

September 1999



A Mackinac Center Report

Michigan's Prevailing Wage Law and Its Effects on Government Spending and Construction Employment

by Richard Vedder, Ph. D.

Construction Costs and Employment Rates Are Analyzed for Recent Periods with and without a Prevailing Wage Law.



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ISBN: 1-890624-16-0

S99-07

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Executive Summary

In 1931, in the midst of the Great Depression, Congress passed the Davis-Bacon Act, a law that requires governmental contractors to pay “prevailing wages” on projects undertaken for the federal government. This legislation led to the passage of “little Davis-Bacon Acts,” or “prevailing wage” laws in over 40 states, including Michigan.

What are prevailing wages? The short answer is that in many jurisdictions, including the federal government, prevailing wages are typically wages set at or near the union-scale level. Prevailing wage laws, then, force contractors on government construction or other projects to pay their employees at the same rate as unionized members of the relevant occupation—whether it be bricklayers, carpenters, electricians, or other categories of workers—even if non-union contractors could perform the same work less expensively by paying their workers lower but mutually agreed-upon wages.

In December 1994, a federal district court judge ruled that Michigan's prevailing wage law was preempted by ERISA, a federal pension law. Consequently, the state law was not enforced between 1994 and 1997. A subsequent appellate court decision reinstated the law in June 1997, making it possible to analyze the effects on the economy of both the law and its temporary repeal.

This study examined the performance of Michigan's economy in the 30 months that the prevailing wage statute was suspended and the 30 months prior to the district court's nullification of the law to determine the following:

- Michigan's prevailing wage law reduces employment in construction: During the 30 months (December 1994 - June 1997) when the law was ruled invalid, more than 11,000 new jobs were created as a consequence of the law's invalidation—and the long term impact is much greater;
- Michigan's prevailing wage law adds at least \$275 million annually to the cost of governmental capital outlays—approximately the equivalent of five percent of the revenues raised from the state's individual income tax;
- In 1990, African-Americans in Michigan were less than 50 percent as well represented in the construction industry as whites; black employment in Michigan construction was well below the national norm, reflecting both theoretical and empirical evidence that prevailing wage laws promote racial discrimination;

Prevailing wage laws force contractors on government construction projects to pay their employees at union-scale wages, even if non-union contractors could perform the same work less expensively by paying their workers lower but mutually agreed-upon wages.

The savings to Michigan taxpayers from ending the prevailing wage law were estimated in 1995 to equal five percent of the revenues raised from the state's individual income tax.

- States without prevailing wage laws had net in-migration of over 2.5 million persons from 1990 to 1996, while strong prevailing wage law states like Michigan had out-migration of 2.7 million; nationally, poverty rates are higher in prevailing wage law states; and
- Nationally, worker productivity appears to be lower in construction in states with strong prevailing wage laws, and construction costs are higher in public (prevailing wage) construction than in the private sector where market forces prevail.

Prevailing wage laws are poor economics and poor policy. They restrict people from operating in a free market to allocate resources and use factors of production most efficiently, thus retarding job creation and contributing to lower economic growth. As a result, people have been moving out of Michigan and other prevailing wage states, preferring to earn money in environments where their rate of pay is determined by their individual skills and worth, not by a governmentally determined "just wage" that bears little resemblance to economic reality.

Michigan's prevailing wage law was enacted over 30 years ago to deal with economic conditions that simply do not apply in the modern global economy. The preponderance of the evidence suggests that the Michigan legislature would be wise to repeal the Prevailing Wage Act of 1965.

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Introduction

In 1931, in the midst of the Great Depression, the U. S. Congress passed the Davis-Bacon Act, a law that requires governmental contractors to pay “prevailing wages” on projects undertaken for the federal government. This legislation led to “little Davis-Bacon Acts,” or “prevailing wage” laws in over 40 states. Some states have subsequently repealed these statutes, but the majority, Michigan included, still have such Depression-inspired laws on the books regarding wages on state (and usually local) government contracts.

What are prevailing wages? The short answer is that in many jurisdictions, including the federal government, prevailing wages are typically wages set at or near the union-scale level. Prevailing wage laws, then, force contractors on government construction or other projects to pay their employees at the same rate as unionized members of the relevant occupation—whether it be bricklayers, carpenters, electricians, or other categories of workers—even if non-union contractors could perform the same work less expensively by paying their workers lower but mutually agreed-upon wages.

Typically, governments use an elaborate process to determine prevailing wages, but because of the large number of distinct geographic labor markets and numerous occupational categories, the tendency is for wages to be set equal or approximate to those determined in local collective bargaining agreements between unions and contractors. In some states, “prevailing wages” are less obviously tied to union pay scales, but Michigan, as a “strong” prevailing wage state, does use such a formulation.

The Origin of Prevailing Wage Laws

Prevailing wage laws were first adopted during the Great Depression, at a time when the national unemployment rate was already about 14 percent and rising, while economic output was dropping.¹ The turmoil brought about by such large numbers of unemployed workers gave rise to various arguments and theories about how government could solve America's economic woes.

One popular argument for prevailing wage laws was advanced by some in the Hoover administration. They (and later others in the Roosevelt administration) argued that by mandating higher wages for workers than what they might otherwise be paid according to

¹ For monthly unemployment rates during the Depression, see Richard K. Vedder and Lowell E. Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America*, Updated Edition (New York: New York University Press, 1997), p. 77.

Typically, governments use an elaborate process to determine prevailing wages, but because of the large number of geographic labor markets and occupational categories, the tendency is for wages to be set equal or approximate to those determined in local collective bargaining agreements.

One “argument” for prevailing wage laws was Northern union contractors’ desire to be protected from competition from lower-wage, Southern, non-union workers. One congressman actually made reference to the “problem” of “cheap colored labor” on the floor of the U. S. House.

market forces, workers would make higher incomes and therefore spend more. High wages would help America spend its way out of the Great Depression. This “high wage doctrine” was also advanced by many business leaders, and it formed the basis for many other pieces of legislation during both the Hoover and Roosevelt administrations (e.g., the National Industrial Recovery Act, National Labor Relations Act, etc.).

Another “argument” for the original Davis-Bacon legislation and no doubt many of the state prevailing wage laws was Northern union contractors’ desire to be protected from competition from lower-wage, Southern, non-union workers. In fact, Rep. Robert Bacon was prompted to introduce his bill in 1931 after witnessing one contractor’s use of black Alabama laborers to construct a government hospital in Rep. Bacon’s Long Island district. A review of the legislative history of the Davis-Bacon Act makes it clear that the idea behind “prevailing wages” was seen by some congressmen as a way to reduce out-of-state competition and discourage the use of non-white labor. One congressman who supported Davis-Bacon actually made reference to the “problem” of “cheap colored labor” on the floor of the U. S. House. As such, the legislation was both anti-competitive and racist in origin.²

A third argument used to support prevailing wage laws—still advanced today—is that they reduce poverty, by insuring that construction or other affected workers earn enough income to stay above the poverty line. Finally, some pro-prevailing wage advocates have said that paying high wages insures quality work or, alternatively, that high wages lead to greater labor morale thereby promoting efficiency, and thus these laws cost little or nothing.

The Case against Prevailing Wage Laws

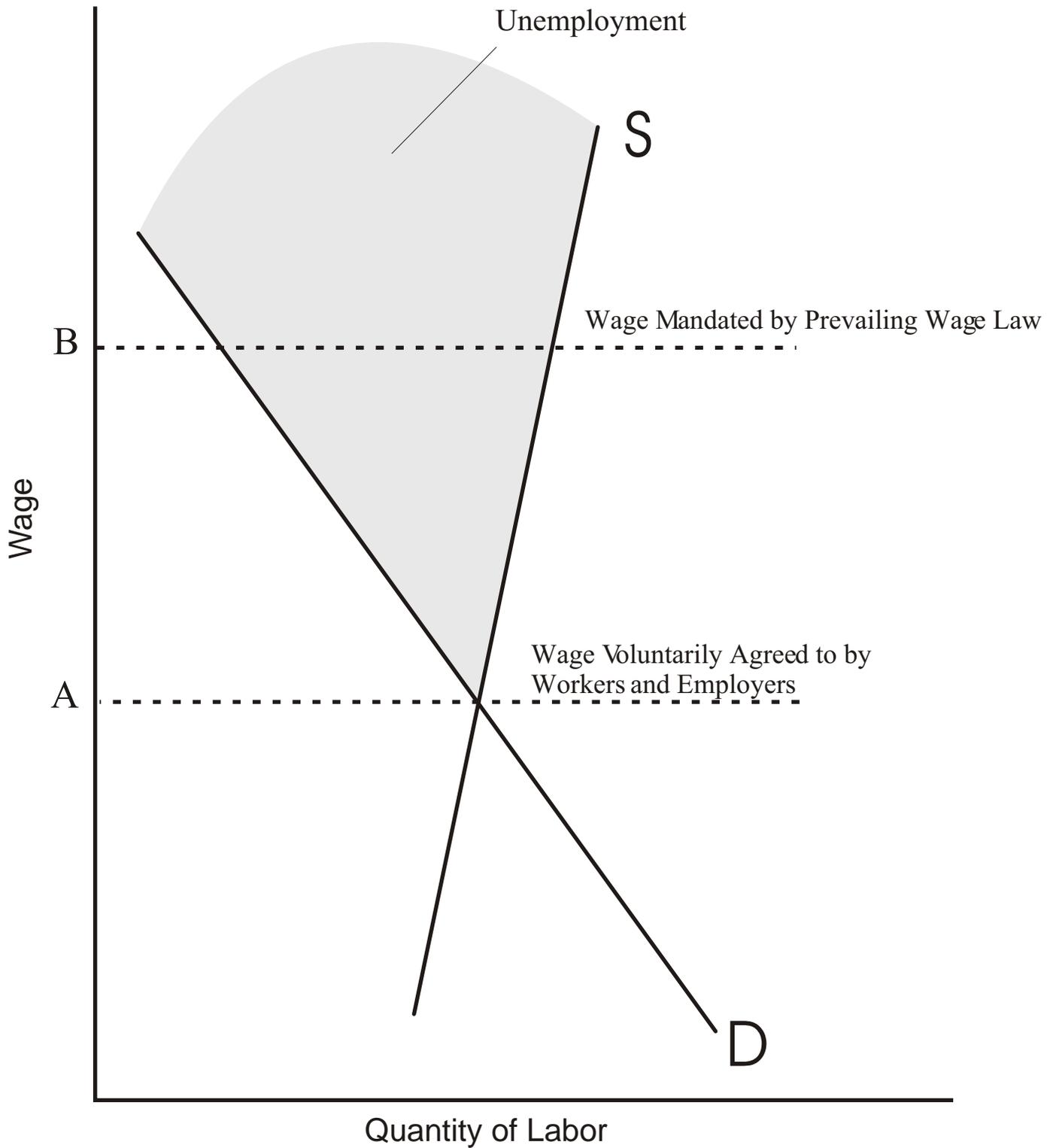
There is, however, both theoretical and empirical evidence that casts doubts on the arguments above and suggests that prevailing wage laws are outmoded, ineffective, discriminatory, inefficient, and expensive to taxpayers. The force of these arguments has led some states to abandon long-enacted legislation.

