

POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

January 19, 2010

Volume 10, Number 4

Mandated Wage Mania in Allegheny County

Hard on the heels of the efforts of Pittsburgh to put together a “prevailing wage” law for workers on development projects that receive government financial assistance, now appears Allegheny County with its own plans to mandate wage levels for projects receiving County aid. Very convenient for the City in view of the Mayor’s argument that the City should not impose a prevailing wage requirement unless the County enacts a similar law.

Whether a City law or a County law, the case against such a market interfering bill is overwhelming. In the first place, the extensive use of taxpayer subsidies for developers is a bad idea but is brought about in part because of the unfriendly tax, labor and regulatory climate in the City and County. In other words, investors need “help” with project costs to justify putting money into developments. Otherwise the project would not be economically viable. In those cases, the businesses are not gaining an unfair advantage, they are simply being assisted enough to take the risk of investing in an unfriendly environment. It would be far better to address the unfriendly environment so that having to offer subsidies would not be necessary. But that would mean bringing down school, county and municipal expenditures, working to eliminate state labor laws that ratchet government costs ever higher and supporting major reform of state business taxes that discourage capital from coming to the state. Unfortunately, these needed changes appear politically unviable because of powerful special interests.

To be sure there are sweetheart deals with developers that redound to the benefit of investors who are able to pocket unwarranted profits. That issue needs to be addressed through means other than mandated wages. It is the poorest of public policy to attempt to offset unethical doling of taxpayer funded largesse by distorting labor market pricing.

Here are the problems for proponents of prevailing wages for recipients of government assistance. If the argument for the assistance in the first place was primarily to promote the creation of new jobs and more employment opportunities than would otherwise exist and assuming net new jobs were actually created, then there has already been an increase in labor demand which, in the presence of an unchanged labor pool, will place upward pressure on wages in the market area. In this case, firms are paying what the market requires, whether that is greater than or less than the government’s mandated “prevailing wage.” Thus the assistance would have achieved two objectives, more jobs and higher

wages than would be in place absent the financial incentives. Why then would policy makers want to undo some of the good they have achieved? By forcing some firms to pay higher wages than the market requires, the law would reduce the number of people hired and/or lead to a smaller profit for the firms. Such an outcome will create further disincentive for investors to venture into the County.

On the other hand, if the subsidized development projects have not resulted in a net increase in jobs because the projects merely introduced subsidized competition for existing firms, then the taxpayers' money has already had a negative effect on the County by driving business and jobs away from existing firms to the subsidized firms. To now place a higher wage requirement on the subsidized firms would simply compound the earlier foolishness and make the jobs situation worse than ever.

It is time for policy makers to stop playing their do-good role of income re-distributor. Any short term gains for the favored recipients will come at a much larger net cost to the County in lost reputation as a place to locate a business. County policy makers should also pay close heed to the growing revulsion among the nation's voters over the arrogant and dramatic attempts of the government in Washington to use the awesome power of the Federal government to increase massively the amounts of redistribution in all forms and guises on top of the enormous levels already in place.

There is a reason for this angry uprising. People are concerned that government is trying to undo the foundations that made the country great and are rightly worried about the unfolding tragedy arising out of the unimaginable burden of debt that is piling up on the nation's children and grandchildren. And the excessive and unwarranted favoritism towards organized labor and some companies is seen for what it is—an unconscionable transfer of money and power to a few and the loss of freedom for the majority. Is it too much to ask local leaders to take a deep breath and contemplate the damage they are about to do the County? Damage that will take years or decades to undo. Is it too much to ask that they consider they might be flying in the face of history?

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