



NEW STUDY PUNCTURES COMMON CLAIM

Does paying prevailing wage make government construction contracts costlier? Most research says “no”

Many state and local governments, for more than a century, have required private contractors on public works projects to pay wages and benefits on par with what is commonly paid to construction workers in the area. The federal government followed suit in 1931 with passage of the Davis-Bacon Act. The Act requires contractors to pay the prevailing wage, defined as the wage rate paid to at least 50% of workers in the industry in that area or, if no wage rate reaches the 50% mark, the industry average for the area.

The idea behind the prevailing wage is simple: a wage floor keeps big government projects from damaging the local economy by driving down wages and undermining living standards. A counter-argument has been raised, however, which claims that requiring contractors to pay the prevailing wage drives up the cost of the projects – a cost ultimately borne by the taxpayers. This claim, with its ring of plausibility, has already been used as grounds for repealing the prevailing wage requirements in some states.

Over the history of this wage policy, a considerable body of research has arisen exploring its impact – research that seems to offer something to all sides of the debate. A new analysis from the Economic Policy Institute sorts out the confusing picture by reviewing the major research studies on the relationship between the cost of projects covered by prevailing wage laws and those that are not.

The EPI report, “[Prevailing Wages and Government Contracting Costs](#)” by economic analyst Nooshin Mahalia, finds that the studies that prevailing wage opponents cite contain a critical flaw that makes their findings unreliable. They are based on hypothetical models which *assume* as a starting point that higher wages will necessarily raise contract costs, rather than testing whether, in practice, there is a relationship between wages and contract costs. Mahalia’s analysis shows that most researchers have found that prevailing wage regulations in practice do not increase government contracting costs.

How is it possible for a contractor to pay higher wages without increasing the overall cost to the government? Mahalia’s study details a number of factors that explain a result that seems, at first blush, counterintuitive:

1. Prevailing wage regulations do not always increase wages, as some public contractors may pay at those rates without the regulation.
2. Labor costs, including benefits and payroll taxes, add up to about one-quarter of construction costs. Thus even a wage raise of 10%, for example, would only affect overall costs about 2.5%, making its impact small.
3. Improved productivity can offset higher wages. The better-skilled workers attracted by these wages might complete the job in less time, or the firms that hire

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them might introduce labor-saving technologies for the express purpose of offsetting higher labor costs.

4. Higher wages might be offset through other means, such as using lower-cost materials.
5. Contractors might offset higher wages by reducing their profits slightly.

Mahalia's report discusses recent studies that have expanded their inquiry into the impact of prevailing wage regulations by exploring indirect costs and benefits. These studies find that prevailing wage laws can enhance state tax revenues, industry income, and non-wage benefits for workers; lower future maintenance and repair costs; reduce occupational injuries and fatalities; and increase the pool of skilled construction workers – creating benefits for both the public and the industry.

Among the research studies that are based on actual costs rather than hypotheticals, Mahalia concludes that the weight of the evidence strongly indicates that prevailing wage regulations have no adverse economic impact, and that their direct and indirect positive effects make them a prudent and beneficial policy.

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