FOUR THEORETICAL ARGUMENTS

There are four theoretical arguments against prevailing wage laws. First, such laws force employers to pay compensation levels in excess of what workers might voluntarily agree to accept. The quantity demanded of construction labor varies inversely with its price—i.e., the cheaper labor is, the more workers employers will want to hire. This is the famous Law of Demand (see Graph 1, next page). Conversely, the quantity of labor supplied tends to vary directly with its price (or wage): The more workers can earn in construction, the more persons will want to work those jobs. In a market without any legal impediments, wages will tend to be set at a level where the quantity demanded equals the quantity supplied. At that point, all workers truly seeking jobs and capable of doing the work are able to obtain employment. Economists refer to this point as “market equilibrium.”

² For a more detailed review of the racial dimensions of the Davis-Bacon Act, see Richard Vedder and Lowell Gallaway, *Cracked Foundations: Repealing the Davis-Bacon Act* (St. Louis: Center for the Study of American Business, October 1995).

Graph 1 – Unemployment Effects of Prevailing Wage Laws



Prevailing wage laws remove the financial disincentive for employers to engage in racial discrimination since all workers must be paid according to the same wage rate.

The enactment of a prevailing wage law forces wages up (to B in Figure 1), to a point where the quantity of labor supplied (S) exceeds the quantity of labor demanded (D). Put simply, prevailing wage laws create unemployment and reduce employment opportunities in the affected fields. The precise impact depends on a variety of factors, including the sensitivity of workers and employers to changing wages, as well as the extent to which prevailing wage laws apply in labor markets.

Second, where employers show discriminatory treatment toward workers on the account of their race, sex, age, or some other attribute, prevailing wage laws make it easier and less financially punishing for them to indulge their particular bigotry. Consider a state without a prevailing wage statute, where Contractor A wants to hire a plumber. He offers the generally agreed-upon, market hourly wage of \$10 per hour and receives one job applicant, an African-American. Even if Contractor A possesses some racial prejudice, he almost certainly will hire the black applicant because he needs a plumber. To get more applicants in the hopes of attracting a preferred white worker, he would have to offer to pay more, thus lowering his profits. Now suppose a prevailing wage law sets plumber wages at an above-market rate of, say, \$15 per hour. Contractor A gets three applicants, two white and one black. He can now hire a white worker without a financial penalty. In other words, prevailing wage laws remove the financial disincentive for employers to engage in racial discrimination since all workers must be paid according to the same wage rate.

Third, prevailing wages—being higher than wages normally agreed upon between employers and workers—should lead either to higher prices for contracted goods and services or to less of the goods being provided. For example, suppose it costs \$5 million to build on average one mile of highway when contractors pay voluntary market wages, but \$5.5 million when they pay government-mandated prevailing wages. Suppose further that a state highway department has a budget of \$300 million for new highways. Without prevailing wages, 60 miles of road can be built; but with such wages, only 54 miles can be constructed. Thus prevailing wage laws tend to reduce real infrastructure investments. It is true that the state could spend \$330 million so that no real reduction in highway construction need occur, but in that case the taxpayers are burdened more, through higher taxes and/or a reduction in other state budget priorities.

A fourth theoretical objection to prevailing wage laws relates to administrative issues. Nationwide, there are literally thousands of distinct local labor markets, and numerous occupations that come under the jurisdiction of the federal Davis-Bacon Act as well as state laws such as exist in Michigan. Moreover, wages change with some regularity. Thus there are literally tens of thousands of different wages that need to be evaluated to guarantee they meet the “prevailing wage” criteria, and this evaluation needs to be done on at least an annual basis to ensure accuracy. The complexity of such evaluation can drive administrative costs way up and open the door for fraud and abuse.³

³ The problems of administration and fraud are covered extensively in two hearings jointly held by the Subcommittee on Oversight and Investigations and the Subcommittee on Workforce Protections, both of the Committee on Education and the Workforce, U. S. House of Representatives. The first was held on June 20, 1996, and is reprinted as *Joint Hearing on the Davis-Bacon Act: Focusing on Allegations of Fraud and Barriers to Employment* in Serial No. 104-79 (Washington, D. C.: Government Printing Office, 1996). The second, entitled *Joint Hearing to Review the Davis-Bacon Act* was held on July 30, 1997, and is reprinted in Serial No. 105-68 by the Government Printing Office in 1997. In the first

EMPIRICAL EVIDENCE

The economic theorizing above suggests that prevailing wage laws should reduce employment in the affected areas, since at the above-market “prevailing” wage, some workers are not hired compared with the number that might be when employers and workers are free to negotiate wages themselves. This is a testable proposition. The one sector of the economy most affected by prevailing wage laws is construction. In a typical recent year, about one-fourth of all construction in the United States is carried out in the public sector, which faces prevailing wages under the Davis-Bacon Act and in many states, including Michigan, under state prevailing wage laws.⁴

The states can be divided into two categories, the first including the 18 states without prevailing wage laws, and the second the 33 states (counting the District of Columbia) with such legislation. Additionally, 12 states, including Michigan, can be subcategorized as having “strong” prevailing wage laws.⁵ Using these categories, the number of construction workers per 1000 jobs in 1993 in states with a strong, weak, or no prevailing wage law were compared (1993 is the last full year prior to Michigan having its prevailing wage law ruled inoperative by judicial decision).

Chart 1, next page, shows that construction workers are far more prevalent in states without prevailing wage laws than in those with such statutes. The 18 states without any prevailing wage law (except, of course, for federal legislation) in 1993 had 44.38 construction workers per 1,000 workers, compared with 33.25 for the 12 states having “strong” prevailing wage jurisdictions. Michigan was one of the “strong” prevailing wage states.⁶ This is compelling evidence that supports the contention that prevailing wage laws reduce employment in the construction industry.

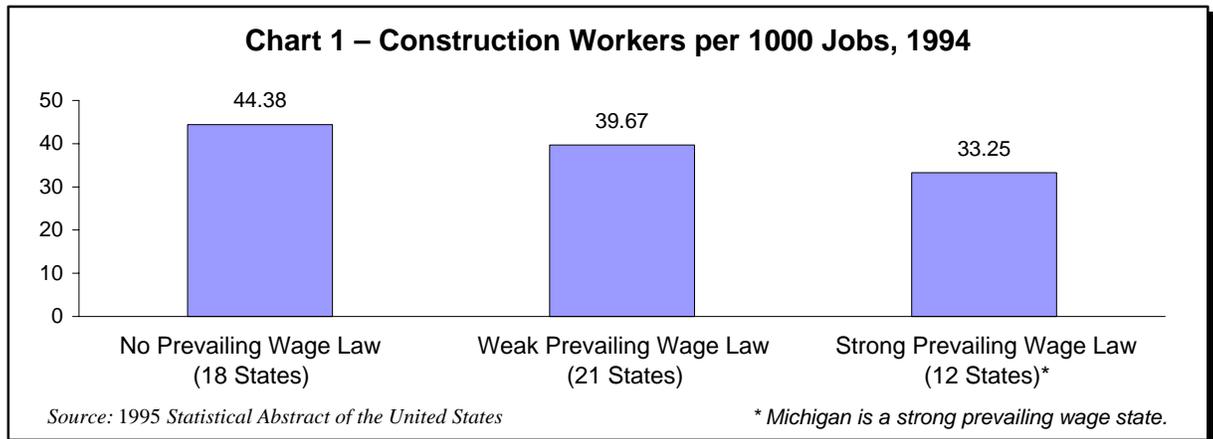
hearing, see especially the testimony of Brenda Reneau, Oklahoma Commissioner of Labor. In the second hearing, read especially the statements of Charles C. Masten, Inspector General, U. S. Department of Labor and George S. Werking, Assistant Commissioner in the Bureau of Labor Statistics of the Labor Department.

