ECONOMIC POLICY BRIEF

THE IMPACTS OF NEW MEXICO HOUSE BILLS 110 & 200 (2016)

Prevailing Wage Repeal Will Cost New Mexico's Workers, Businesses, Taxpayers, & Economy Millions

Prevailing wage policies specify wage and benefit standards for construction projects paid for with public funds. The primary purpose of prevailing wage laws is to protect local wage rates from distortions caused by large government projects that may attract contractors from areas where wages are lower. The resulting bid competition between local and these out-of-area contractors may lead to the deterioration of local compensation standards. By establishing a local wage floor for all contractors, prevailing wage laws protect work for local contractors and their employees. With a prevailing wage law more of New Mexico's tax funds are used to employ local contractors and their employees. The spending of these parties ripples through the economy affecting businesses that are unrelated to the construction industry.

In recent years, prevailing wage policies have been the subject of vigorous debate in city councils, state legislatures, and the United States Congress. Often missing from the discussion is the broader effect of prevailing wage on the overall economy. In light of House Bills 110 & 200 to curtail and eliminate New Mexico's prevailing wage, the authors have analyzed the potential economic impacts using data and methods described in their earlier analyses of prevailing wage policies.[1]

House Bills 110 & 200 will increase costs for New Mexico's taxpayers through reduced economic activity, increased poverty, and expenditures on public assistance. An overwhelming body of peer reviewed research consistently shows prevailing wages to have no cost impact on public construction.[2] Virtually all sectors of New Mexico's economy will suffer due to the leakage of construction dollars to other states, along with declines in workers' wages and disposable incomes. Furthermore, by reducing incomes and benefits HB 110 & 200 will cause blue collar construction worker households to increase their reliance on public assistance.

Weakening or eliminating New Mexico's prevailing wage will have broad negative impacts across New Mexico's economy. These impacts include:

- **A net loss of 2,340 jobs** – not just in construction but across all industries, concentrated in health care, retail, and hospitality. These jobs would be lost on a permanent basis as construction activity once done by locals is increasingly performed by out of state contractors.
- **A $288 million loss in economic activity** across all industries.
- **$7.7 million in lost state and local tax revenues**.
- **More than $160 million** of business lost to out-of-state contractors. A national comparison of states with and without effective prevailing wage laws shows nearly 2.5% more of a state's construction activity is performed by in-state firms under prevailing wages.
- Nearly **$170 million in additional materials expenditures** due to reduced productivity in the construction industry.

Weakening the prevailing wage law will substantially worsen outcomes for workers

- **Upwards of $200 million in construction compensation redistributed from workers** to materials and owners. New Mexico's prevailing wage raises construction incomes compared to neighboring states, with larger increases for lower-wage construction workers.
- An estimated **5,400 New Mexico construction workers and dependents would lose employer based health benefits**.
- An estimated **3,800 construction industry households would lose pension benefits**.
- Roughly **2,230 more construction workers would qualify for food assistance** through Supplemental Assistance for Needy Families or SNAP.
- **2,500 would qualify for the Earned Income Tax Credit** (EITC).

ABOUT THE AUTHORS

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Smart Cities Prevail is a leading construction industry research and educational organization, specializing in studying the costs and benefits of prevailing wage policies. Learn more at www.smartcitiesprevail.org.

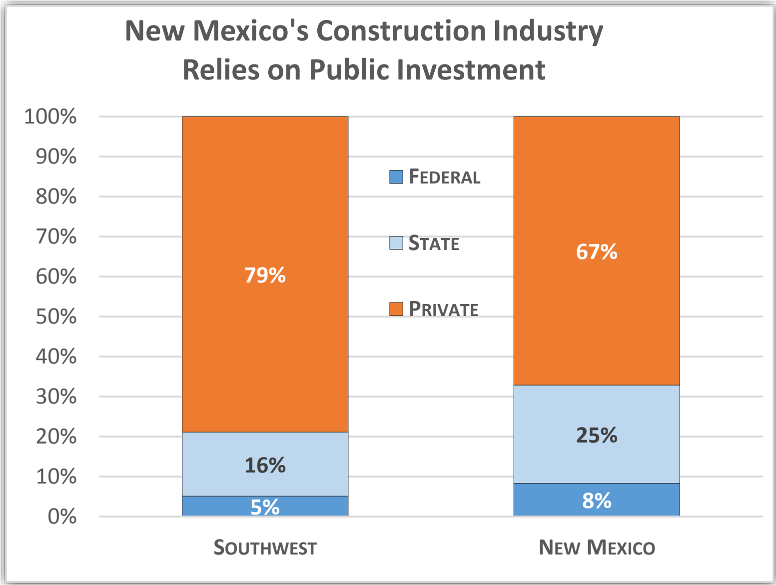
The Illinois Economic Policy Institute is a non-partisan research and education nonprofit focused on issues affecting infrastructure investment and the construction Industry. Learn more at http://illinoisepi.org

