

**PREVAILING WAGE REPEAL CANNOT
RESULT IN “44 PERCENT SAVINGS”**
Evidence from Southwestern Wisconsin



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PREVAILING WAGE REPEAL CANNOT RESULT IN “44 PERCENT SAVINGS”: EVIDENCE FROM SOUTHWESTERN WISCONSIN

Economic Commentary #51

Key Findings

- Anyone claiming that prevailing wage repeal would result in significant construction cost savings (20 percent or more) either does not understand the construction industry, is bad at math, or expects people to work for free.
- Fully 75 percent of recent peer-reviewed economic studies find that construction costs are not affected by prevailing wages.
- A 2015 study by the Wisconsin Taxpayer Alliance claiming that prevailing wage inflates costs by 44 percent is an apples-to-oranges hypothetical that compares ascertained prevailing wage rates with *Occupational Employment Statistics* (OES) data from the Bureau of Labor Statistics (BLS).
- The OES survey has numerous limitations and flaws: it excludes benefits and training contributions, it does not account for skill level or overtime, it over-represents residential construction, it uses information that is up to three years old, and it attributes construction work to the contractor business addresses rather than the physical location of the project.
- A case study of Wisconsin counties near the border of Iowa, a state without prevailing wage, finds that road construction workers earn 8.1 percent more on average than their Iowa counterparts using actual economic data.
- Multiplying the 8.1-percent wage difference by labor’s share of total costs for highway, street, and bridge construction contractors (21 percent) reveals that the *maximum* “cost savings” that could occur without prevailing wage are 1.7 percent – an estimate which fails to consider changes in worker quality, worker productivity, and job turnover that would offset these cost savings.

Introduction

Prevailing wage supports blue-collar workers employed on public construction projects. By preventing government bodies from using their massive purchasing power to undercut local standards, prevailing wage laws ensure that workers employed on taxpayer-funded projects are paid a competitive rate determined by private actors. The policy also levels the playing field for contractors, ensuring that all contractors pay the local market rate and compete over all other factors in the public bid process, including productivity, materials costs, and technological efficiencies.

While each state has its own approach to determining wage and benefits packages, prevailing wages are generally determined through surveys of actual payroll records submitted by local

contractors. In Wisconsin, this survey is conducted annually. Researchers have found that survey methods used to ascertain the prevailing wage are both valid and reliable through clear, reproducible processes (Jordan et al., 2006). Additionally, economic studies have found that prevailing wage laws have no statistical effect on contractor bidding behavior, which is further evidence that they reflect the local construction market (Kim et al., 2012; Waddoups & May, 2014).

The preponderance of the evidence finds no evidence that prevailing wage increases costs to taxpayers. Fully 75 percent of recent peer-reviewed economic studies indicate that projects costs are not affected by prevailing wages (Manzo et al., 2016). As summarized by the independent Wisconsin Legislative Fiscal Bureau in 2015 (Horton, 2015):

“[T]he evidence on prevailing wage effects generally range from relatively small effects to no statistically significant effects....These findings echo a 2007 report prepared by the nonpartisan Minnesota Office of the Legislative Auditor which, in a review of the literature that measured the relationship between prevailing wage laws and the cost of construction, concluded that while some studies found a small impact on costs, more comprehensive studies have found that the impact is not statistically significant. These findings are further corroborated in a comprehensive review of research related to prevailing wages and government contracting costs by Mahalia (2008).”

In spite of the conclusions of economic experts and independent fiscal analysts, the Wisconsin State Legislature repealed prevailing wage for local governmental units beginning on January 1, 2017 (DWD, 2015). The primary study cited in support of repeal was a 2015 report by the Wisconsin Taxpayer Alliance, which claimed that prevailing wage “forces taxpayers” to pay 44 percent more than the market rate based on hypothetical comparisons (Forbes, 2015). Recently, State Senator Duey Stroebel of Saukville, has recalled the study in a renewed push to fully repeal the state’s prevailing wage law. Stroebel said in an interview that Wisconsin “need[s] to look at the repeal of the state prevailing wage. ... Going back to the prevailing wage debate of last year, the Bureau of Labor Statistics, there is on average 44 percent savings” (The Wheeler Report, 2016).

This Midwest Economic Policy Institute (MEPI) Economic Commentary critiques the Wisconsin Taxpayer Alliance study and evaluates the “44 percent savings” claim against actual economic data.

