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Prevailing Wages: Costly and Unnecessary

With all the recent media attention surrounding taxes and tax reform, it is a time to reflect on what the government can do to ease the burden on taxpayers. A good start would be the repeal of the Pennsylvania Prevailing Wage Law of 1961, a classic example of the type of feel good policies that dominate government. Popularly hailed as a way of ensuring that local workers receive a "fair" wage and protection against migrants, the end result of the policy has been to raise the cost of government and to reduce job opportunities for non-union workers.

Evidence from Florida, Michigan, and Ohio suggests that in the absence of a prevailing wage law, governments can save more than 10% on construction projects. While this may sound insignificant, consider this: For fiscal year 1999, the Pennsylvania state government spent \$2.12 billion on construction. Without the prevailing wage law, the state government could have saved \$212 million on construction, which is equivalent to 2.4% of the individual income tax collected that year (\$8.85 billion).

At the local level, \$3.48 billion was spent on construction in 1999. Without the prevailing wage law, \$348 million could have been saved. The money could have been used to lessen the property tax burden by 3.6% (\$9.66 billion was collected in 1999).

In 1997, the Ohio legislature gave school districts the option of requiring prevailing wages on construction projects. After the first year, the legislature conducted a survey to monitor progress. Of the 396 districts that responded to the survey, 81% (320) no longer required prevailing wages as a condition of contract. The Ohio study concluded that where there were savings, the savings were almost 10% (9.4%) and there was no reduction in construction quality.

If Pennsylvania were to follow the lead of neighboring Ohio and exempt school districts from the prevailing wage law, savings to individual districts could be substantial. According to the Pennsylvania Department of Education, in 1998 there were 66 school building projects eligible for state reimbursement with a total value of over \$730 million. A savings of 10% would exceed \$73 million. This represents only a fraction of all school projects that are undertaken that fall under the Prevailing Wage Act. In the first two months of 2001 in Allegheny County alone, 76 school projects were submitted for approval to the state's Bureau of Labor Law Compliance. A savings rate of 10% could mean significant savings for local taxpayers.

The 10% savings estimate is very conservative in light of the differences between prevailing wage rate levels and market wage. For example, in the Pittsburgh region, a union drywall hanger makes \$20.34 per hour, while the free market wage is \$13.41, a difference of almost \$7.00 per

hour. An electric lineman in the free market would receive almost \$19 (\$18.86) while a unionized electric lineman would command almost \$29 (\$28.89), a difference of \$10 per hour.

This does not include the prevailing fringe benefits, which for a non-union contractor must be paid as a cash supplement to the hourly wage. Since they are paid as an hourly supplement, the non-union contractor is then subjected to higher payroll taxes. The union contractor pays fringes from a program or trust that avoids the payroll tax. For the above mentioned drywall hanger and electric lineman, they would command fringe benefits of \$9.31 and \$7.92 respectively. A non-union contractor would have to pay these workers in total \$29.65 and \$36.81 per hour respectively. The union contractor with a well-funded benefits program only pays the prevailing wage. As a result of this unfair advantage, many non-union contractors simply pass on government projects, thereby reducing effective competition.

The Prevailing Wage Act not only raises the cost of labor, but also imposes rigid craft-based job classifications and restrictive apprenticeship regulations. This sharply limits an employer's ability to hire and train unskilled workers. In many cases these unskilled workers are minorities that have been historically kept out of trade unions. Evidence from Michigan supports the theory that a prevailing wage law suppresses employment in the construction industry.

In Michigan, a federal judge suspended the prevailing wage law for a period of 30 months. During that time the state experienced an annual construction job growth that was almost 4.5 times the rate of growth than when the law was in effect (4,000 vs. 17,600). Overall there were 116.3 construction jobs created per 1,000 total jobs in the absence of the prevailing wage law as compared to 78.6 per 1,000 in the 30 months before the repeal. Either way the result is the same: More construction jobs were created during the period without the prevailing wage requirement than when the law was enforced.

The repeal of Pennsylvania's Prevailing Wage Act would be a benefit to the state's taxpayers. In addition to reducing the costs of government, which could ultimately be passed back to the taxpayers, it will also provide more employment opportunities for non-union workers. And national data shows non-union labor to be just as productive as union workers. It is time Pennsylvania's elected officials get serious about reducing the cost of government. Eliminating the Prevailing Wage Act is a step in the right direction.

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