The Economic Effects of Prevailing Wages

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When federal government funds public construction projects:

- Only concern should be quality construction at lowest cost: 24%
- Should also ensure projects provide good jobs at reasonable wages: 72%
- Priority should be lowest possible costs for taxpayers: 32%
- Priority should be jobs with good wages/supporting local economy: 63%

Margin of Error: +/- 3.4%
Goals For Public Construction Projects

Which one or two should be the priorities for Congress concerning public construction projects?

- Ensure high quality/durable construction: 50%
- Keep costs down for taxpayers: 29%
- Contribute to local economy: 26%
- Reasonable wages for workers: 25%
- Health/retirement benefits for workers: 19%

Margin of Error: +/- 3.4%
Takeaways

1. Prevailing wage promotes middle class jobs with good wages
2. Prevailing wage supports high-quality infrastructure that is safe and durable
3. Prevailing wage promotes a skilled workforce that completes jobs right, on-time, the first time
4. Prevailing wage strengthens state and local economies
5. Prevailing wage is the best deal for taxpayers
Prevailing Wage Preserves and Promotes Middle Class Jobs
Figure 1: State Prevailing Wage Status
Prevailing Wage Laws Bolster the Middle Class

Median Annual Wage Income by PWL Strength
Private Sector Employed Men, 2008-2012

<table>
<thead>
<tr>
<th>PWL Level</th>
<th>Construction</th>
<th>Non-Construction</th>
<th>2012 $ Thousands, at Regional Price Parities</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVG-STRONG</td>
<td>$35</td>
<td>$37</td>
<td>(6%)</td>
</tr>
<tr>
<td>NON-CONST</td>
<td>$29</td>
<td>---</td>
<td>(22%)</td>
</tr>
<tr>
<td>NONE-WEAK</td>
<td>---</td>
<td>$37</td>
<td>---</td>
</tr>
</tbody>
</table>

Prevailing Wage Supports the Largest Privately-Financed System of Higher Education in America
Apprenticeship Training vs. Typical Bachelors Degree

Hours Required by Heavy and Civil Engineering Construction Apprenticeship Programs, Compared to Bachelor's Degree

- Operators (4 yrs): On-the-Job Training (432 hours), Classroom Training (6,000 hours)
- Heavy Equipment Technicians (5 yrs): On-the-Job Training (864 hours), Classroom Training (8,000 hours)
- Construction Inspectors (5 yrs): On-the-Job Training (794 hours), Classroom Training (6,000 hours)
- Geothermal & Well Drilling Operators (4 yrs): On-the-Job Training (472 hours), Classroom Training (6,000 hours)
- Bachelors Degree (120 Credits, 4 yrs): Classroom Training (5,760 hours)

Source: International Union of Operating Engineers Local 150 Assistant Coordinator-Safety Administrator. Local 150 covers counties in Illinois, Indiana, and Iowa.
PW Helps Build Careers, Not Just Jobs

• States with PW: double the Apprentices
  ▪ Apprentices earn $124,000 more over career.
  ▪ Worker training fell by 40% in the nine states that repealed their PW laws from 1979 to 1988.

Table 7: Comparison of Apprenticeship Shares by Presence of State PWL, 1991-2011

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Weighted Mean</th>
<th>Minimum</th>
<th>Median</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>State With PWL</td>
<td>16.8%</td>
<td>14.4%</td>
<td>1.9%</td>
<td>14.4%</td>
<td>16.4%</td>
</tr>
<tr>
<td>State Without PWL</td>
<td>8.9%</td>
<td>7.7%</td>
<td>7.2%</td>
<td>8.4%</td>
<td>35.7%</td>
</tr>
</tbody>
</table>

Source: “Registered Apprenticeship Partners Information Management Data System,” U.S. Department of Labor, Office of Apprenticeship Training data for the years 1999 to 2011.

Prevailing Wage Supports High-Quality Infrastructure That is Safe and Durable
Net Effects: Increase in Productivity

Percent Higher in Prevailing Wage Law States

Worker productivity on public and private projects: 14%

Worker productivity on public projects: 30%

Apprentices: 50%

Injuries: -12%

Debunks the Cost Myth

● “Core Fact”: Costs =
  ▪ Business Cycle +
  ▪ Regional/Local Market Conditions +
  ▪ Product Type & Scale

● Little/No statistically significant PWL effect
Better Infrastructure = Better Economy

Project Bid =
Labor Costs + Quality +
Productivity + Materials +
Technology + Management Practices + Profit
Governor Rauner Claim

