant differences in labor costs between states with or without prevailing wage legislation.

C O N T A C T S

- | | | |
|---|-------------------------|-----------------------|
| • Michigan State Building Trades Council | <i>Tom Boensch</i> | (517) 484-8427 |
| • Greater Michigan Plumbing & Mechanical Contractors | <i>Sandra Miller</i> | (734) 665-4681 |
| • Mid-Michigan Plumbing & Mechanical Contractors Assn. | <i>Mike West</i> | (517) 485-7716 |
| • Michigan Chapter, Associated General Contractors | <i>Bart Carrigan</i> | (517) 371-1550 |
| • MI Chapter Sheet Metal Air Conditioning Contractors National Association | <i>Richard Northrup</i> | (517) 339-1123 |
| • Michigan Chapter, National Electrical Contractors Assn. | <i>Mike Crawford</i> | (517) 372-3080 |

A Tri-State Study

Dr. Peter Philips' most recent study focused on 3 Midwestern states that have had changes in their prevailing wage laws – Ohio, Michigan and Kentucky. This tri-state research project compared independently published F.W. Dodge cost data for 391 new school construction projects built between 1991 and September 2000. These states had the following changes to their prevailing wage laws:

- **Kentucky enacted a prevailing wage law for public schools starting in July 1996. They had no prevailing wage coverage prior to July 1996.**
- **Ohio exempted public school construction from prevailing wage coverage after June 1997.**
- **Michigan suspended its prevailing wage law at the end of 1994 due to a lower court decision. That decision was overturned by the 6th district Federal Court of Appeals in 1997 and the prevailing wage law was reapplied in July of 1997.**

Because the 3 states have had dynamic changes to their prevailing wage laws over the past decade, they make for an ideal real world test case study on the impact of prevailing wage laws. This study went beyond investigating the “alleged” costs of prevailing wage laws –this study also looked at project size, project start time, and if the project had a gym/pool as part of the bid.

New Public Schools - Real (Inflation Adjusted) Square Foot Costs

Rural Schools				Urban Schools			
	Mean	Standard Deviation	Number		Mean	Standard Deviation	Number
No Law	\$96	\$26	161	No Law	\$114	\$36	40
Law	\$98	\$24	104	Law	\$114	\$34	86
t-test	-0.76			t-test	0.05		
Statistically Significant Difference?	NO			Statistically Significant Difference?	NO		

Table 3: Comparison of the Real (Inflation-Adjusted) Square Foot Cost of New Public Schools by Urban and Rural Schools and Built with or without Prevailing Wages.

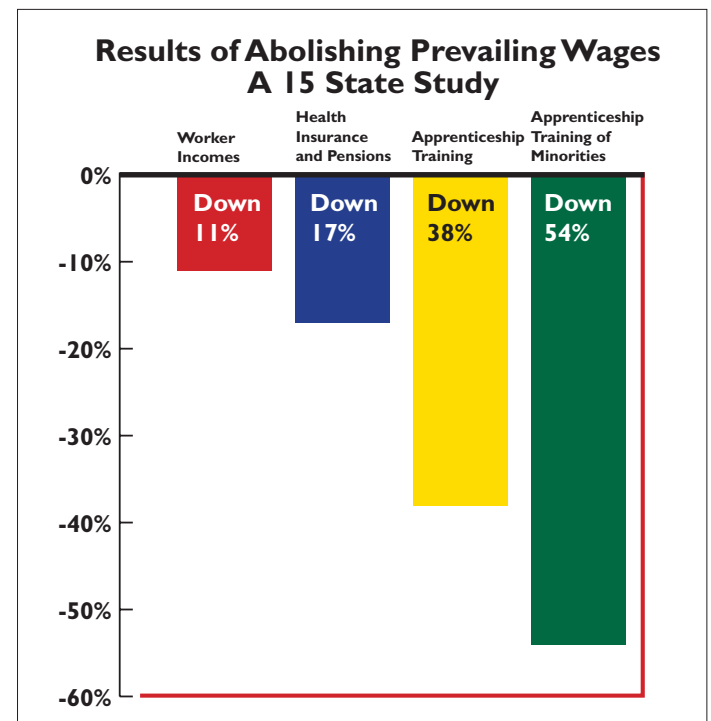
NOTE: The standard deviation is, in essence, the wiggle around an average. For instance, if you had 5 children in a car pool, ages 8, 9, 10, 11 and 12, the mean (or average) would be 10 years of age, and the standard deviation or wiggle around the mean would be 1.4 years.

What did the research reveal...

1. **There is no statistically significant cost difference between schools built with prevailing wages and those built without prevailing wage.**
2. **School construction projects started in the spring of the year were 10.9% less expensive than school projects started in the fall of the year.**
3. **There is little, if any, savings in building a bigger building on a square foot installed basis.**

Additional Hidden Cost Implications...

In another study, done in 1998 by Dr. Philips, there were additional hidden cost implications. This study evaluated 15 Great Plains states to examine how the repeal of the Kansas Prevailing Wage Law impacted labor and construction costs and the cost of public school construction in states with and without Prevailing Wage laws. While cost savings to taxpayers in Kansas did not pan out, the loss in income by craft workers did. Kansas craft workers' wage incomes fell 11 percent from 1987 (the year of the repeal) to 1991. This amounts to a decline in average wages from \$25,573 to \$22,807.