⁴ In 1996, for example, public construction was over \$141.1 billion, almost precisely one-fourth the total new construction of \$568.9 billion. See the U. S. Bureau of the Census, *Statistical Abstract of the United States: 1997*, p. 715.

⁵ On the “strength” of state prevailing wage laws, see A. J. Thieblot, “A New Evaluation of Impacts of Prevailing Wage Law Repeal,” *Journal of Labor Research*, 17(2), Spring 1996, p. 317. The states with strong prevailing wage laws are Michigan, Illinois, Missouri, Rhode Island, Minnesota, Ohio, Washington, Hawaii, California, New Jersey, New York, and Massachusetts.

⁶ Michigan’s law was invalidated late in 1994, too late to have any material impact on construction employment. Similar results are obtained using 1993 data, when Michigan unambiguously was covered by prevailing wage legislation the entire year.

The 18 states without prevailing wage laws in 1993 had 44.38 construction workers per 1,000 workers, compared with 33.25 for the 12 states with “strong” prevailing wage laws. This suggests that these laws reduce employment in the construction industry.

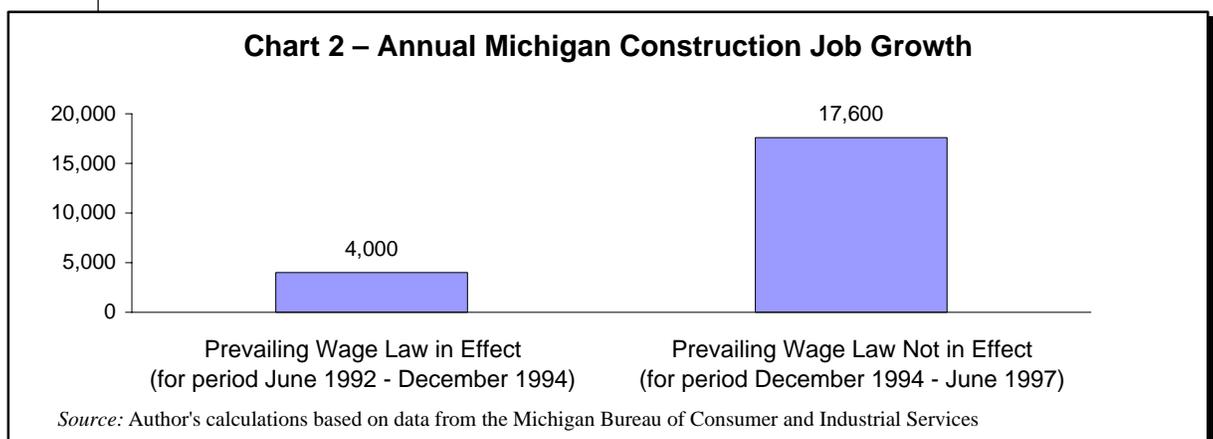


Job growth in Michigan's construction industry was small in the prevailing wage period, compared with more than quadruple the jobs created during the period when the prevailing wage law was inoperative.

An alternative approach is to examine Michigan's experience for the period before the prevailing wage law was ruled invalid (in December 1994) and then for the period of two and one-half years in which the statute was inoperative (ending June 5, 1997, when the Michigan Appeals Court reversed the district court and reinstated the law).

For this, monthly data on Michigan's aggregate employment, sectoral employment, total unemployment, and total labor force were gathered for the first eight years of the 1990s.⁷ The growth in employment in Michigan's construction industry in the 30 months prior to the court decision invalidating the prevailing wage law (June 1992 through December 1994) was then compared with a 30-month period during which the law was inoperative, from December 1994 to June 1997.

As Chart 2, below, shows, job growth in Michigan's construction industry was small in the prevailing wage period (4,000 jobs per year) compared with more than quadruple the jobs created (17,600 per year) in the brief period during which the prevailing wage law was inoperative. This suggests a sluggish rate of job growth during the era of wage restraints was followed by a marked expansion in the job market when those restraints were removed.



⁷ The author thanks the Michigan Bureau of Consumer and Industrial Services and Mark L. Fischer and Robert P. Hunter of the Mackinac Center for Public Policy for their assistance in providing data.

This conclusion, however, can be objected to on three grounds. First, there is *seasonality* in construction employment, and the periods chosen bias the results in favor of the conclusion that job growth expanded during the period with no prevailing wage law, since that period begins in a low employment winter month and ends during the summer, near the peak of the construction season. Second, employment in construction, and in general, is affected by the *business cycle*, so some consideration must be given to the impact of cyclical movements. Third and finally, *weather* could conceivably cause some of the observed trend. Suppose June 1992 was a great month weather-wise for construction, while December 1994 was a miserable one (independent of the season of the year). The sluggish growth in construction for the prevailing wage period might be explained by that phenomenon.

In order to control for possible seasonal, cyclical, and weather effects, a series of adjustments were performed using data for eight full years (96 months) from 1990 through 1997. A standard procedure was used to adjust the data for seasonal trends, the effect of which was to lower the reported employment figures for summer months and increase them for winter months when inclement weather makes it difficult to carry out construction activities.⁸

Graph 2, next page, shows the actual (unadjusted) and the adjusted construction figures by month for the period June 1992 through June 1997. After seasonal adjustment, the 34,000 increase in the number of construction jobs during the era of no prevailing wages is sharply reduced, to 8,833 jobs (job growth was 20,747 in the prevailing wage era, compared with 29,580 in the post-prevailing wage era). Still, adjusting for seasonal factors, employment growth in construction expanded more than 42 percent during the period without the prevailing wage law.

Could that growth be explained by chance patterns in the weather? To largely correct for the impact of weather variation, the data were converted to three-month moving averages. For example, suppose December 1994 were unusually cold and snowy even for December, thus depressing the amount of construction employment. A three-month moving average is used to combine the seasonally adjusted construction figures for the months of October, November, and December. The figures are then averaged to produce December's moving average estimate—dramatically reducing the impact of abnormal weather in the single month of December.

Once the moving average adjustment is made, it turns out that the estimate of construction job expansion in the period of no prevailing wage laws actually *increases* by over four thousand workers—weather factors kept reported job growth during the December 1994 to June 1997 period lower than it otherwise would be. The estimate of increased job growth, making both seasonal and weather adjustments, rises to 13,017 jobs.

⁸ The seasonal adjustment procedures were done using the Econometric Views computer software, following standard procedures used by the U. S. Department of Commerce and other federal government agencies.

Graph 2 – Michigan Construction Employment, June 1992 - June 1997



100 Seasonally adjusted construction employment grew at a faster rate when Michigan's prevailing wage law was not in effect.

Source: Author's calculations based on data from the Michigan Bureau of Consumer and Industrial Services

Might the growth in construction jobs be explained by the economic boom that picked up as the 1990s proceeded? The 1990-91 downturn reached a trough (bottom) in the spring of 1991, according to the National Bureau of Economic Research, the organization responsible for dating business cycles. Unemployment, however, actually kept rising into early 1992. Recovery was clearly underway by the fall of 1992, and the Michigan unemployment rate actually fell sharply during the 30-month period of prevailing wage laws from June 1992 to December 1994 (the unadjusted rate went from 9.3 to 4.8 percent), but not in the 30 months without the prevailing wage law (the unadjusted unemployment rate fell from 4.8 to 4.4 percent).

Employment growth, however, was moderately higher in Michigan in the period without the prevailing wage law: 277,800 jobs (seasonally adjusted) vs. 241,948 jobs in the earlier period. Thus some of the greater rise in construction employment in the period without prevailing wages is attributable to slightly more robust general employment growth reflecting cyclical conditions and the passage of time. Accordingly, the estimate of job growth during the suspension of the prevailing wage law was reduced by about 13 percent to account for the moderate general rise in employment growth in that period, yielding a total estimated construction job growth in the era of no prevailing wages of 11,337 jobs (see Table 1, below).