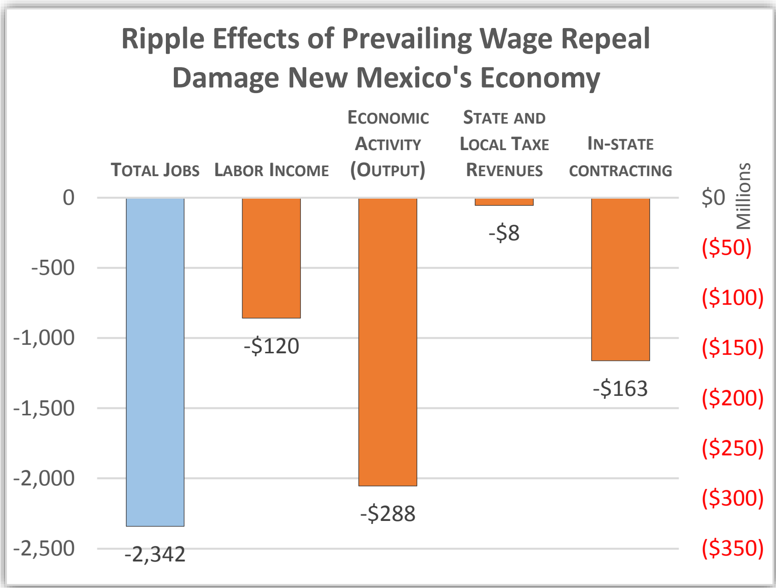
House Bills 110 & 200 Hurt New Mexico's Contractors and Local Economies

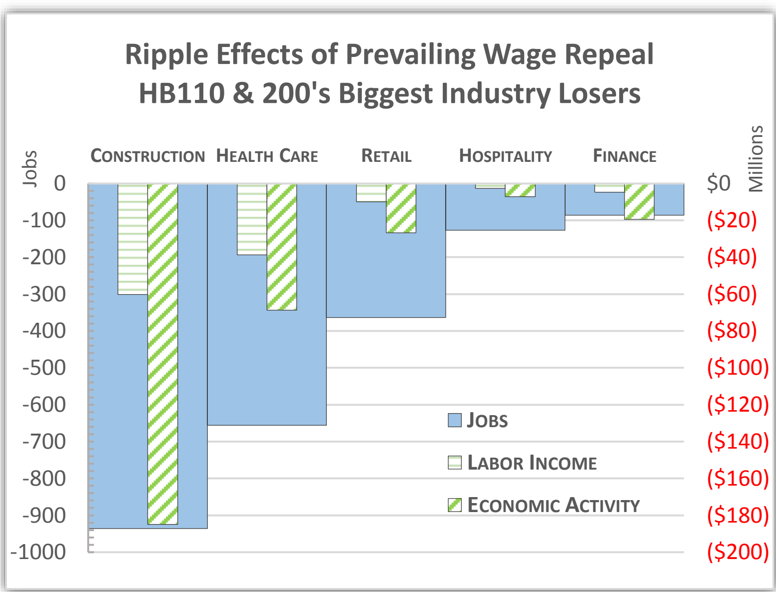
- **Prevailing Wage Laws Promote Local Hiring and Strong Economies**: Prevailing wage laws (PWLs) protect local construction wage standards from distortions associated with publicly funded construction. By protecting local wages, prevailing wage laws also protect work for local contractors and employees. In states with average/strong prevailing wage policies, locally based contractors perform a higher share of the work than in states with weak/no PWL policies. The effects ripple throughout each state's economy, affecting overall output and job growth across all economic sectors. Without prevailing wages the competitive bidding process and New Mexico's large proportion of Federal and State construction spending will exert a strong downward pull on the entire construction industry and overall economy.

- **Economic activity is impacted as construction industry employees have less income to spend in their communities**. This process is often referred to as a "ripple effect." Because of the ripple effect, the total impact of construction worker spending on the New Mexico economy will be larger than the initial spending by these workers. Since prevailing wages are also associated with higher shares of construction spending with in-state firms, public works expenditures are more likely to be reinvested into a local workforce. Prevailing wage laws help shift construction business revenues back into the economy. Reversing this shift produces a measurable decline in spending in New Mexico — resulting in less economic activity and job creation.