Following Repeal of the Kansas Prevailing Wage Laws:

- **Apprenticeship training in Kansas fell 38%. Minority apprenticeship training fell 54%.**
- **Total employer contributions to pension and health funds declined 17% - from an average of \$20 million per year to \$16.6 million.**
- **Worker injuries increased 19% (serious injuries rose 21.5%) after Kansas repealed its prevailing wage law.**
- **Almost all collective bargaining construction workers in Kansas receive health insurance and pension contributions, only 10% in the open sector receive pension coverage and only 4% receive health insurance from their employer.**

Labor Costs

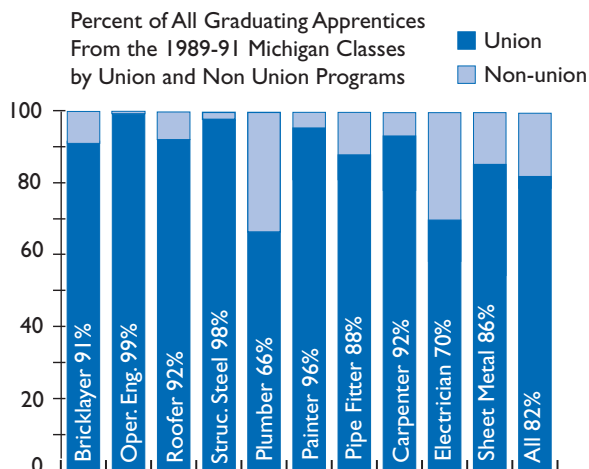
The savings for the state of Kansas did not pan out after dropping Prevailing Wage laws because they were based upon hypothetical calculations. These figures were based on the assumption of high estimated labor costs (50 percent of total construction costs) to the total project costs. Lawmakers assumed less labor costs without prevailing wage laws, but did not take into account any reduction in productivity. Increases in injuries and decreases in training led to cost increases due to poor workmanship.

Further, labor costs are not 50 percent of total costs, labor costs are typically 25 to 30 percent of total construction costs and even less on street and highway construction. In fact, in the case of the states compared in the Kansas study the average labor cost is 18.96 percent of total construction costs for prevailing wage states—less than the 19.44 percent average labor cost for states without a prevailing wage law.

What Happens to Training?

In the organized construction industry all union contractors pay for training through the collective bargaining agreement. As a result, top quality training is the rule for union contractors. Non-union contractors have no consistent vehicle to pay for training, therefore, few non-union employers have any qualified training program. Thus in the open shop sector there are two incentives not to train. First, the contractor is not motivated to train for fear that his employees will go to work later for a competitor with the skills that the contractor paid for; and second, workers are less likely to seek training if they have to pay for it themselves.

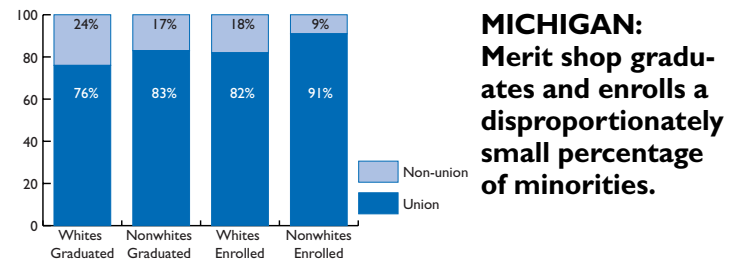
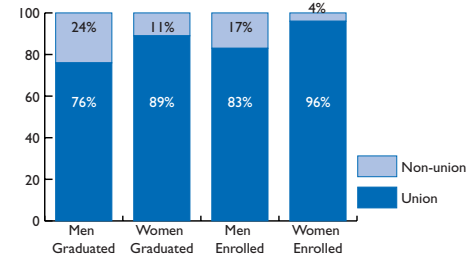
MICHIGAN: Unions account for 76% of all graduating apprentices



Peter Philips, Economics, Univ. of Utah, SLC UT 841 12

With a strong prevailing wage law, unions provide training with the strong incentive that highly skilled workers are the “product” that they have to sell to remain competitive. Union trained workers are generally accepted as better trained and therefore more highly skilled. Prevailing wage laws strengthens good training programs that the unions carry out. Better quality, better productivity and better safety records are the result.

MICHIGAN: Merit shop graduates and enrolls a disproportionately small percentage of women.



Other Similar Findings

The findings of the Kansas study are consistent with other similar surveys. According to another study conducted by Professor Philips comparing five “prevailing wage” states (New Mexico, Texas, Oklahoma, Wyoming, and Nevada) to four “no law” states (Arizona, Utah, Idaho, and Colorado), costs are significantly less in prevailing wage states.

- **Elementary schools cost \$6 less per square foot (psf) in the five-state group with prevailing wage laws.**
- **Middle schools and high schools cost \$11 psf less in “have law” states.**
- **Warehouses cost \$35 psf less in “have law” states while office buildings cost \$2 more in the same states.**

Another University of Utah study that examined nine states that repealed prevailing wage laws concluded:

- **Construction worker earnings declined by at least \$1,477 per year on average.**
- **State income and sales tax revenues declined.**
- **Construction training fell by 40 percent and even more among minority workers.**
- **Occupational injuries rose by 15 percent.**
- **Cost overruns escalated.**