Bureau of Labor Statistics Data and Prevailing Wage Rates

The 2015 Wisconsin Taxpayer Alliance study assumes that the *Occupational Employment Statistics* (OES) dataset reported by Bureau of Labor Statistics (BLS) provides a better indicator of local construction market rates than prevailing wage rates. This assumption, which is the basis for the entire analysis, is incorrect. In fact, Erica Groshen, Commissioner of the Bureau of Labor Statistics, definitively concluded that the “BLS has no role in establishing prevailing wages or determining what data are appropriate for the purpose of prevailing wage determinations” (Groshen, 2013). Groshen states:

The OES program does not gather information on all the attributes that might be of interest when examining occupational wages. For example, the OES does not have data on license requirements, skill level, or years of experience. ... And, the OES collects data from business establishments, not by worksites or construction project sites. A construction business may have multiple projects in the

same area or in different areas. Also, OES does not measure total compensation, and therefore does not include overtime pay or benefits.

In 2015, an independent commission established by the West Virginia legislature reviewed the issue of using OES data to ascertain prevailing wage rates and found that the survey is too flawed in its methods and is inappropriate for use in prevailing wage ([WorkForce West Virginia, 2015](#)).

Data from the Bureau of Labor Statistics is not designed to reflect local prevailing wage rates. The Bureau of Labor Statistics emphasizes that OES “estimates are intended for research purposes, and users should be aware of the limitations of the data” ([BLS, 2012](#)). OES wage data are not intended to be used in evaluating an exact market rate for the current year in a local economy; the data is meant to study trends in occupations and industries over time.

There are numerous limitations and basic flaws with using OES data to evaluate prevailing wages that the Wisconsin Taxpayer Alliance report fails to consider ([Philips & Duncan, 2015](#)):

1. **OES wage rates exclude benefits.** Good health and retirement benefits are essential to retaining skilled workers in unstable and dangerous construction sectors. OES data, however, have no information on health insurance benefits or pension benefits. When benefits are excluded from prevailing wages on public construction projects, costs are shifted onto taxpayers and low-road contractors are subsidized.
2. **OES wage rates do not include training contributions.** Apprenticeship programs are essential to building the skillsets needed to meet the evolving demands of modern infrastructure.
3. **The OES does not account for the skill level of workers.** The data does not distinguish between journeyworkers and apprentices. ([Groshen, 2013](#)) Implying that the OES wage is the “true” construction market rate conflates journeyworker wages with untrained workers and semi-trained apprentices. It is similar to assuming that the market salary for a Ph.D professor is determined by the wages of preschool teachers in a community.
4. **The OES over-represents residential construction.** Nearly half the wage information comes from residential construction, which is a low-skill, low-benefits sector of construction. Using residential wages to assess prevailing wages on highly technical public works projects artificially deflates the market wage for skilled workers.
5. **The OES does not include information on hours or overtime.** The BLS does not gather information on construction worker hours or overtime pay.
6. **The OES uses survey includes data that are up to three years old.** The BLS compensates for lack of data by using past years; thus, the data are unlikely to reflect up-to-date conditions.
7. **The OES attributes all of a contractor’s work to the contractor’s business address regardless of where the worksite is located.** Contractors report wages for all projects inside and outside of the region of their business addresses ([Groshen, 2013](#)). Thus,

comparing county-level prevailing wages to OES data is not an apples-to-apples comparison of “local” wages.

Ultimately, research organizations and state legislators should not use *Occupational Employment Statistics* information provided by the Bureau of Labor Statistics (BLS) to evaluate local prevailing wage rates. The data are not comparable and would result in a failure to meet the goal of prevailing wage policies to ensure local market standards. BLS data are unsuitable for public construction.

Prevailing Wage Does Not Raise Costs by “44 Percent”

Despite the shortcomings of OES data and testimony by BLS Commissioner Groshen that the data should not be used in prevailing wage evaluations, the Wisconsin Taxpayer Alliance study nevertheless takes the apples-to-oranges approach. The study reports prevailing wage rates ascertained at the county level – which include benefits, training contributions, level of skill, and recent data for projects in the county within the previous year. These prevailing wage rates are subsequently compared to OES wages, which are not inclusive of these considerations and reflect older data over the previous three years. The paper claims that prevailing wage packages in Wisconsin are an average of 44 percent higher than the OES wage rates, which are erroneously presumed to be the “true” market rate ([Wisconsin Taxpayers Alliance, 2015](#)).

The main problem with the Wisconsin Taxpayer Alliance study is that it uses an outdated, unscientific, and hypothetical “wage differential” approach with OES data. This approach calculates the percentage difference between prevailing wages and alternative rates (in this case, OES data) that would presumably be paid without the policy and then multiplies the difference by the labor cost share of total construction costs ([Manzo et al., 2016](#)).