- **HB 110 & 200 Harm Every Sector of the Economy**: Eliminating New Mexico's prevailing wage law will redistribute more than $200 million away from construction workers' compensation towards materials and owners. The ripple effect of this shift leads to $288 million in secondary losses throughout the rest of the economy. Construction is further harmed as business leaks to other states, and those losses are accompanied by declines in health care, retail, hospitality, and finance.





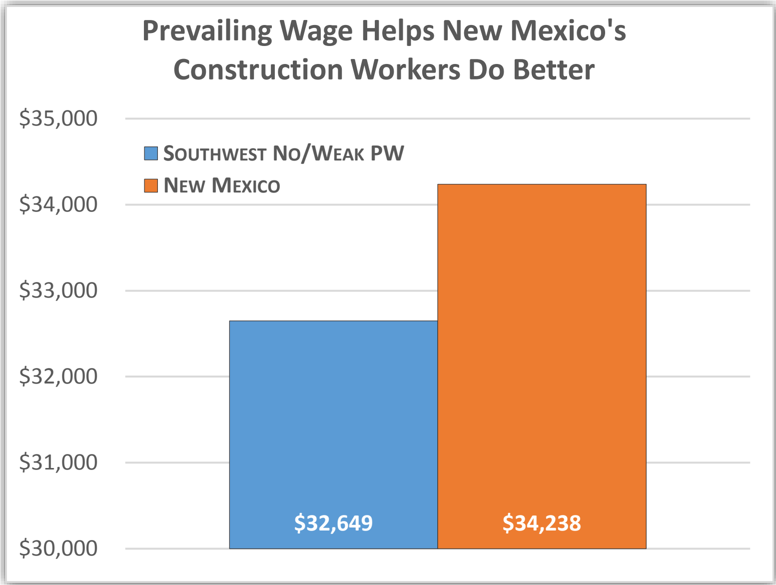


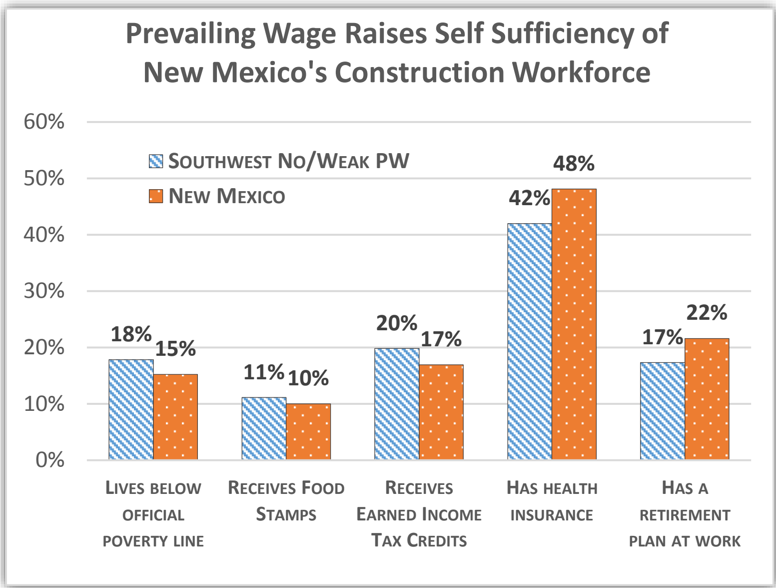
House Bills 110 & 200 Harm New Mexico's Working Families

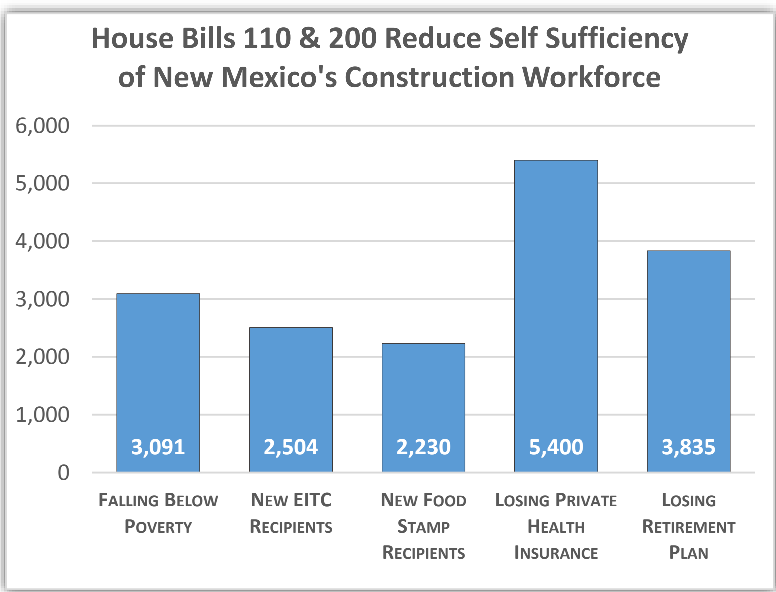
- **Prevailing wage laws encourage middle-class wages** that support working families and increased participation in health insurance and retirement plans. As prevailing wage policies are weakened, states see declines in apprenticeship training and workplace safety.[3]
- **HB 110 & 200 would harm the construction industry's blue-collar workforce:** Repeal of prevailing wage laws is associated with industrywide income declines for all blue collar construction workers, not just those performing public works.

