

Prevailing wage has nothing to do with an honest day's work or pay

By Craig Ladwig

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“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary.” — Adam Smith, 1776

A few years ago it was decided that only those construction projects valued at more than \$350,000 would be covered by the state’s prevailing-wage law. All right, but why \$350,000? Why not \$350? Or zero?

Because the law is arbitrary, capricious and immoral, but let’s not get ahead of ourselves. First we need to know the history of this particular usurpation. There is, of course, the infamous 1931 speech on the floor of the House of Representatives by Rep. William Upshaw:

“You will not think that a southern man is more than human if he smiles over the fact of your reaction to that real problem you are confronted with in any community with a superabundance or large aggregation of negro labor.”

You get the idea: A “prevailing” wage doesn’t have anything to do with an honest day’s work for an honest day’s pay. What the law did then for federal contracts and what it does today for Indiana contracts is this: politically manipulate the market for labor, whatever its color. It does so in a way that ensures that some people (unionists) have an advantage over the hapless rest.

That is theft, however widely unrecognized and carefully masked. Once institutionalized in a government budget, it becomes a double theft — first from an employer and then from a taxpayer. Moreover, economists can show that there are hidden social costs in market distortions.

In Michigan, for instance, where the law was temporarily ruled invalid for 30 months, the Mackinac Center for Public Policy found that 11,000 new jobs were created during that period. Other findings include:

- The (prevailing-wage) law added at least \$275 million annually to the cost of Michigan's capital outlays, about 5 percent of the revenues raised by that state's individual income tax.
- African-Americans were less than 50 percent as well represented in the construction industry as whites, which the study's author argued was both theoretical and empirical evidence that the prevailing wage still promotes racial discrimination.
- States without prevailing-wage laws (there are 19) had net in-migration of more than 2.5 million people from 1990 to 1996.
- In states with strong prevailing-wage laws, out-migration totaled 2.7 million, and poverty rates were higher.

Similar studies in Indiana might or might not give similar results, but government waste and inefficiency are not the point. Again, it is that the prevailing wage constitutes a moral wrong. That would be true even if it were to save taxpayers money, preserve "good" jobs or improve the quality of construction (and it doesn't do any of these things).

George Leef, writing for the Cato Institute, put this moral wrong in an economic context: "The prevailing wage is merely rent-seeking by a politically potent interest group using its influence to use the law to enforce a price-fixing scheme."

Look, this shouldn't be a difficult public-policy question, especially at a time when jobs are scarce. It has always been a bad idea for any government to assist any group of sellers. Let's do what we can in Indiana to dampen this eternal human desire to fix prices and stifle competition.