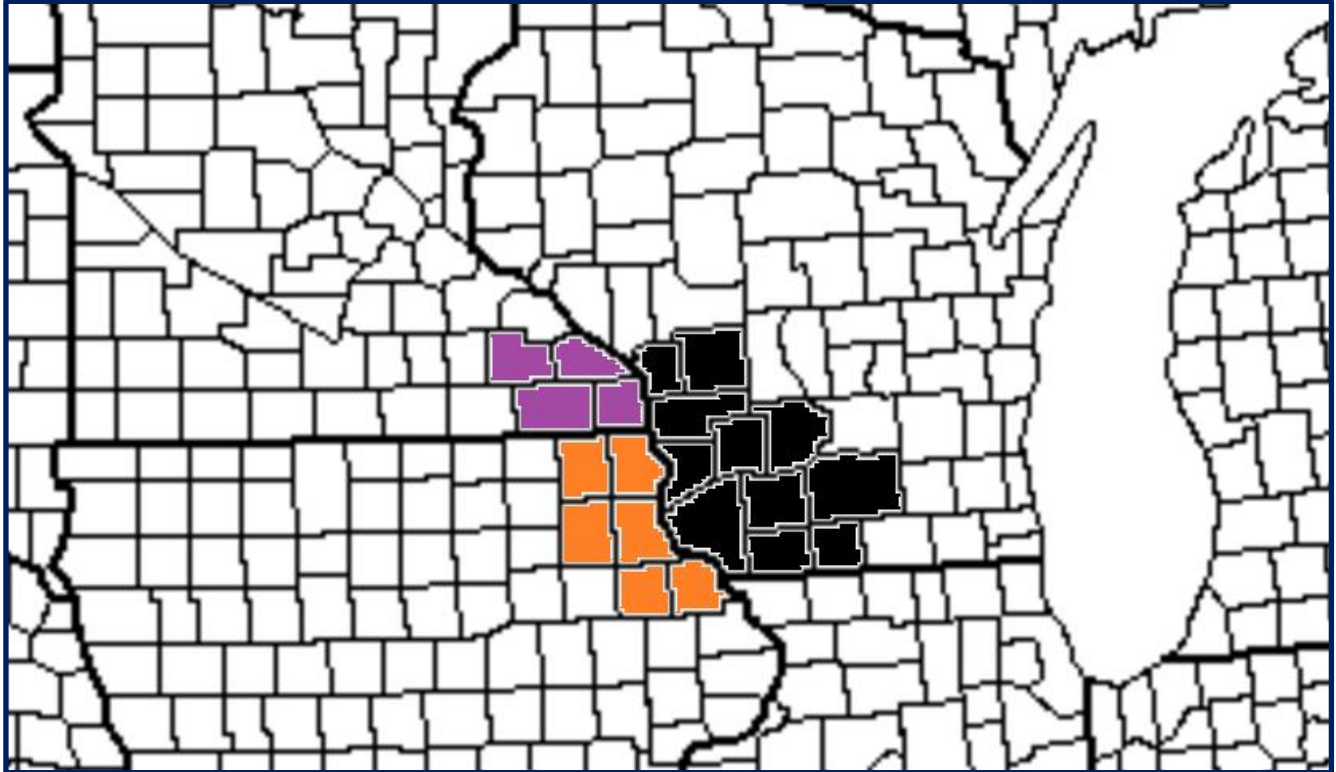
The “wage differential” method is not taken seriously by economists because it fails to take into account numerous changes that occur when wages rise and fall in the construction industry. For example, research indicates that when wages increase in the construction industry, skilled workers replace less-skilled workers ([Blankenau & Cassou, 2011](#)). This helps explain why public construction workers are 21 to 33 percent more productive in states that have prevailing wage laws ([Philips, 2014](#)). In addition, when wages are higher, contractors reduce materials costs, rental equipment costs, and profit margins to keep bids competitive in the market. These changes help explain why economic research finds no evidence that prevailing wage increases construction costs ([Manzo et al., 2016](#)).

Instead of posing a hypothetical “wage differential” approach as evidence, the Wisconsin Taxpayer Alliance should have either performed a statistical analysis using modern techniques or a taken a case-study approach, investigating an actual economic experience. From a research perspective, the region near and across the Iowa border is available as an ideal case study on the potential impact of prevailing wages because Iowa does not have a prevailing wage law. Counties near a border tend to share similar labor force characteristics and be part of the same integrated regional economy ([Allegretto et al., 2013](#)).