House Bills 110 & 200 Raise Public Costs While Reducing Tax Collections

- **New Mexico's prevailing wage increases worker self-sufficiency**: New Mexico's blue collar construction workers are more likely to have health insurance and a retirement plan than their neighbors in the surrounding states without prevailing wages. Adequate prevailing wage laws decrease the probability that a construction worker will earn a poverty-level income.
- **HB 110 & 200 will increase reliance on public assistance**: Lower wages lead to more reliance on the safety net. HB 110 & 200 will drive thousands of New Mexico families into public income support and services. More than 3,000 workers will fall below poverty. Over 2,500 will receive the Earned Income Tax Credit. Food stamp use will rise by more than 2,200 persons. Medicaid rolls will increase as 5,400 workers lose privately funded health insurance. Reduced retirement savings will reduce economic well-being beyond just the working years.
- **HB 110 & 200 will reduce income and sales tax contributions**: Lower wages will lead to a $7.7 million state and local revenue loss as income tax collections shrink while reduced household spending and investment further drive down sales in communities throughout New Mexico.





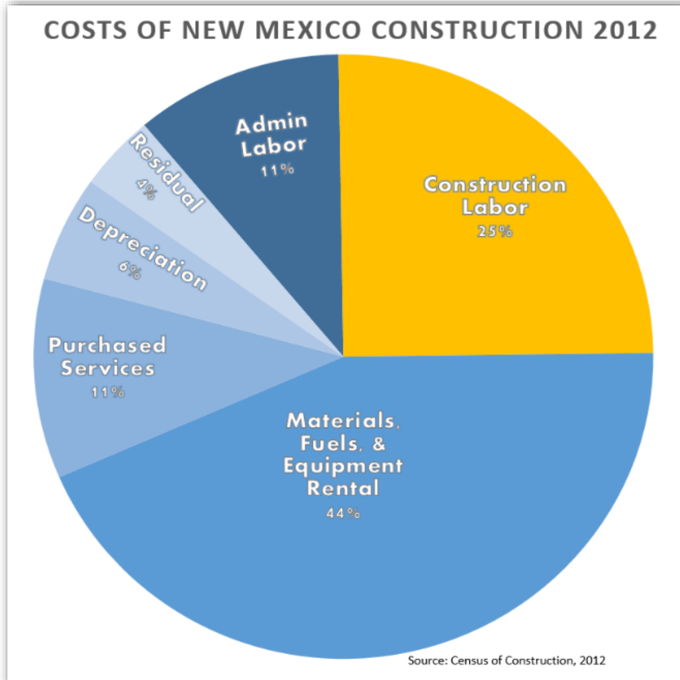


What are prevailing wages?

Prevailing wage laws (PWL) establish minimum standards for construction funded with public dollars and have been part of the construction industry nationally since the early 1930s and in New Mexico since 1937. By establishing the legal framework for the construction industry, the policy provides the skills needed to build quality infrastructure for a growing, technologically-sophisticated, and competitive economy. In fostering a strong middle class, the policy promotes fiscally-responsible public sector budgets.

Prevailing wages have consistently been shown to have no impact on construction costs

- **Construction labor is just one factor in the cost of construction:** Blue collar wages and earned benefits comprise just 25% of total construction costs. Research indicates that when construction wages increase, contractors respond by utilizing more capital equipment, substituting skilled workers for less-productive counterparts, and by reducing material and fuel costs that offset any higher labor cost.[4]



- **The vast majority of peer-reviewed research finds prevailing wages have no impact on public construction costs**: 75% of recent peer-reviewed studies find that prevailing wages do not affect construction costs. Weakening or repealing prevailing wages does, however, increase poverty, shrink economic activity and local hiring, and reduce work-site productivity.