Table 1 – The Impact of Suspending Prevailing Wage Law on Construction Employment: Allowing for Seasonal, Weather, and Cyclical Adjustments

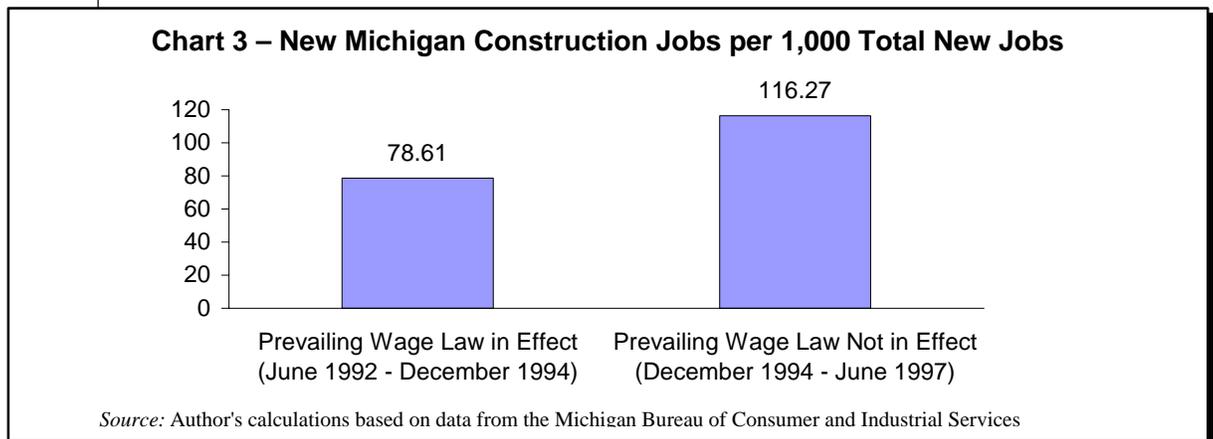
Adjustment	Employment Impact	Accumulative Adjustment Impact
None (Actual Observed Change)	+ 34,000	+ 34,000
For Seasonal Patterns	- 25,167	+ 8,883
For Weather Conditions	+ 4,134	+ 13,017
For Business Cycle Impact	- 1,680	+ 11,337

Source: Author's calculations based on data from the Michigan Bureau of Consumer and Industrial Services

In other words, *after adjusting for seasonal, weather, and cyclical considerations, it is estimated that construction jobs grew by over 11,000 during the no-prevailing wage period.* Moreover, this estimate is probably highly conservative for a variety of reasons, the most important of which is that there was considerable uncertainty whether the December 1994 judicial interpretation that rendered the prevailing wage law invalid would be sustained upon appeal. In an environment where employers knew with certainty that there would be no prevailing wage legislation, they probably would have moved even more aggressively to take advantage of the changed legal environment.⁹ The national data on construction employment in non-prevailing wage states presented in Chart 1 on page 8 are consistent with the view that the total long-term construction employment impact of a repeal of the prevailing wage law could well be a multiple of three or even four times the 11,000 jobs created during the period in which prevailing wages were ruled invalid in Michigan.

⁹ Some employers probably reasoned that if the appellate court reversed the district court decision, they potentially might be liable for extra wage payments if they paid less than the prevailing wage, thus they behaved as if the prevailing wage law were still in effect.

Given the uncertain nature of the 1994 invalidation of the prevailing wage law, the robustness of construction employment growth during the era of no prevailing wages was really quite extraordinary. Once the data are corrected for seasonality and weather (using a moving average), construction employment growth is shown to be much greater after the prevailing wage law was invalidated. As Chart 3, below, shows, in the first period when prevailing wage laws were operative (June 1992 to December 1994), 78.61 construction jobs were created for each 1,000 increase in total employment. In the era without an operative prevailing wage law (December 1994 to June 1997), there were 116.27 construction jobs created per 1,000 total new jobs, an increase of nearly 48 percent.



In the two-and-a-half years without an operative prevailing wage law, Michigan employers created 116.27 new construction jobs per 1,000 total new jobs, an increase of nearly 48 percent.

Who are the individuals who gain new jobs when prevailing wage laws are ended, as they temporarily were in Michigan from December 1994 to June 1997? Both the economic theory cited earlier and empirical evidence nationally suggest that it is likely that a disproportionate number of new jobs will go to minorities. Removal of wage requirements allows relatively less experienced minority workers a chance to offer their services at lower rates than the artificially determined prevailing wages, obtaining employment and the on-the-job training that leads to higher productivity and earnings in the long run.

Prevailing Wages and Construction Costs

Prevailing wages raise labor costs. The impact that they have on total construction costs depends on three factors:

- 1) the extent to which prevailing wages exceed the wages that employers and workers would otherwise voluntarily agree upon;
- 2) the proportion of labor costs in the total costs of construction; and
- 3) the impact, if any, that prevailing wages have on worker productivity.

Turning first to the issue of the extent that prevailing wages exceed the wages that employers and workers would otherwise voluntarily agree upon, the evidence is that prevailing wages are very well over 50 percent above market wages—for example, \$16 per

hour vs. \$10 per hour. To be sure, some workers might be hired at union-scale wages in the absence of prevailing wage laws, and other workers (e.g., supervisors) are not affected by the laws, so the aggregate impact on payroll may be less, but it is still significant.

This generalization applies in Michigan. Tables 2 and 3, below, show that, for two populous Detroit-area counties, prevailing wages for many construction occupations tended to be substantially above the wages voluntarily negotiated between employers and workers.

**Table 2 – Difference between Free (Market) Wages and Prevailing Wages, 1992
Wayne County**

Profession	Free Wage	Prevailing Wage	Difference
Bricklayers	\$23.60	\$26.37	- 10.5%
Carpenters	\$14.64	\$21.42	- 31.6%
Cement Masons	\$13.83	\$24.37	- 43.3%
Electricians	\$16.39	\$18.93	- 13.4%
Ironworkers	\$13.72	\$28.95	- 52.6%
Laborers, Residential	\$10.43	\$10.84	- 3.8%
Painters	\$11.03	\$21.31	- 48.3%
Plumbers	\$18.76	\$23.94	- 21.6%
Roofers	\$13.97	\$25.91	- 46.1%

Source: Michigan Housing Council

**Table 3 – Difference between Free (Market) Wages and Prevailing Wages, 1992
Monroe County**

Profession	Free Wage	Prevailing Wage	Difference
Bricklayers	\$16.85	\$26.37	- 36.1%
Carpenters	\$13.00	\$21.42	- 39.3%
Cement Masons	\$13.83	\$20.56	- 32.7%
Electricians	\$14.84	\$23.94	- 38.0%
Ironworkers	\$13.72	\$25.38	- 45.9%
Laborers, Residential	\$8.98	\$19.93	- 54.9%
Painters	\$12.15	\$21.31	- 43.0%
Plumbers	\$15.26	\$23.82	- 35.9%
Roofers	\$12.31	\$22.57	- 45.5%

Source: Michigan Housing Council

On average, it appears that labor costs equal 20 to 30 percent of total construction contracts, with the proportion somewhat lower for single family housing.¹⁰ If labor costs were 25 percent of the total value of a construction contract, and if on average labor costs per hour were increased 40 percent by prevailing wage laws, this would drive up total construction costs by about 10 percent—assuming that paying prevailing wages does not change the physical productivity of workers. (There is no reliable evidence that labor productivity is materially different where prevailing wages exist, a point considered below.) The 10-percent figure accords with several studies of the impact of prevailing wages on construction costs. It may actually be conservative, since the 40-percent compensation differential assumed may well be below the average for prevailing wage contracts.

In fiscal year 1995, the state of Michigan and its localities could have saved about \$251 million by eliminating prevailing wage provisions.

During the 30-month period of no prevailing wages in Michigan, there is evidence of numerous government construction projects being carried out with significant savings arising from the use of non-union scale labor. For example, in the Hastings school district in Calhoun County, the lowest open shop (non-union) bid was \$4,343,000—almost 13 percent below the lowest union bid of \$4,969,000.¹¹

There are also examples of even greater savings associated with non-union labor. In Saginaw County, a Carrollton public school renovation project received a non-union bid of \$645,000, which was more than 16 percent below the lowest union bid of \$774,000. To be sure, in some cases the savings from the use of non-prevailing wage labor were less, but they were always real and positive. On average, over 20 different projects, the savings were well above the 10-percent figure used in some calculations of taxpayer burden below.

Assuming the 10-percent differential and that the “construction cost” portion of capital outlays by Michigan state and local governments equals the outlays for activities subject to prevailing wages, in fiscal year 1995, the state of Michigan and its localities could have saved about \$251 million by eliminating prevailing wage provisions, since construction outlays for Michigan governments in fiscal year 1995 were \$2,509,684,000. Alternatively, some \$251 million more in social infrastructure could have been completed.¹²

Presumably, some non-construction capital outlays were also subjected to prevailing wages, such as renovation work considered as heavy maintenance (e.g., replacing a roof on a school building). If one were to assume that 20 percent of the non-construction capital outlays were subject to prevailing wages and that the average savings of eliminating prevailing wages were 10 percent, the savings to taxpayers for the public projects undertaken in Michigan in 1995 would be about \$275 million.

A savings of \$275 million is no small sum of money: It is the equivalent of slightly over five percent of the revenue raised by the Michigan individual income tax in fiscal year

¹⁰ See U. S. Bureau of the Census, *Census of Construction Industries, 1992*, or the 1997 *Statistical Abstract of the United States*, p. 713.

¹¹ The author is indebted to the Associated Builders and Contractors of Michigan for this information.