This analysis investigates earnings, employment, and job separations for employees in “highway, street, and bridge construction” in southwestern Wisconsin and northeastern Iowa. Highway, street, and bridge construction is selected because the vast majority of the work completed in the

sector is publicly funded. For comparison purposes, neighboring counties in Minnesota, which has a prevailing wage law, are also examined (Figure 1).

Figure 1: Counties Analyzed Using QWI Data for 2014Q3



Information is used from the *Quarterly Workforce Indicators* (QWI) dataset, which is based on payroll records in the Unemployment Insurance (UI) system and covers 96 percent of wage and salary civilian jobs in the United States (Census, 2016). The time period in the case study is the third quarter (Q3) of 2014, the latest year for which data were available during the summer months of July, August, and September– which are peak months for construction in Wisconsin, Iowa, and Minnesota.

Figure 2: Average Employment and Earnings in Highway, Street, and Bridge Construction, 2014Q3

Area	Number of Employees	Average Monthly Earnings	Earnings Compared to 6 Iowa Counties
6 Iowa Counties	943	\$5,602	--
4 Minnesota Counties	696	\$6,157	+9.91%
11 Wisconsin Counties	1,424	\$6,057	+8.12%

Source(s): Census, 2016 – “LED Extraction Tool – Quarterly Workforce Indicators (QWI).” Data are for “stable” employees who began and finished the reference quarter at one contractor and did not change jobs,

Payroll data reveal that, in the summer months of 2014, employees in the highway, street, and bridge construction sector in Wisconsin counties adjacent to or near the border of Iowa earned 8.1 percent more per month than their counterparts in neighboring Iowa counties (Figure 2). There were 1,424 stable employees of road construction contractors in the 11 Wisconsin counties

studied, earning \$6,057 per month on average. Across the border in 6 Iowa counties, 943 highway, street, and bridge construction employees earned \$5,602 per month, or approximately \$455 less. For completion, the average wage of road construction workers in 4 nearby Minnesota counties was 9.9 percent higher than the 6 county average in Iowa.

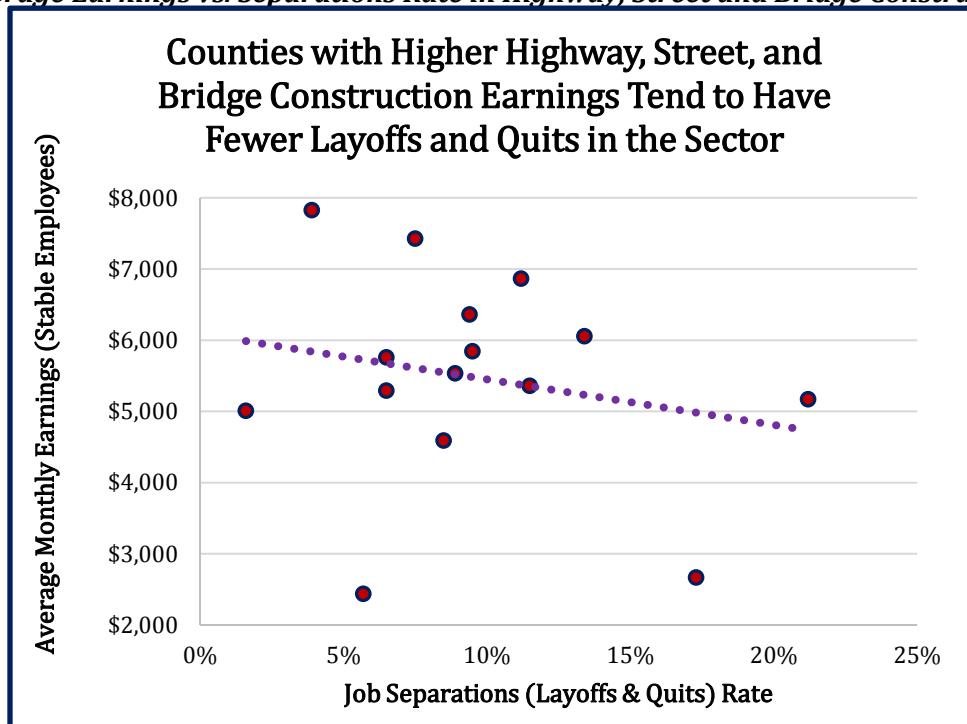
Anyone claiming construction cost savings of 20 percent or higher is either bad at math or expects people to work for free. First, actual economic data does not come close to showing a 44 percent earnings increase on the prevailing wage side of the border compared to the non-prevailing wage, Iowa side. Second, data from the 2012 *Economic Census of Construction* report that blue-collar labor costs (i.e., construction worker wages plus fringe benefits) account for just 21 percent of total project costs for the highway, street, and bridge construction sector in Wisconsin ([Census, 2015](#)). Thus, even if researchers were to ignore all of the flaws in the method, the maximum “cost savings” that could occur in road construction based on the wage differential approach would be 1.7 percent in southwestern Wisconsin counties (Figure 3).

