

# **What the Research Tells Us About the Costs and Benefits of Prevailing Wage Laws**

Kevin Duncan, Ph. D.  
Distinguished University Professor,  
Professor of Economics  
Colorado State University-Pueblo

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## **Executive Summary**

This study provides a review of the research examining the costs and benefits of prevailing wage laws. An extensive body of peer-reviewed research focuses on the impact of prevailing wage regulations on the cost of public construction. Related research examines the effect of the wage policy on the level of bid competition, an important determinant of building costs. There are numerous benefits of prevailing wage laws. The study reviews the data and research regarding the effect of the policy on work for local contractors, formal training and injuries, payroll tax revenue, and military veterans employed in construction. The study also reviews the research regarding the effect of changes in the prevailing wage coverage threshold on work for local contractors and construction costs. Summaries of the research are described in this section. More detailed descriptions of the research are provided in the sections of the report.

### *Prevailing Wages, Construction Costs, and Bid Competition*

The preponderance of research that has been peer-reviewed, and is based on the statistical examination of contractor bids, indicates that projects built under prevailing wage requirements are no more costly than comparable projects that are not covered by the wage policy. This research is based on the examination of schools, highways, assorted municipal buildings, and affordable housing construction with 78 percent of studies finding that prevailing wage standards are not associated with increased costs. Excluding the affordable housing studies, and focusing only on the typical structures built with public funds (schools, highways, and other public facilities), 90 percent of studies indicate that prevailing wage laws do not increase construction costs.

While labor costs are about 60 percent of production costs in the overall U.S. economy, information from the U.S. Census Bureau indicates that blue-collar construction worker wages and benefits average 23 percent of the total cost of all types of construction. This figure is 24 percent in Montana. Other research indicates that more skilled construction labor replaces less-skilled counter parts, and capital equipment replaces all grades of labor when wages increase in the construction industry. Consequently, minor changes in labor productivity and utilization are needed to counter the cost impact of prevailing wages.

A complementary line of research examines the impact of prevailing wage regulations on the level of bid competition. These studies compare schools, highways, and a variety of other public structures that were built with and without the wage regulation. All of these studies indicate that prevailing wage standards are not associated with reduced bid competition.

### *Economic Impact of Prevailing Wage Laws*

By protecting low wage rates, prevailing wage laws protect work for local contractors and their employees. In this way, the policy plays an important economic development function by retaining more of the jobs, income, and spending in the area where the construction work is completed. The spending of local construction workers stimulates local retail and service industries. Consequently, prevailing wage regulations benefit industries that are unrelated to the construction industry.

Studies examining library construction in California, school construction in the Minnesota, and highway construction in Indiana and Iowa find that when prevailing wages apply, more work is completed by local contractors and local employees. Conversely, these studies also find that when the wage policy does not apply to a project, more work is completed by contractors and workers from outside the area, or are from other states.

### *Cost and Economic Impacts of Changes to Prevailing Wage Coverage Thresholds*

Prevailing wage regulations have minimum project value thresholds at which point workers must be paid prevailing wage rates. Publicly-funded projects with values less than the threshold are exempt from the law. Projects with values greater than the threshold are covered by the wage policy. Project value thresholds vary by state. Illinois, Massachusetts, Nebraska, New York, Texas, and Washington do not have minimum threshold coverage values. On the other hand, Maryland and Delaware have \$500,000 thresholds. The threshold value for Montana is \$25,000.

A study of public school construction in Nevada finds that avoiding prevailing wage regulations by increasing the threshold value is not associated with reduced building costs. Prevailing wage requirements played no role in the relative cost of schools built above and below the \$100,000 threshold. Similarly, the wage policy did not influence relative costs when the threshold was increased to \$250,000. This is the only peer-reviewed study to examine this issue.

The only study to examine the economic impact of changes in minimum project value thresholds finds that increases in prevailing wage thresholds are associated with reductions in the value of *all* construction work in a state completed by domiciled contractors. Between 2007 and 2012, Indiana, Ohio, and Oregon increased their coverage thresholds. Information from the U.S. Census Bureau indicates that when Indiana increased the threshold by \$100,000, the share of all construction value completed by in-state contractors fell 2.7 percentage points. When Oregon's threshold increased by \$25,000, market share for in-state contractors decreased by 1.6 percentage points. Ohio had a \$10,405 threshold increase and the in-state contractor share fell 0.5 percentage points.

### *Prevailing Wages and Military Veterans in the Construction Industry*

Research also illustrates several ways military veterans who are employed in the construction industry benefit from prevailing wage laws. Findings indicate that veteran construction workers in states with prevailing wage laws of at least average strength earn approximately 9% more in wage and salary income compared to veteran construction workers in states with relatively weak or no prevailing wage laws. Stronger prevailing wage laws increase the number of veteran construction workers who receive employer-provided health insurance by 14.4 percent compared to veterans employed in construction in those states with weak or no prevailing wage laws. Strong and average prevailing wage laws increase the earnings and health insurance coverage of veterans working in construction. These policies also reduce veteran poverty. Adequate prevailing wage protection is associated with an approximate 25 percent decrease in veteran construction workers who earn incomes below the official poverty level compared to their counterparts in states with no or inadequate prevailing wage laws.