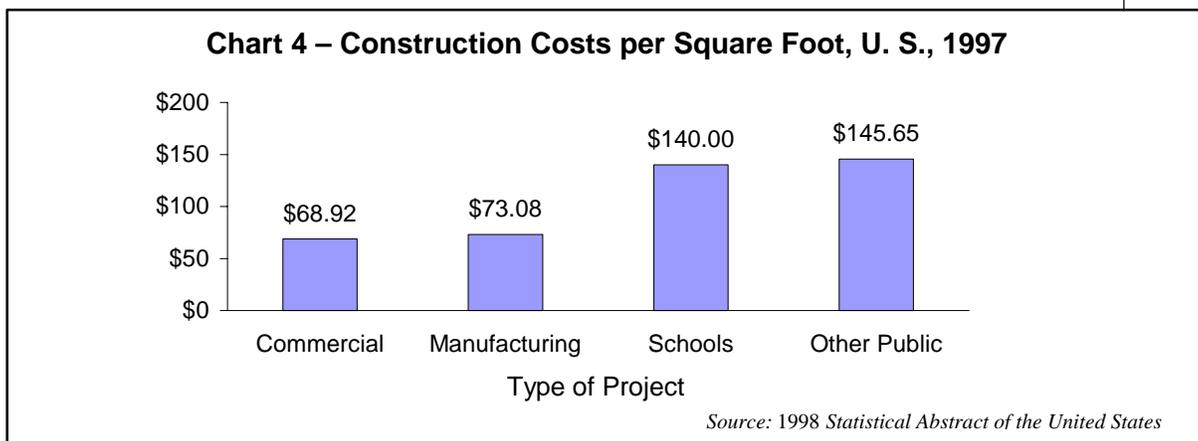
¹² The governmental revenue and expenditure data reported here were obtained from the U. S. Bureau of the Census World Wide Web site, <http://www.census.gov>.

1995 (\$5.473 billion). Assuming things have not changed dramatically since 1995, *repealing Michigan's prevailing wage law would have an impact the equivalent of giving every taxpayer a rebate equal to five percent of his state income tax payments.* The continued existence of prevailing wage laws therefore has a potentially real and important impact on the well being of the residents of Michigan.

The calculations above are extremely cautious and conservative. A majority of the government construction projects examined by this author showed potential savings of greater than 10 percent associated with the elimination of prevailing wages. The year examined, fiscal year 1995, was one in which the prevailing wage law was invalidated for part of the year, so some work may have already been undertaken outside the prevailing wage environment (if all work had been under prevailing wages, construction outlays may have been higher).

National data on construction costs reinforces the notion that the 10-percent savings estimate is probably extremely conservative. Chart 4, below, shows that construction costs per square foot for projects generally undertaken in the public sector (e.g., school buildings, general public buildings) tend to be dramatically higher than those undertaken in the private sector (e.g., commercial or manufacturing buildings).

A majority of the government construction projects showed potential savings of greater than 10 percent associated with the elimination of prevailing wages.



The added expense that prevailing wages impose upon school construction projects frustrates officials in many Michigan school districts because it may make it more difficult for them to gain approval of important bond issues from skeptical taxpayers. Statewide in 1998, only 44 out of 107 proposed school bond proposals worth \$2.2 billion were approved by voters.¹³ James Kos, superintendent of Hamilton Public Schools in Allegan County, argues that a repeal of the prevailing wage law could save his district “between one and \$1.5 million in construction costs and we’d be able to use that money for students.”¹⁴

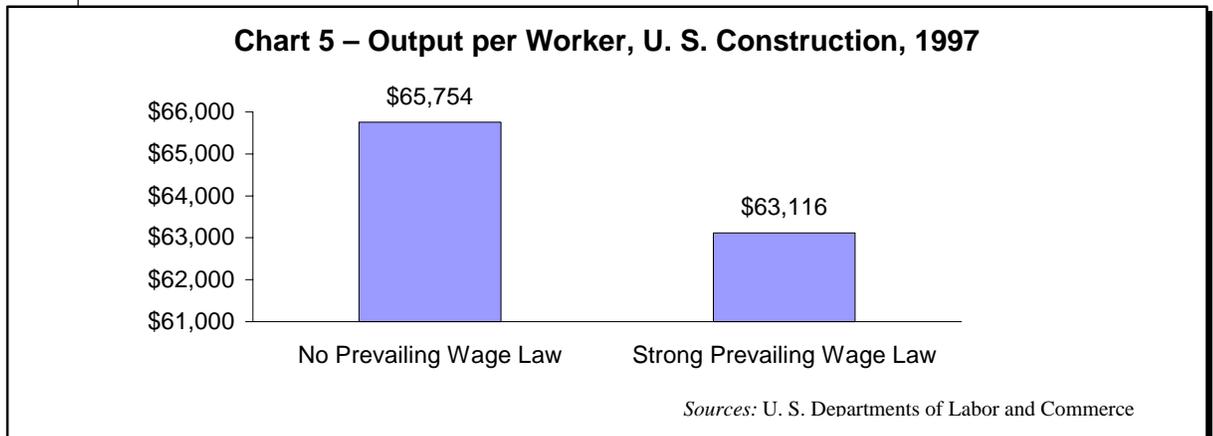
¹³ For information on how school districts can earn the voter trust essential for needed bond proposals, see Michael Arens, *The Need for Debt Policy in Michigan Public Schools* (Mackinac Center for Public Policy, May 1998), accessible by Internet at <http://www.mackinac.org/article.asp?STD98-02>.

¹⁴ Quoted in “Kuipers: End ‘prevailing wage’ law: Representative says move could save millions,” *The Holland Sentinel*, April 8, 1999, p. A1.

A five percent reduction in the Michigan individual income tax could easily be financed from the savings from elimination of the prevailing wage law.

Some will argue, however, that prevailing wages improve worker morale and provide a more skilled labor force and raising productivity, in keeping with a concept called “efficiency wages” that is much discussed by some modern “new” Keynesian economists.¹⁵ To get some sense of the productivity of construction workers, state government data on construction workers were gathered from the U. S. Department of Labor and data on the value of construction contracts were gathered from the U. S. Department of Commerce. The average productivity of workers in the “no prevailing wage” and “strong prevailing wage” states was then compared by dividing the value of construction contracts in 1997 by the number of construction workers.

As Chart 5, below, indicates, output per construction worker was actually about four percent *higher* in the states without prevailing wages, suggesting that the existence of such laws may lead to inefficiencies and reduced productivity, enhancing our confidence in stating that prevailing wage laws materially raise the costs to taxpayers. If anything, these data suggest that the savings from eliminating prevailing wages may be materially greater than the 10 percent figured used in the calculations above. For that reason, the author believes that a 5 percent reduction in the Michigan individual income tax could easily be financed from the savings from elimination of the Michigan prevailing wage law.¹⁶



¹⁵ A standard reference is George Akeroff and Janet Yellin, *Efficiency Wage Models of the Labor Market* (New York: Cambridge University Press, 1986).

¹⁶ To be sure, there would be some budgetary complications that would have to be resolved, such as the fact that capital outlays are financed by motor fuel taxes, property taxes, and other revenue sources. Some reduction in those levies might be appropriate in lieu of the income tax reduction used here for illustrative purposes.

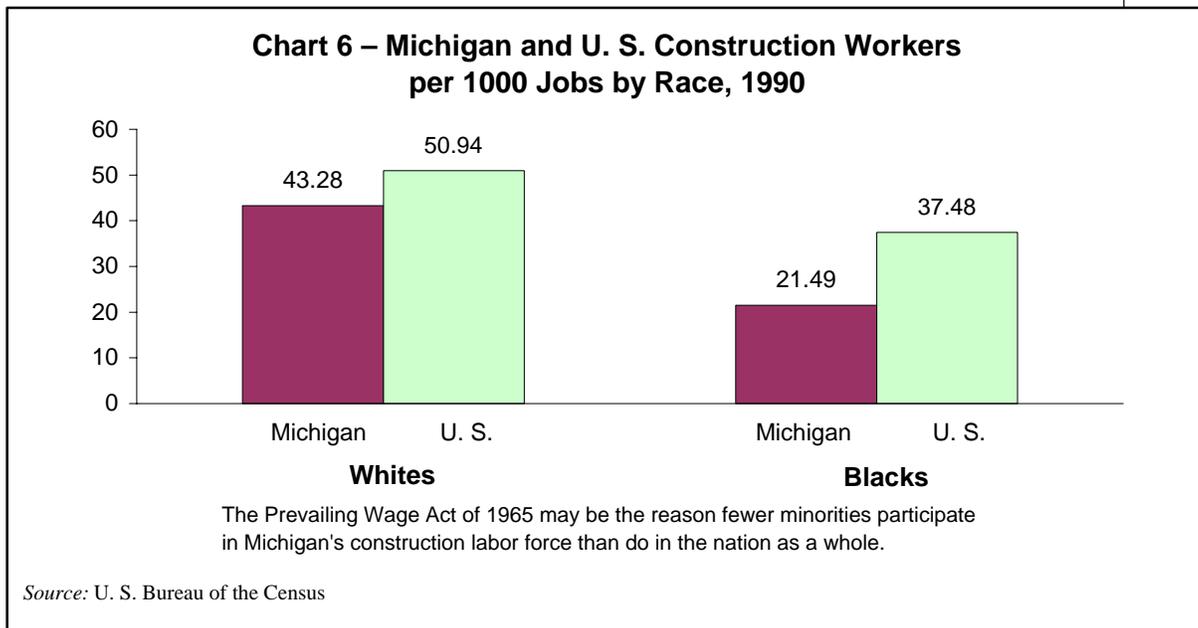
Much attention has been given to a Utah Study that purports to show that repeal of prevailing wage laws would raise costs to taxpayers. See P. Phillips, G. Mangum, N. Waitzman, and A. Yeagle, *Losing Ground: Lessons from the Repeal of Nine “Little Davis-Bacon Acts.”* (Salt Lake City: University of Utah, 1995). Thieblot, op. cit., has decisively refuted the claims and methodology in the Utah study. A detailed discussion is beyond the scope of this study.