Figure 3: Maximum Savings of Repealing Prevailing Wage Using Flawed “Wage Differential” Method

“Wage Differential” Component	Percent	Source
Earnings Difference: Wisconsin – Iowa	8.1%	2014Q3 <i>Quarterly Workforce Indicators</i> (Census, 2016)
Construction Worker Wages and Benefits Share of Total “Highway, Street, and Bridge” Construction in Wisconsin	x 21%	2012 <i>Economic Census of Construction</i> (Census, 2015)
Maximum Wage Differential Estimate	= 1.7%	--

Source(s): [Census, 2016](#) – “LED Extraction - 123asTool – Quarterly Workforce Indicators (QWI);” [Census, 2015](#) – 2012 *Economic Census of Construction*.

Figure 4: Average Earnings vs. Separations Rate in Highway, Street and Bridge Construction, 2014Q3



Source(s): [Census, 2016](#) – “LED Extraction Tool – Quarterly Workforce Indicators (QWI).”

Of course, this maximum wage differential estimate of 1.7 percent would still be unsound because it does not consider all other factors that would change if road construction workers were to suddenly earn wages that were 8 to 10 percent lower. As noted previously, economic research predicts that contractors would employ less-skilled labor, productivity would fall, and materials and equipment costs would increase. Furthermore, skilled workers may decide to exit the public construction industry altogether, pursuing careers in other middle-class sectors that reward their abilities. The QWI data suggests that this may be the case. 15 of the 21 counties studied had available data on the job separations rate, which is the number of layoffs and quits divided by total employment in an industry. In general, counties with higher average monthly earnings for highway, street, and bridge construction workers tend to have fewer layoffs and quits in the sector (Figure 4). Accordingly, if repeal of prevailing wage on state-funded road construction projects in Wisconsin were to reduce worker wages, one effect could be increased employee turnover—resulting in lower productivity and increased costs to hire and train new workers.

Final Comments on Prevailing Wage and the Local Market Rate

Prevailing wage supports blue-collar workers employed on public construction projects. By preventing government from using its massive purchasing power to undercut local standards, prevailing wage laws ensure that workers are paid a competitive, up-to-date wage *and* benefits package determined by private actors.

There is no apples-to-apples economic evidence in support of the claim that prevailing wage increases costs by 44 percent in a 2015 Wisconsin Taxpayer Alliance study. Using actual economic data from Wisconsin counties near the border of Iowa, a state with no prevailing wage standards, this analysis finds that prevailing wage could only feasibly increase road construction costs by 1.7 percent in Wisconsin – but that estimate holds all else constant. However, repealing prevailing wage would also be expected to reduce apprenticeship training and worker productivity while possibly causing a rise in job turnover, which would offset any taxpayer savings. Anyone claiming exorbitant construction cost savings from prevailing wage repeal either does not understand the construction industry, is really bad at math, or expects people to work for free.

In previous studies, the Midwest Economic Policy Institute has found that prevailing wage is in fact the local market rate (Manzo, 2016a; Manzo, 2016b). Based on multi-year data for 32 Illinois counties and 33 bordering counterparts, a higher prevailing wage for operating engineers has no statistical impact on the employment of men working in road construction and no discernible impact on turnover. Local market conditions are far more important to labor market outcomes than prevailing wage (Manzo, 2016a). That is, road construction worker wages along Illinois' border are only high in some counties because wages for men in all other sectors are higher.

Gutting prevailing wage would *undermine* the local market, as happened along Indiana's southern border. After Indiana weakened its policy, higher-paid public works construction employees in the state's 13 southern-most counties were replaced by lower-paid workers across the border in 14 Kentucky counties. Public works employment declined by 21.2 percent in the Indiana border counties but rose by 20.7 percent in the lower-paid Kentucky counties. The redistribution of jobs and earnings to out-of-state contractors has an adverse impact of income tax revenues and sales tax revenues (Manzo, 2016b).

This Economic Commentary should be a cautionary note to Wisconsin lawmakers who are considering full repeal of the state’s prevailing wage law. The Wisconsin Taxpayer Alliance study is economically unsound, uses BLS data that the BLS Commissioner says is inappropriate for prevailing wage evaluations primarily because it neither includes benefits nor accounts for skill level, and reports an unrealistic cost savings figure that has no basis in reality.

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