



WED APR 04, 2012 AT 09:13 AM PDT

Prevailing Wage Opponents Fail to Look at the Research

By [ThirdandStateFollow](#)

In the first two posts of this series, I explained why the numbers being tossed around by advocates of repealing prevailing wage don't add up. I explained that the claims of cost-savings are not based on any actual experience and that they represent the result of laughable hypothetical, or "what if," calculations.

This leads to the most important point that the Pennsylvania School Boards Association, the Pennsylvania State Association of Boroughs, the *Harrisburg Patriot-News* Editorial Board and others keep missing: we can do much better than a hypothetical when assessing the impact of prevailing wage laws.

There is a body of research that examines construction costs (and other construction outcomes, like safety, training investment, wages, benefits, etc.) in states with and without prevailing wage laws as well as in states that eliminated prevailing wage laws. We don't have to conjecture what "might" happen: we can look at what did happen. The preponderance of the evidence shows that prevailing wage laws do not raise construction costs.

Back in the late 1990s, Pennsylvania actually ran this real-world experiment itself — we lowered our prevailing wage levels, particularly in rural areas. That means we can look at what happened to construction costs. What happened is the same thing that has happened in other places — lower prevailing wages did not translate into lower construction costs.

Specifically, the Keystone Research Center's **1999 study** of this late 1990s Pennsylvania policy experiment examined changes in public school construction bids when Pennsylvania's prevailing wages were lowered substantially in rural areas. Keystone found no association between the number of occupations in which the prevailing wage was lowered and the price per square foot of school construction bids. If anything, construction bids appeared to go up more in areas where prevailing wages were lowered more.

Advocates of repeal often point to sympathetic construction managers in the public sector who testify, based on their expertise, that prevailing wage laws raise costs. Not only did the Keystone study find no statistical evidence of a cost difference during the period wages were lowered, but the study highlighted two revealing

instances of construction managers making wild predictions that just didn't come true:

The recent experience of two Pennsylvania school districts show that even increases in legally mandated prevailing wage and benefits rates do not necessarily increase public construction costs. In March 1999, after two months of legal uncertainty about required prevailing wage levels, [the Pennsylvania Department of Labor and Industry] began issuing prevailing wage rates that were higher than the 1999 rates. The Blue Mountain School District, in Schuylkill County, was planning to renovate its high school. In April 1999, the school district's construction manager estimated that construction costs would increase by about \$670,000 as a result of the higher prevailing wage and benefit rates. But when bids for the project were opened on May 6, the low bids, which were expected to be about \$15.1 million, came in at only about \$13.8 million, almost 9 percent below the anticipated level. And in April, bids for a middle school construction project in Tamaqua, which used the same prevailing wage and benefit rates as the Blue Mountain bids, also came in under budget estimates.

Of course, anecdotes pro or con pale in comparison to careful statistical examination of large-scale data sets on actual construction costs. A **study published** in the *Journal of Education Finance* in spring 2002 explored the dependence of school construction costs across the United States from mid-1991 to mid-1999 on factors such as the state of the economy (measured by the level of unemployment), the size of the school, the season, and the existence of a prevailing wage law. The analysis found that public school construction costs:

- rose 22% when the unemployment rate declined by half;
- fell 2.5% for bids accepted in the spring compared to bids accepted in the fall;
- fell by 4.7% with a doubling of the school size, indicative of modest "economies of scale"; and
- **did not go up or down a statistically significant amount based on the presence of a prevailing wage law.**

Another **article** from the *Journal of Education Finance* explored the impact of the establishment of prevailing wages in British Columbia at about 90% of the collectively bargained wage. This analysis, looking at a wide range of variables that potentially impact school construction costs, found that there was no statistically significant change in construction costs following establishment of a prevailing wage. In Michigan in the 1990s, school construction costs **did not differ** significantly during a period when the prevailing wage law was suspended temporarily compared to the period before and after.

The reason researchers don't observe differences in cost associated with prevailing wage laws is that higher wages in construction tend to reflect higher productivity. Family-sustaining wages, health coverage and good pensions attract and retain workers, leading to an accumulation of what economists call "human capital" — know-how that allows a skilled trades worker with years of experience to problem solve and do the job more quickly and right the first time. This know-how also translates into lower costs due to less need for supervisors and the higher retention of experienced workers which lowers recruitment and screening costs. Higher wages

also promote the use of labor-saving technology and management practices that keep per-square-foot costs low.**[1]**

While research finds that state prevailing wage laws do not significantly raise construction costs, these laws do lead to more investment in workforce training, lower injury rates, and higher wages and benefits ([click here](#) for a review). Thus, prevailing wage laws tend, over time, to lead to a more skilled and experienced workforce that is less likely to leave the industry, compensating for higher per-hour wage and benefit costs.

For a comprehensive review of the research literature on state prevailing wage laws, I highly recommend **this work** by Nooshin Mahalia. Unlike the Cato Institute journal, which the *Patriot-News* Editorial Board told us it relied on in supporting weakening the state prevailing wage law, Mahalia's piece represents a full and careful review of all the literature. The Cato journal article, by contrast, ignores articles in peer-reviewed academic economic journals and relies on ... wait for it ... hypothetical calculations that support the ideological predisposition of the Cato Institute against regulation.

OK, we get it, that's the Cato Institute's excuse. What's the excuse of the Pennsylvania School Boards Association or, for that matter, the *Patriot-News* Editorial Board, for ignoring the most credible research and evidence?

Footnote

[1] Steven G. Allen, "Unionized Construction Workers are More Productive," *Quarterly Journal of Economics*, 99(2) (May 1984):251-274; Kevin Duncan and Mark J. Prus, "Prevailing Wage Laws and Construction Costs: Evidence from British Columbia's Skills Development and Fair Wage Policy, in Hamid Azari-Rad, Peter Philips, and Mark J. Prus (eds), *The Economics of Prevailing Wage Laws* (London: Ashgate Publishing Limited, 2005); Dale Belman and Paula B. Voos, "Prevailing Wage Laws in Construction: The Costs of Repeal to Wisconsin" (Milwaukee: The Institute for Wisconsin's Future, 1995.)