Employment Effects of Prevailing Wages by Race

Earlier it was suggested that prevailing wages should reduce employment opportunities for groups subject to racial discrimination, such as blacks. The historical evidence is that from the very beginning some proponents of the Davis-Bacon Act and companion state legislation wanted to reduce construction employment for African-Americans.¹⁷ Although a detailed examination of this issue as it pertains to Michigan is beyond the scope of this study, some descriptive statistical evidence is consistent with the view that the Michigan law has disadvantaged blacks more than whites.

Chart 6, below, shows for Michigan and the nation the number of construction workers per 1,000 total employed for both blacks and whites, using data from the 1990 Census of Population.¹⁸ Note that for both blacks and whites, there were fewer construction workers in relation to the total labor force in Michigan than in the nation as a whole, but that the disparity was particularly striking for blacks. The percentage of blacks working in construction (here defined as "construction trades" and "construction laborers") was over 40 percent below the national norm. For whites, the disparity was less than 20 percent.

The percentage of blacks working in construction in Michigan was over 40 percent below the national norm.



¹⁷ The Michigan prevailing wage law dates only from 1965, when deliberate attempts to use laws to promote racially discriminatory behavior had largely passed from the scene. This does not negate the possibility, however, that the Michigan law could have had unintended adverse consequences for members of minority groups.

¹⁸ See the U. S. Bureau of the Census, *1990 Census of Population: Social and Economic Characteristics* (Washington, D. C.: Government Printing Office, 1993), Vols. CP-2-1, pp. 81-82, and CP-2-24, pp. 209-210.

Employment in general in Michigan construction was lowered because of the negative consequences of strong prevailing wage laws, as well as possibly other factors, as discussed above. Yet employment was particularly reduced for blacks, consistent with the theory that prevailing wage laws reduce financial disincentives for employers to discriminate by race. Nationwide, blacks in 1990 were 74 percent as well represented in construction as whites (as measured by the percent of workers working construction). That underrepresentation may well reflect the discriminatory impact of the national Davis-Bacon Act as well as individual state prevailing wage laws.

The Michigan strong prevailing wage law, however, seems to compound the racial effects. In Michigan, blacks in 1990 were less than 50 percent as well represented in construction as were whites. The Michigan figure is well below that for the nation as a whole. While other factors could be at work here, it is not known what they are. There is very strong, even compelling, circumstantial evidence that the Michigan prevailing wage law has reduced employment opportunities in particular for blacks.¹⁹

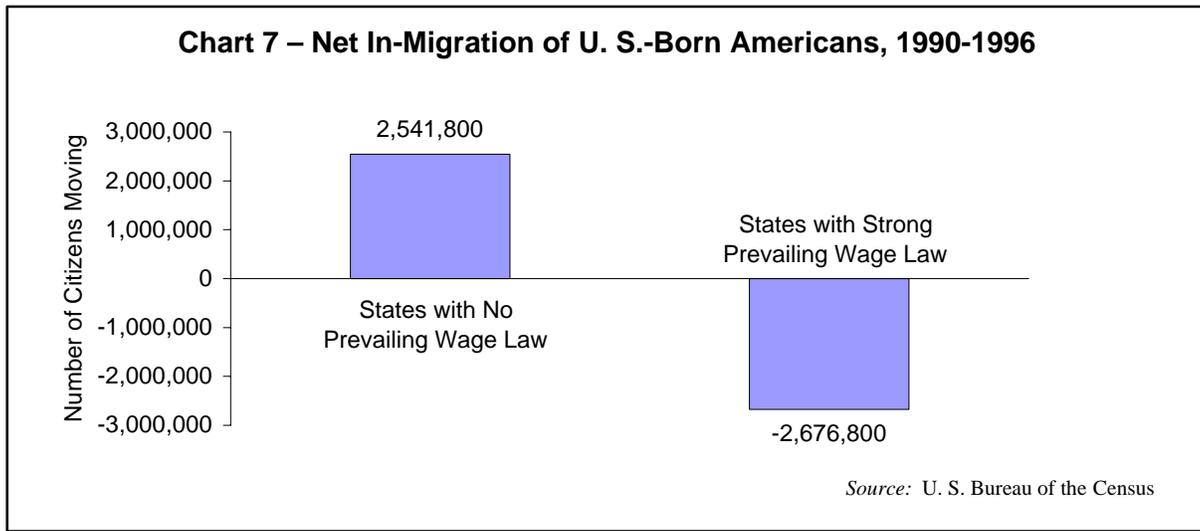
Prevailing Wages, Economic Prosperity, and the Quality of Life

Prevailing wages were supposed to reduce poverty and improve living standards for workers on government-funded projects, typically construction. If such laws are “good,” they should raise the quality of life and promote in-migration in the relevant state. Construction workers, their relatives, and others would want to go to the high-wage areas protected by prevailing wage legislation. If, however, the laws reduce employment, raise costs of construction, and increase burdens on the taxpayers, one would expect the laws to have a negative impact on the quality of life in a state and thus lead people on balance to leave the state.

What is the evidence for the 12 states that are “strong” prevailing wage law states, a group that includes Michigan? Chart 7, next page, shows that from 1990 to 1996, some 2,676,800 native-born Americans migrated out of the “strong” prevailing wage law states for other states. That is the equivalent of over one thousand persons moving each day, every day for those six years. Where did these people move? Almost entirely to the states with *no* prevailing wage laws—those states had net in-migration of 2,541,800 persons.

In Michigan, blacks in 1990 were less than 50 percent as well represented in construction as were whites. That underrepresentation may well reflect the discriminatory impact of the national Davis-Bacon Act as well as the state prevailing wage law.

¹⁹ See Robert P. Hunter, “Union Racial Discrimination is Alive and Well,” Mackinac Center for Public Policy *Viewpoint on Public Issues* 97-26, September 1997, accessible by Internet at <http://www.mackinac.org/article.asp?VPT97-26>.



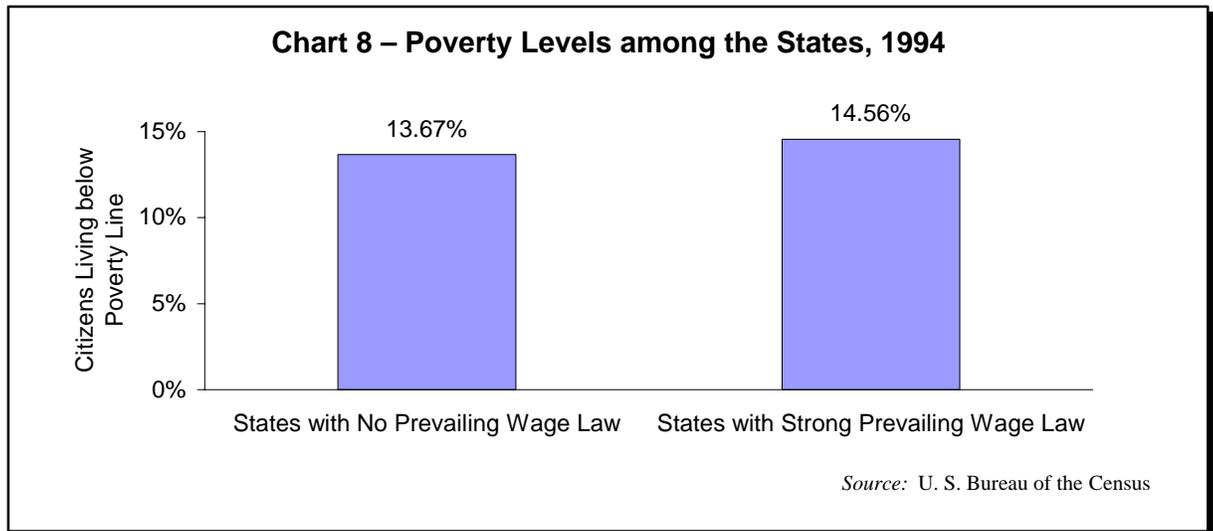
It is true that simple statistical comparisons such as this one need to be interpreted cautiously. States with prevailing wage laws may have other factors that tend to repel people from moving into them, for example.²⁰ Nonetheless, this simple statistical observation suggests that the evidence favors those who support abolition of prevailing wage laws.

Other measures of economic well being also tend to leave a negative impression of prevailing wage laws. For example, from 1988 to 1996, per capita income rose on average 49 percent in the states without any prevailing wage, compared with 42.9 percent in the states with strong prevailing wage laws, a group that includes Michigan.

Originally, advocates of prevailing wage laws argued that they alleviated poverty. What is the evidence? As Chart 8, next page, demonstrates, the poverty rate in 1994 in the states with no prevailing wages was actually lower than in the states with strong prevailing wage laws. While not conclusive, this evidence suggests that, if anything, prevailing wages raise poverty rates, presumably by denying job opportunities to some low-income potential workers.

The poverty rate in 1994 in the states with no prevailing wages was actually lower than in the states with strong prevailing wage laws.