- **Promised "Cost Savings" from lower wages don't materialize:** A comparison of states indicates that when wages and benefits are lower, material and fuel costs are higher. Peer reviewed research indicates that when construction wages decrease, it takes more lower-skilled workers to replace more productive counterparts. These changes in labor productivity and other costs offset any savings associated with reduced labor costs that typically represent only about 25% of total construction costs.

- **The studies below indicate that when prevailing wages are reduced, savings do not materialize:**
  - Colorado State University Professor Kevin Duncan, one of this document's authors, examined the cost effect of a deep reduction in prevailing wages covering highway maintenance construction in Colorado. Despite an average 18% decrease in total hourly compensation for the overwhelming majority of the classifications paid for highway resurfacing, there was no corresponding decrease in the cost of federally funded resurfacing work relative to comparable state-funded projects that were not covered by the wage policy.[5]
  - Utah State University Professor Peter Philips analyzed a period in the 1990s when Kentucky, Michigan, and Ohio curtailed prevailing wages for school projects and found no statistically significant difference in school construction costs associated with a change in prevailing wage policies. Dr. Philips also reported that repeal of prevailing wages is associated with a substantial decrease in the kind of apprenticeships that are associated with the future productivity growth that is the basis of rising living standards and economic development.[6]
  - Rutgers University Professor Howard Wial examined the effect of a change in Pennsylvania's prevailing wage survey and wage determination in the 1990s. Dr. Wial's examination of these changes on school construction costs indicates that, while lower wage and benefit rates were intended to save taxpayers money, there was no measureable cost impact.[7]

Taken together, the studies examining the effect of decreases in, or the elimination of prevailing wages, reveal that these changes are not associated with reduced construction costs.

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[1] "How Weakening Wisconsin's Prevailing Wage Policy Would Affect Public Construction Costs and Economic Activity," by Kevin Duncan and Alex Lantsberg, May 22, 2015. http://www.faircontracting.org/wp-content/uploads/2015/05/How-Weakening-Wisconsin%E2%80%99s-Prevailing-Wage-Policy-Would-Affect-Public-Construction-Costs-and-Economic-Activity2.pdf

[2] For a review of this research see Kevin Duncan and Jeff Waddoups. 2014. "Does the Release of Davis-Bacon Certified Payrolls Cause Competitive Harm to Contractors?" https://www.denvergov.org/content/dam/denvergov/Portals/741/documents/PW_General/Torres%20Report%20on%20Certified%20Payrolls-%20Duncan%20and%20Waddoups%20December%202014%20Final.pdf.

[3] See Dickson-Queada, Allison, Manzo, Frank, Belman, Dale, and Bruno, Robert. 2-13. "A Weakened State: The Economic and Social Impacts of Repeal of the Prevailing Law in Illinois." Labor Education Program, School of Labor and Employment Relations, University of Illinois at Urbana-Champaign. https://ler.illinois.edu/wp-content/uploads/2015/01/PWL_policy-brief_spreads041.pdf.

[4] See William Blankenau and Steven Cassou. 2008. "Industry Differences in the Elasticity of Substitution and Rate of Biased Technological Change Between Skilled and Unskilled Labor." Applied Economics, 2011, Vol. 43, pp. 3129-3142, Edward Balistreri, Christine McDaniel and Eina Vivian Wong. 2003. "An Estimation of U.S. Industry Level Capital-Labor Substitution Elasticities: Support for Cobb-Douglas." The North American Journal of Economics and Finance, 2003, Vol. 14, No. 3, 343-356 and "How Weakening Wisconsin's Prevailing Wage Policy Would Affect Public Construction Costs and Economic Activity," by Kevin Duncan and Alex Lantsberg, May 22, 2015. http://www.faircontracting.org/wp-content/uploads/2015/05/How-Weakening-Wisconsin%E2%80%99s-Prevailing-Wage-Policy-Would-Affect-Public-Construction-Costs-and-Economic-Activity2.pdf.

[5] Kevin Duncan. 2016. "Do Construction Costs Decrease When Davis-Bacon Prevailing Wages Change from Union to Average Rates?" Working Paper, Colorado State University-Pueblo.

[6] All of these findings are reported in Peter Philips. 2014. "Kentucky's Prevailing Wage Law," January. http://www.faircontracting.org/wp-content/uploads/2014/02/Kentucky-Report-2014-Philips.pdf.

[7] Howard Wial. 1999. "Do Lower Prevailing Wages Reduce Public Construction Costs," Keystone Research Center, July. http://keystoneresearch.org/sites/default/files/krc_prevailwage_costs.pdf.