With these labor market outcomes, it is not surprising that veterans are more likely to work in construction in states with strong and average prevailing wage laws. While veterans represent

about 5.8 percent of the overall workforce in the U.S., veterans make up 6.9 percent of the construction workforce. The veteran participation rate in construction is two percentage points higher in states with strong or average prevailing wage laws.

### *Apprenticeship Training and Prevailing Wage Laws*

Construction is distinct from other industries in that the inherent instability of building activity creates strong disincentives for employers and employees to invest in a highly skilled, efficient, and safe workforce. Due to fluctuations in seasons and economic activity, construction is historically the most unstable sector of U.S. economy. The end result of instability in the construction industry is a loose attachment between contractors and their employees. When work is available, contractors take on additional workers, but typically shed employees when a project is completed, the season comes to an end, or the economy slows. As a consequence, there is little incentive for contractors to incur the expenses associated with training. There is no guarantee that the trained worker will be retained and it is likely that at some point a trained employee may work for a competing contractor. From the worker's perspective, there is also little incentive to incur the costs of training due to intermittent spells of unemployment between projects, transitions to work in other industries, and seasonal layoffs.

Prevailing wage laws play an important role in formal training by providing strong incentives for union and nonunion contractors to employ apprentices on covered projects. Under Montana's prevailing wage law, apprentices are paid as indicated by the approved training program. Typically, apprentice wage rates are based on a fraction of the corresponding journey rate. Compensation may start as low as 40% of the journey worker rate and increase with progress through the training program. This wage savings creates a high demand for apprentices on public works projects that drives skill development for the entire construction industry. Consequently, it is not surprising that research shows a strong connection between prevailing wage laws and training in the construction industry. For example, apprenticeship enrollments are from 6% to 8% higher in states with prevailing wage laws compared to states without the wage policy. Apprentices in states with prevailing wage laws complete their on-the-job and classroom training at a faster rate than apprentices in states without the wage policy.

According to the *Economic Census of Construction*, the value of federal, state, and local construction represents 25.2% of the total value of building activity in Montana. Much of this construction spending is covered by federal and state prevailing wage standards. The large percent of building activity covered by prevailing wage regulations in Montana substantially increases the demand for apprentices. As a consequence, apprenticeships in construction are disproportionately high. For example, construction apprentices represented 79 percent of all apprentices in the state in 2019. While apprentice workers represent approximately three percent of employment in Montana's occupations with apprenticeships, this percent is larger in several construction occupations. For instance, apprentices constitute 25.8 percent of plumbers, 20.5 percent of sheet metal workers, and 39 percent of structural steel workers. Of the top ten occupations by active apprenticeship employment for Montana in 2019, at least seven were construction occupations (not including electricians who may work in other sectors such as manufacturing).

### *Prevailing Wage Laws and Injuries in Construction*

Construction workers are exposed to many hazardous tasks and conditions such as work at height, excavations, noise, dust, power tools and equipment, confined spaces, and electricity. As a consequence, construction is one of the most perilous occupations. While construction employment represented only 5.1% of employment in the U.S. in 2019, this industry accounted for 25 percent of job-related deaths in that year.

Prevailing wage laws do not include safety requirements. Rather, the wage policy affects injury rates in construction indirectly through the linkage between prevailing wages, apprenticeship training, and the relation between training and safety. Several studies indicate that construction worker injuries, with various levels of severity are lower in states with prevailing wage laws. In addition to worker economic loss, pain, and even death, injuries on construction sites can bring work to a halt and delay completion times.

### *Prevailing Wage Laws and Payroll Tax Revenue*

Between 1979 and 1995, 10 states repealed their prevailing wage laws. Research tracking changes in construction worker income, benefits, and payroll taxes for over a decade following repeal indicate decreases in these measures relative to similar workers in states that did not repeal their wage standards. Findings indicate that blue-collar construction worker income decreased by as much as 4.2 percent. Legally required benefits, including social security, workers injury-compensation insurance, and unemployment insurance contributions decreased for the group of employees that include blue and white-collar workers in the building industry by up to 10.1 percent. Annual average voluntary benefits paid by employers, that include health insurance, and pension contributions for blue- and white-collar construction employees, decreased by up to 16.0 percent relative to workers in non-repeal states.

The disproportionately larger decrease in legally required benefits (as high as 10.1 percent), compared to the decrease in income (about 4 percent), is consistent with an increase in underground labor practices in states that repealed prevailing wage laws. Misclassifying workers as subcontractors, under-the-table cash payments, and wage theft are growing problems in the construction industry. These types of payroll fraud are associated with decreased collections of state and federal payroll taxes including workers injury-compensation insurance, and unemployment insurance contributions. Researchers estimate that 11.4 percent of Nevada's construction labor force was either misclassified as a contractor or working off-the-books in 2018. These payroll practices cost the state about \$31 million in contributions for Nevada's workers compensation fund and nearly \$12 million to the unemployment insurance program in 2018.

Prevailing wage laws play an important role in discouraging underground labor practices that impact payroll taxes. Similar to other jurisdictions, Montana's prevailing wage law includes the requirement that contractors submit weekly certified payroll records that include each worker's name, job assignment, hours worked, total hourly compensation, and other information. This requirement discourages contractors who engage in underground labor market practices from participating in projects that are covered by the state's wage standard. The additional requirement that at least 50 percent of the employees of each contractor working on the jobs be a bona fide Montana resident further discourages the practice of importing vulnerable and exploited workers from other states.