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Prevailing-Wage Rules Cost Taxpayers \$8.6 Billion Annually: Study

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Published by: The Heartland Institute

Published in: *Budget & Tax News*

Publication date: June 2008

Biases in the measurement of the federal "prevailing wage" force U.S. taxpayers to spend \$8.6 billion a year more for public construction projects than they would have to pay if unbiased measures were used, according to a new study by the Beacon Hill Institute at Suffolk University (BHI).

The measurement biases add 22 percent to the cost of labor on public construction projects and 9.91 percent to overall construction costs, the study finds.

"The existing way of measuring the prevailing wage amounts to the maintenance of a costly and arcane welfare system for construction workers," said David G. Tuerck, executive director of the Beacon Hill Institute and a coauthor of "The Federal Davis-Bacon Act: The Prevailing Mismeasure of Wages."

Adopted by Congress in 1931, the Davis-Bacon Act (DBA) enforces the prevailing wage at the federal level and serves as the basis for prevailing wages in some states. The federal government, 32 states, and the District of Columbia require the payment of a prevailing wage for all workers employed directly on site for government-funded construction projects over a certain dollar threshold.

Inaccurate Measure

As currently implemented, the law does not actually measure the prevailing wage, the study concludes.

The U.S. Department of Labor, which has the job of determining the prevailing wage, does not use the unbiased and statistically accurate data published by its Bureau of Labor Statistics (BLS), but instead uses unreliable and upward-biased data published by its own Wage and Hour Division (WHD).

The number is biased upward to reflect what the construction trades want to impose as a wage, not the wage that in fact prevails for a given trade in a given Metropolitan Statistical Area (MSA), the study concludes.

22 Percent Premium

The BHI study compared the estimates reported by WHD to those reported by BLS for a sample of nine occupational categories accounting for 59 percent of all construction workers across 80 MSAs.

BHI found on average the DBA prevailing wage is almost \$4.43 per hour above the BLS average wage--22 percent higher--when wages are weighted according to the number of workers in each trade and each MSA.

In the Nassau-Suffolk, New York MSA, for example, brick masons and block masons make at least \$24.17 per hour more than they would if the prevailing wage were calculated using BLS methods. In

Poughkeepsie-Middleton, New York, plumbers, pipe fitters, and steamfitters get a premium of \$26 per hour.

Steel and metal workers in Bakersfield, California receive a premium of \$16.37.

Anti-Competitive Law

Originally enacted to discourage poor Southern blacks from seeking construction jobs in the North, the prevailing wage law has always been intended to shield local construction workers from "outside" competition, Tuerck noted.

"The whole purpose of a prevailing wage law is to deny employment opportunities to workers from outside the immediate area," said Tuerck. "On that basis alone, the best solution would be to repeal Davis-Bacon and to render unnecessary the whole problem of divining what the prevailing wage is."

Tuerck added, "Next best would be to shut down the Labor Department's Wage and Hour Division (WHD) and take the simple step of getting the measurement of the prevailing wage right. That's easy enough to do, considering that the Bureau of Labor Statistics maintains a parallel and highly reputable office for measuring wages."

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For more information ...

"The Federal Davis-Bacon Act: The Prevailing Mismeasure of Wages":
<http://www.heartland.org/article.cfm/artId=23166>