²⁰ One factor closely associated with prevailing wage laws is unionization. The average percentage of the work age population that was unionized in the strong prevailing wage states was 11.20 percent compared with 4.26 percent in states without prevailing wage laws. For good data on the economic impact of unions, see Barry T. Hirsch and David A. Macpherson, *Union Membership and Earnings Data Book* (Washington, D. C.: Bureau of National Affairs, 1998).



The evidence on employment, construction costs, and even broader economic effects suggests that state prevailing wage laws have adverse consequences. The Michigan legislature would be wise to repeal the Prevailing Wage Act of 1965.

Conclusion: Michigan Should Repeal Its Prevailing Wage Act

The state of Michigan has a strong prevailing wage law, albeit one that is still under legal challenge. An examination of the evidence on employment, construction costs, and even broader economic effects suggests that state prevailing wage laws have adverse consequences. They cause significant unemployment in the construction industry. The temporary invalidation of the Michigan law resulted in more than 11,000 new construction jobs being created, and the permanent removal of the legislation likely would have more substantial employment effects.

Both economic theory and empirical evidence suggest that minority workers will particularly gain from the removal of prevailing wage restrictions. The severe underrepresentation of blacks in the Michigan construction industry is shameful, and in significant part likely arises because of the state's prevailing wage law.

It is estimated that in fiscal year 1995, the Michigan prevailing wage law increased the costs of public capital outlays by at least \$275 million, equal to five percent of individual income tax collections that year. Significant tax relief and/or expansion of public infrastructure would be possible if the Michigan law were permanently repealed.

Prevailing wages restrict people from operating in a free market to allocate resources and use factors of production most efficiently, thus retarding job creation and contributing to lower economic growth. People have been moving out of Michigan and other prevailing wage states, preferring to earn money in environments where their rate of pay is determined by their individual skills and worth, not by a governmentally determined "just wage" that bears little resemblance to economic reality. The original prevailing wage laws were conceived two-thirds of a century ago to meet problems that do not exist today. Michigan's law was enacted over 30 years ago to likewise deal with economic conditions that simply do not apply in the modern global economy. The preponderance of the evidence suggests that the Michigan legislature would be wise to repeal the Prevailing Wage Act of 1965.

Acknowledgements

The author acknowledges the research assistance provided by Joshua Hall, graduate student in economics at Ohio University, and the additional assistance of Mackinac Center staff members including Director of Labor Policy Robert P. Hunter and Labor Research Assistant Mark L. Fischer.

About the Author

Dr. Richard Vedder is Distinguished Professor of Economics at Ohio University in Athens, Ohio. He has written extensively on labor issues, authoring such books as *The American Economy in Historical Perspective* and, with Lowell Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America*.

Dr. Vedder has written over 100 scholarly papers published in academic journals and books, and his work has also appeared in numerous newspapers and magazines including the *Wall Street Journal*, *Washington Post*, *Investor's Business Daily*, *Christian Science Monitor*, and *USA Today*.

Dr. Vedder has been an economist with the Joint Economic Committee of Congress, with which he maintains a consulting relationship. He has served as the John M. Olin Visiting Professor of Labor Economics and Public Policy at the Center for the Study of American Business at Washington University in St. Louis and has taught or lectured at many other universities.


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ISBN: 1-890624-16-0
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Michigan's Prevailing Wage Act: Will Common Sense Prevail?

by Mark Fischer

Summary

Michigan's Prevailing Wage Act mandates that artificially high union wages be paid for all construction projects financed by the state. Repealing the law would save taxpayers hundreds of millions of dollars in unnecessary construction costs each year.

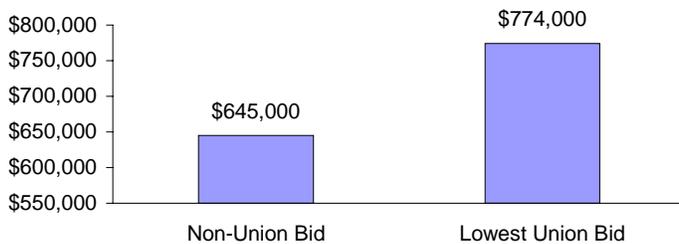
Main text word count: 717

Suppose the state government wants to build two new state police posts, and it requests bids from contractors around the state. The bids received from both union and non-union firms exceed the state's budget due to excessive labor rates. If you were the decision maker in charge, what would you do?

Being a responsible steward of taxpayer funds, you would probably ask the companies to submit revised bids reflecting more competitive labor rates. In 18 states, that would be the correct answer. Unfortunately, Michigan, like 31 other states, has a "prevailing wage" law that effectively makes labor costs "non-negotiable" for non-union companies bidding on state construction projects.

Michigan's Prevailing Wage Act of 1965 mandates that "prevailing rates of wages and fringe benefits" be paid for all construction work performed under contracts financed by the state. This includes everything from state-sponsored highway work and public housing to school construction. In reality, these "prevailing" wage rates are based on union wage and benefit scales.

Union and Non-Union Contractor Bids on Carrollton Public Schools Renovation



Each year, Michigan's prevailing wage law unnecessarily boosts the cost of government construction projects by hundreds of millions of dollars. The added expense to taxpayers hurts schools by making it more difficult for districts to pass bond measures for needed construction and renovation projects.

The framework of the prevailing wage law also reflects the rigid job classifications present in unions. This places non-union competitors who do not use similar classifications at a disadvantage since they frequently must add workers at the inflated wage rate in order to compete for state projects.

This was not always the case in Michigan. In 1994, a federal district court judge ruled that the state law was preempted by ERISA, a federal pension law. Consequently, the prevailing wage act was not enforced between 1994 and 1997. A subsequent appellate court decision reinstated the law in June 1997, making it possible to analyze the effects of both the law and its

continued on back

temporary repeal. In research conducted for the Mackinac Center for Public Policy, nationally recognized economist Dr. Richard Vedder, Distinguished Professor of Economics at Ohio University, examined the state economy's performance in the 30 months that the prevailing wage statute was suspended and the 30 months prior to the district court's nullification of the law.

The results should have Michigan's taxpayers hopping mad in the era of budget surpluses and tax cut debates. Vedder's analysis reveals that, even under extremely conservative assumptions, repealing the law would have saved the state and its localities \$275 million in state governmental capital outlays in fiscal year 1995 alone. That amounts to giving each Michigan taxpayer a five percent rebate on his state income tax payments for that year. Something comparable could be saved in almost any year if the law were repealed.

In Saginaw County, a Carrollton Public School renovation project is just one of many examples of the dramatic savings witnessed during the prevailing wage law's brief suspension. A non-union contractor's bid of \$645,000 for that project was nearly \$124,000 lower than the lowest union contractor bid of \$774,000—a difference of 16 percent.

The hypothetical state police project at the beginning of this article was based in part on an actual state request for bids in Michigan. Now for the rest of the story: The bids, received just prior to the district court's suspension of the prevailing wage requirement, were deemed too costly. The contractors were told to revise their bids, taking the new ruling into account. The low bidder trimmed \$72,000 off of its labor costs and won the contracts, much to the chagrin of its unionized competition.

If the economic evidence against Michigan's prevailing wage law isn't compelling enough, consider the law's odious origins. Michigan's law was modeled on the federal Depression-era Davis-Bacon Act of 1931, a law rooted in union lobbying and racism. The federal law was intended to protect the high wages of union construction workers—predominately white Northerners—at the expense of Southern black, non-union workers. One congressman who supported Davis-Bacon actually made reference to the "problem" of "cheap colored labor" on the floor of the U. S. House.

This is a shameful bit of history, and Michigan should join Alabama, Arizona, Colorado, Idaho, Kansas, Louisiana, New Hampshire, and Utah in discarding it as the state enters the twenty-first century.

Michigan lawmakers now have the advantage of 20/20 hindsight as they re-evaluate the prevailing wage law. The 30-month period during which the law was suspended has given us invaluable information—information that shows the law is little more than special-interest legislation that benefits a few at the expense of the many.

#####

(Mark Fischer is a labor research assistant at the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. More information on labor law is available at www.mackinac.org. Permission to reprint in whole or in part is hereby granted, provided the author and his affiliation are cited.)

Even under conservative assumptions, repealing the prevailing wage law would have saved \$275 million in state governmental capital outlays in fiscal year 1995 alone. That amounts to giving each Michigan taxpayer a five percent rebate on his state income tax payments for that year.

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A MACKINAC CENTER REPORT

THE EFFECTS OF MICHIGAN'S PREVAILING WAGE LAW

Paul Kersey



The Mackinac Center for Public Policy is a nonpartisan research and educational institute devoted to improving the quality of life for all Michigan citizens by promoting sound solutions to state and local policy questions. The Mackinac Center assists policymakers, scholars, business people, the media and the public by providing objective analysis of Michigan issues. The goal of all Center reports, commentaries and educational programs is to equip Michigan citizens and other decision makers to better evaluate policy options. The Mackinac Center for Public Policy is broadening the debate on issues that have for many years been dominated by the belief that government intervention should be the standard solution. Center publications and programs, in contrast, offer an integrated and comprehensive approach that considers:

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The Mackinac Center for Public Policy

The Effects of Michigan's Prevailing Wage Law

Paul Kersey

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Foreword

In 1999, the Mackinac Center for Public Policy examined the cost of state construction projects in Michigan between 1994 and 1997, a period when Michigan's prevailing wage law for state-supported construction projects was not enforced due to a federal court ruling. The result was Dr. Richard Vedder's 1999 Mackinac Center Report "Michigan's Prevailing Wage Law and Its Effects on Government Spending and Construction Employment."

