

Issue Summary

Mandated Wages: Prevailing Wages

The Issue:

In 1931, the federal government passed the Davis-Bacon Act which requires all contractors working on federal government projects (with a value of at least \$2,000) to pay their employees the “prevailing wage” for that particular occupation. This was done to protect local laborers from cheap migrant labor. Promoters of the Act claimed it would enable American workers to spend the economy out of the Great Depression. They also claimed that those workers would be more productive which would, over time, drive down the cost of government construction projects.

Prevailing wages are set at or near the union-scale level. Under Davis-Bacon, contractors using non-union employees must pay them union level wages, raising the cost of a project. The Congressional Budget Office claims that if this wage mandate were lifted, it could save taxpayers about \$1 billion per year. However, this problem is not relegated to the federal government—31 states have enacted state-level prevailing wage laws, including Pennsylvania.

It has been estimated that prevailing wage laws add about 10 to 15 percent to the cost of a construction project. The elimination of this requirement could amount to substantial savings not only for the state (which spends more than \$2 billion per year on construction projects) but for counties, municipalities, and school districts (which spend more than a half a billion dollars on projects subject to the prevailing wage). A savings of 10 percent would result in substantial relief for taxpayers.

What We Know:

Prevailing wage laws not only dictate the wage rate for each craft classification, it also mandates an hourly price for “fringe” benefits. Fringe benefits for union workers are programs that are paid from trusts that have been built from dues payments and are not subject to payroll taxation. However, for the non-union firm the absence of such programs means that fringes must be paid directly to the employee as a supplement to the hourly wage and thus subject to payroll taxes. Therefore not only are non-union firms required to meet the wage being paid by union firms, but must exceed them through fringe payments and then must pay more in payroll taxes than their union counterparts. This is enough keep non-union contractors from even bidding on government contracts—giving union contractors a monopoly on government projects.

From 1979-1995, ten states repealed their prevailing wage law. Among the reasons for doing so was that the law forced employers to pay more for labor that the market would have otherwise dictated; it allows employers to discriminate in hiring workers; it raises the cost of government; it increased administrative costs.

Recommendations:

The national Davis-Bacon law, as well as the lower-level state prevailing wage laws, cost the taxpayers billions of dollars each year. With rigid craft-based job classifications and restrictive apprenticeship regulations, the ability of employers to hire and train unskilled workers is severely hampered. In many cases unskilled workers, often minorities, have been historically kept out prevailing wage projects.

Empirical evidence from Oregon, Michigan, and Pennsylvania show that prevailing wages are on average 25-40 percent higher than free-market wages. In 1997, the prevailing wage law in Ohio was no longer mandatory for school districts. It's estimated to have saved Ohio taxpayers 10 percent annually.

If Pennsylvania were to make prevailing wages optional at the school district level, the Commonwealth could see savings of tens of millions of dollars annually. If it were eliminated at the state level, it would save hundreds of million of dollars more.

With prevailing wages much higher than free market wages many non-union contractors are put at a disadvantage when bidding on government contracts. Add to this the cost of paying fringe benefits they often simply pass on government projects altogether. This leads to less competition and higher costs for government construction which are ultimately borne by the taxpayer.

Allegheny Institute References:

Prevailing Wages: Costly to State and Local Taxpayers. Report # 02-02.
http://www.alleghenyinstitute.org/reports/02_02.pdf

TIFs and Prevailing Wages. Policy Brief: Volume 3, No.4.
<http://www.alleghenyinstitute.org/briefs/vol3no4.pdf>

Prevailing Wages: Costly and Unnecessary. Policy Brief: Volume 2, No.6.
<http://www.alleghenyinstitute.org/briefs/vol2no6.pdf>

Government Mandated Wages: A Shackle on Economic Growth. Policy Brief: Volume 1, No.43. <http://www.alleghenyinstitute.org/briefs/vol1no43.pdf>