



Research on common construction wage unclear

By Boris Ladwig

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Some academic research indicates that laws that sets wages for public construction projects lower long-term costs, reduce construction injuries and boost the economy — but the research is far from clear.

Meanwhile, proponents of the repeal of Indiana’s Common Construction Wage law say the wage increases construction costs for taxpayers.

The law requires local committees to set wage rates paid to construction workers on Indiana’s public works projects, such as courthouses, city halls and schools. It applies only to projects that cost more than \$350,000. Indiana Department of Transportation projects, such as highways, streets and bridges, are exempt from the law.

State legislators have voted to repeal the law, and Gov. Mike Pence is expected to sign it.

However, the impact of the wage repeal is uncertain.

The Indiana Department of Labor does not track how many projects are affected by the common construction wage law. It serves merely as an advisor to Indiana communities who are required to form committees for each public construction project that costs more than \$350,000.

The Legislative Services Agency, which helps legislators and residents understand the impact of proposed legislation, said “data and methodological limitations have caused many studies on prevailing wage requirements to be inconclusive.”

The LSA said that while repealing the wage law could reduce labor costs in the short term — though by how much is unknown — schools, cities and other public institutions may end up paying more in the long term.

“Some studies suggest that these types of prevailing wage systems lead to greater efficiency, quality, and safety by providing for a stable, well-trained labor force,” LSA said. “If such benefits were not realized due to the repeal of prevailing wage requirements, public institutions may experience an increase in costs relating to these factors in the long run.”

In addition, LSA said, “some studies suggest that prevailing wage systems, by increasing the wage to affected workers, increases the overall tax base due to higher incomes and consumption.”

Opponents and proponents of the wage repeal point to studies and analyses to bolster their argument.

Research

Peter Philips, a professor of economics at the University of Utah issued a report in January in which he found that “There is little evidence to support the assertion that repealing common construction wage regulations, in fact, saves any money at all.”

“The classic case is a comparison of school construction costs in Kentucky and Ohio,” Philips wrote. “In 1996 Kentucky applied its common (a.k.a. prevailing) wage law to public school construction. In 1997, Ohio exempted its public schools from common wage requirements. Despite these changes in policy, the median square foot cost of new school construction in these adjoining states tracked together both before, during and after these changes.”

And, Philips said, the state must keep in mind considerations other than construction costs, as the repeal of such a law would result in lower incomes, loss of skill and fewer middle class careers.

Other studies offered by opponents of the wage repeal:

- A 2011 study by the University of Missouri showed that the repeal of the prevailing wage statute would cost Missouri families about \$400 million in lost income, would lower the state’s sales tax collections by about 7.5 million and the state’s income tax revenues by at least \$18 million. The study was funded by the Council for Promoting American Business, a union construction group.
- A 2005 study from Indiana University found that although Ohio, for school construction, had repealed its prevailing wage, “school construction in Ohio is more expensive than in Indiana.” The IU professor provided the analysis for the Institute for the Study of Labor in Society, which, according to its website, is “a private independent economic research institute focused on the analysis of global labor markets.”
- The Fiscal Policy Institute in 2006 wrote, “While opponents of prevailing wage argue that it drives up construction costs, such a view ignores the full range of implications for construction companies, worker training, safety, and the broader impact on economic development. Arguments against prevailing wage often are rooted in a simplistic view that equates higher wage rates with higher overall construction costs and stops there.” The FPI also wrote that a

“prevailing wage does not raise overall costs since higher construction wages are usually offset by greater productivity, better technologies, and other employer savings” and that a prevailing wage reduces construction injuries. According to its website, the FPI is an “independent, nonpartisan, nonprofit research and education organization.”

Kevin Brinegar, president and chief executive officer of the Indiana Chamber of Commerce, which supports the repeal of the Common Construction Wage, pointed to the following documents to support the chamber’s position:

- The Ohio Legislative Service Commission (the equivalent of the above-mentioned Indiana LSA), found in 2002 that school construction costs fell 10.7 percent after the state exempted schools from its prevailing wage law — but the agency also said that “Evidence was not available as to the portion of the estimated savings, if any, that could be directly and conclusively attributed to the prevailing wage exemption.” The LCS also said that exempting schools from the law had little impact on wages of construction employees and quality (as measured by school official’s satisfaction with the construction.)
- East Lansing, Mich.-based Anderson Economic Group found in a 2013 analysis that without a prevailing wage law, the state of Michigan could have saved \$225 million annually in education construction expenditures. However, AEG said that its analysis did “not consider changes in worker productivity, material costs or labor share” and did “not attempt to project the behavioral responses of the consumer, such as choosing to build larger or higher-quality buildings when faced with lower overall costs.” The AEG analysis was done for the Associated Builders and Contractors of Michigan. ABC is a national trade organization that opposes prevailing wage laws.
- George C. Leef, of the Cato Institute, wrote in the Cato Journal in 2010 that prevailing wage laws suppress competition and provide “a substantial benefit to a small segment of the population, chiefly construction unions and workers, at the expense of the rest of society, which must pay more than would otherwise be necessary for projects subject to prevailing wage mandates.” The Cato Institute is a libertarian think tank funded by the Koch brothers, Charles G. and David H. Koch.