- Rauner: PWLs increase school construction costs by $160 million/year
- Fact-Check: **FALSE**
  - Governor cites study completely discredited by construction economist at the University of Utah
  - Governor assumes no impact of PWL on productivity and does not factor in school size, type, location, materials used, etc.
  - Real life example: Ohio exempted school construction from its PWL in 1997... No decrease in construction costs without PWL regulations, and today schools are no longer exempt.
Prevailing Wage Strengthens State and Local Economies
High-Road Economic Development

• Higher quality means higher wages

BUT:

• This increase in wages is the result of an increase in productivity:
  - In PWL states, productivity is 8.5% to 33% higher on public projects.
High-Road Economic Development

• Consumer spending ↑ = Job creation ↑

• Infrastructure quality ↑ = Job creation ↑

- 93.5% of CEOs say highway accessibility is an “important” or “very important” location factor (28th Annual Survey of Corporate Executives, 2013).

- Every dollar spent on a PW project generates at least $1.50 in economic activity in the community (Zandi, 2010).
PW Repeal Economic Effects

Value of Construction Work by In-State Contractors, 2007

- Indiana (PWL): 90.5%
- Illinois (PWL): 93.2%
- Iowa (No PWL): 88.1%
- States with a Strong PWL: 91.0%
- States without a PWL: 89.2%

Source: 2007 Economic Census – Construction Sectors
## Table 2: Direct, Indirect, and Induced Effects on Employment, Earnings, Total Value Added, and GDP for Illinois if PWL is Repealed, Middle-of-the-Road Estimates, 2013

<table>
<thead>
<tr>
<th>Impact Type</th>
<th>Change in Jobs</th>
<th>Change in Worker Earnings</th>
<th>Total Value Added*</th>
<th>Effect on Illinois’ GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Effect</td>
<td>332</td>
<td>-$364.9 million</td>
<td>-$393.0 million</td>
<td>-$541.4 million</td>
</tr>
<tr>
<td>Indirect Effect</td>
<td>-1,070</td>
<td>-$61.2 million</td>
<td>-$94.5 million</td>
<td>-$174.4 million</td>
</tr>
<tr>
<td>Induced Effect</td>
<td>-2,539</td>
<td>-$120.0 million</td>
<td>-$213.3 million</td>
<td>-$357.1 million</td>
</tr>
<tr>
<td>Total Effect</td>
<td>-3,277</td>
<td>-$546.0 million</td>
<td>-$700.8 million</td>
<td>-$1,072.9 million</td>
</tr>
</tbody>
</table>

Source: Result of authors’ insertion of middle-of-the-road employment and earnings estimates (Table 1) into IMPLAN’s industry change feature, which estimates industry spending patterns through Type SAM multipliers. The Labor Education Program utilizes IMPLAN (Impacts for PLANning) Version 3.0.17.2, Minnesota IMPLAN Group, Inc., © 2011.
Illinois

• Lost state and local tax revenues annually: 
  -$44.35 million

• Lost federal tax revenues annually: 
  -$115.79 million

• Increase in work-related fatalities: 
  +70 deaths over ten years
Midwestern States

Cost of Repeal: Impacts on Earnings and Tax Revenues

- Missouri: -$222
- Illinois: -$365
- Kentucky: -$252
- Indiana: -$246

- Construction Worker Earnings (Millions)
- State and Local Tax Revenues (Millions)
Prevailing Wage is the Best Deal for Taxpayers
Taxpayers do not save by repealing prevailing wage laws, they *subsidize*. 
PW is the Best Deal for Taxpayers

PW raises and compresses wages
(Small increases in worker wages, no impact on contractor CEOs & highest-paid)

- More disposable income
- More local spending
- More sales and income tax revenues

- Less income inequality
- Less workers in poverty
- Less reliance on government assistance programs

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Prevailing Wage is the Right Choice

We have a choice:

- Good Jobs vs Bad Jobs
  - Out of unstable industry, PWL = foundation for security, careers versus ...
  - lower human capital, lower wages

- Stronger economies vs weakened states & cities

- High volatility vs stable supply of skilled labor
Remember, Remember...

1. Prevailing wage preserves and promotes middle class jobs

2. Prevailing wage supports the largest privately-financed system of higher education in America

3. Prevailing wage supports high-quality infrastructure that is safe and durable

4. Prevailing wage strengthens state and local communities

5. Prevailing wage is the best deal for taxpayers
Resources


Comprehensive lists of economic studies on prevailing wage laws:

- http://www.faircontracting.org/studiesandreports
- http://www.smartcitiesprevail.org/resources/research-and-case-studies/
Economic Research


Sources


