

Prevailing Wage

CONSTRUCTION COSTS IN PERSPECTIVE

A growing body of economic analysis finds that prevailing wage regulations do not inflate the costs of government construction contracts. Furthermore, recent reports explain the flawed methodology employed by researchers claiming otherwise due to error and omission. Economic analysis requires more than elementary addition, and greater wages paid are not directly passed on to the government as proposed in earlier “hypothetical” studies. Through cross-sectional and time series analysis, economists can prove the insignificant overall impact of prevailing wage on project cost and how earlier research fails to meet today’s rigorous standards of economic analysis¹². The latest research is posted at:

www.wabuildingtrades.org/prevailingwage

Labor Cost in Perspective

Average labor costs, including benefits and payroll taxes, are roughly one-quarter of construction costs. If we assume prevailing wage regulation raised wages by 10%, the impact on contract costs would be less than 2.5%.

Productivity

It has been found that states with prevailing wage laws have higher productivity, with about 13% to 15% more value-added per worker³. Productivity is key to total project cost.

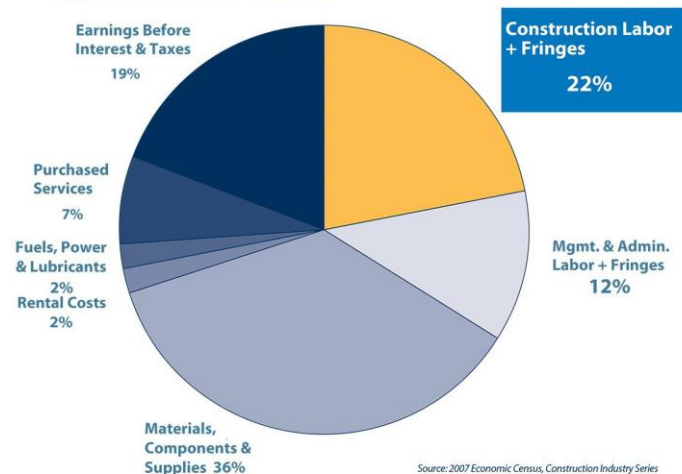
The Added Cost of Low-Skill Labor

Prevailing wage laws have also been shown to keep costs down. In the decade following the 1981 repeal of the prevailing wage policy in Utah, cost overruns tripled with an increase in change orders, in large part due to low-skill labor⁴.

State Revenue

By encouraging the use of our in-state contractors and construction workforce, prevailing wage policies directly impact the amount of state tax revenue received. The added documentation provided by required intents affidavits and certified payroll records also facilitates enforcement against fraud perpetrated by unscrupulous contractors leading to the recovery of worker’s compensation, Social Security, and unemployment insurance due to the state.

Labor Share of Non-Residential Construction Value



Safety, Training and Prevailing Wage

Research has also found that construction-related fatality rates were 25% lower among workers and injuries less overall in states with prevailing wage laws. In a report that examined data from nine states that had repealed prevailing wage laws (versus nine that had never had the regulations and other states with prevailing wage) there were measurable reductions in worker earnings, cuts to worker training programs, an increase in occupational injuries, and an increase to cost overruns. A direct relationship has been established between the loss of job training and the increase in injuries.

¹ Mark Price, Stephen Herzenberg (2011) The Benefits of State Prevailing Wage Laws: Better Jobs and More Productive Competition in the Construction Industry

² Nooshin Mahalia (2008) Prevailing Wages and Government Contracting Costs: A Review of the Research

³ Peter Philips (2014) Kentucky’s Prevailing Wage Law: An Economic Impact Analysis

⁴ Cihan Bilginsoy, Peter Philips (2010) Impact of Prevailing Wages on Economy and Communities of Connecticut