This report firmly established that Michigan's mandated wages were "prevailing" in name only; they did not reflect market prices. In fact, Dr. Vedder found that these wages substantially increased the cost of state construction projects.

Michigan's prevailing wage law and administrative practice may be even more counterproductive now than they were in 1999. Since 2004, the state of Michigan has allowed third parties, not just individual workers, to challenge the practices of nonunion contractors engaged in state-financed construction.* This provision leaves nonunion contractors subject to complaints from union officials, making state construction projects more costly for the contractor and ultimately the taxpayer. Even if a contractor is eventually cleared in a prevailing wage investigation, the pending charge could easily hurt the contractor's ability to win contracts for other state jobs. Administrative rules like these point to the continuing problems associated with state government's mandating a wage, rather than allowing the market to determine the value of labor on a particular job.

* See, for instance, "Fact Sheet #2: Changes to Michigan's Prevailing Wage," State of Michigan Department of Labor and Economic Growth/Wage and Hour Division, March 2007, 1, http://www.michigan.gov/documents/cis/FS_2_Prevailing_Wage_191045_7.pdf, accessed June 22, 2007.

The following report, authored by Paul Kersey, is the natural follow-on to Dr. Vedder's earlier work. Unfortunately, after seven years, the conclusion remains the same: Michigan's prevailing wage law adds unnecessary costs to construction projects at taxpayers' expense. Kersey makes several recommendations to help improve this situation.

It is our hope that if the Mackinac Center examines the issue of state-mandated prevailing wages years from now, it will be in the service of history, not policy reform. Should this be the case, Paul Kersey's contribution will certainly be one of the reasons why.

Thomas W. Washburne
Director of Labor Policy, Mackinac Center for Public Policy
Midland, Mich.

Executive Summary

Michigan's prevailing wage law requires that contractors on state-supported construction projects pay union wages. Passed at a time when union workers probably constituted a majority of Michigan's construction work force — they represented just 22.1 percent in 2006 — the "prevailing wage" now forces contractors to pay wages that average 40 percent to 60 percent higher than those found in the marketplace. The need for this wage boost is dubious. On average, construction workers in Michigan, union and nonunion, receive a median wage (excluding fringe benefits) well above the median wage for all Michigan workers.

The prevailing wage law increases the cost of construction by 10 percent to 15 percent, and the additional costs are passed along to Michigan taxpayers. Repeal of the state prevailing wage law would have saved taxpayers an estimated \$216 million in 2002, while the repeal of local prevailing wage laws could have saved another \$16 million. (These figures represent \$250 million and \$19 million in 2007 dollars.) Exempting just the public school districts from the law would have saved \$109 million in 2002, or \$126 million in 2007 dollars.

The main beneficiaries of prevailing wage laws are unionized construction workers, who are relieved of the burden of competing on wages with nonunion workers for state-supported construction. The benefits of the prevailing wage law to the state as a whole are minimal. There is some evidence that strong prevailing wage laws are associated with modest improvements in per-man-hour productivity, but this increase does not offset the higher wages that are also associated with strong prevailing wage laws. Hence, overall labor costs in these prevailing wage states are higher than in states without prevailing wage laws. There is conflicting evidence concerning the effect of prevailing wage laws on worker safety, and there is no evidence that the laws improve building quality.

Prevailing wage laws may limit jobs in the construction industry. In 18 states without prevailing wage laws in 2004, construction workers made up 5.3 percent of the work force, compared with only 4.2 percent for states with strong prevailing wage laws. In Michigan, construction employment made up only 3.7 percent of the jobs in the state's economy. Professor Richard Vedder has calculated that the temporary suspension of Michigan's prevailing wage law in the mid-1990s was responsible for the creation of an additional 11,000 construction jobs between 1994 and 1997.

Given the empirical evidence on the effect of prevailing wage laws, the state's economic difficulties and the changes that have taken place in the labor market, Michigan's prevailing wage law should be repealed. If policymakers choose to retain the law, it should at least be overhauled to reflect the current state of the construction industry and eliminate unnecessary costs to Michigan taxpayers.

Introduction

As the state of Michigan confronts economic difficulties of a severity rarely seen in its history, the state's political leaders should not hesitate to reconsider policies instituted decades earlier under different economic conditions. Among the policies that should be thoroughly re-examined is that of requiring the payment of union wages and benefits to construction workers on projects funded or supported by state government.

The state's prevailing wage law was enacted in 1965, back when Michigan's automobile industry was in its glory days and a larger portion of the state's work force, including its construction work force, was unionized. At the time, it could be plausibly argued that wages and terms of employment set by collective bargaining agreements "prevailed" in the construction labor marketplace, and that the state was prosperous enough that taxpayers could afford any additional cost that might result from the law's requirements. Thus, the prevailing wage law could have been seen as a modest regulation, designed to ensure that workers on state contracts received wages that were typical for their occupation and involved only modest additional costs for the state's taxpayers.*

Today, labor unions represent a much smaller — and still dwindling — portion of the work force, including that in the construction industry in Michigan. In 2006, only 22.1 percent of construction workers were covered by collective bargaining agreements.¹ The wages and terms of employment that prevail in Michigan today are more likely to be those found at nonunion "merit shop" contractors, set in an open market by the mutual agreement of workers and employers without the involvement of union officials. As a consequence, Michigan's prevailing wage law now forces taxpayers to pay for construction wages that in many cases may be more than 50 percent higher than are typical in the industry.

Meanwhile, the state government's budget has become especially difficult to balance. Many policymakers are understandably reluctant to raise taxes; in fact, the state Legislature will replace the state's "single business tax" at the beginning of 2008 in hopes of attracting new businesses and giving existing Michigan businesses a reasonable chance to be profitable. In these economic conditions, the prevailing wage law looks less like a reasonable rule to protect construction workers on state projects from "cutthroat competition," and more like a subsidy that the state and its taxpayers can no longer afford.

* Arguably, the total economic effect of the prevailing wage law might actually have been higher when the law was first implemented because the law effectively helps shield high-cost producers from competition. Those higher-cost producers were a larger proportion of the construction marketplace in 1965.

¹ Calculations based on Census Current Population Survey data by Barry Hirsch and David MacPherson, available online at <http://www.trinity.edu/bhirsch/unionstats>.

The Michigan Prevailing Wage Law

Coverage

Michigan's prevailing wage law governs the wages paid to all construction employees working on projects paid for by state government.² The statute's language even covers projects undertaken by local governments that use state financial resources, no matter how small the state's financial contribution. The vast majority of public school construction is governed by the prevailing wage law, even when all funds are provided by the local school district, because the state often serves as a guarantor for construction bonds issued by school districts. Michigan courts have ruled that this minimal state support for public school construction is enough to require the application of prevailing wages.³

The statute requires that any contract for construction involving state funds must provide, "[T]he rates of wages and fringe benefits to be paid to each class of mechanics by the bidder and all of his subcontractors, shall be not less than the wage and fringe benefit rates prevailing in the locality in which the work is to be performed."⁴ Prevailing rates are calculated by the Wage and Hour Division of the state Department of Labor and Economic Growth. When soliciting bids for construction, the state agency or local government is required to incorporate the appropriate rate schedule in its bid specifications. Assuming that the bidding is completed in a timely manner, the rates listed in the specifications will apply throughout the length of the project.⁵ A contractor that fails to pay the wages called for by the WHD may be charged with a misdemeanor.* In addition, the state agency or local government that authorized the construction may rescind the construction contract and bring in another contractor to finish the project, with the original contractor being liable for any additional costs.⁶

How Wage Mandates Are Determined

The statute does not define a prevailing wage, nor does it provide any guidance as to which specialties or trades among construction workers are to be recognized and issued a separate prevailing wage, but it does specify that the determination of prevailing rates is to be based on "collective agreements or understandings between bona fide organizations of construction mechanics and their employers" — in other words, union rates.⁷

The WHD determines prevailing wages on a county basis, using collective bargaining agreements submitted by local unions.[†] According to officials at the WHD, these rates were originally updated every 18 months, but in recent years updating prevailing wage schedules has become a constant process — wage schedules are updated whenever a union submits a new collective bargaining agreement.⁸ "Master contracts," involving all the employers in a region of the state, determine many of the rates; frequently one master contract will cover all

* Generally, criminal charges are reserved for employers that have failed to post prevailing rate tables. The more common penalty for violations is to hold back final payment for work done until back wages are paid off.

† Much of the process for determining Michigan's prevailing wage rates is not detailed in written regulations, particularly how a specific prevailing wage rate is determined once the relevant collective bargaining agreements have been gathered by WHD officials.

² 1965 P.A. 166, Mich. Comp. Laws §§408.551 et seq.

³ *West Ottawa Public Schools v. C. Patrick Babcock*, 107 Mich. App. 237, 309 N.W.2d 200 (1979).

⁴ M.C.L. 408.552.

⁵ M.C.L. 408.553.

⁶ M.C.L. 408.556, 408.557.

⁷ M.C.L. 408.554.

⁸ Jack Finn and Georgia Harris, Michigan Department of Labor and Economic Growth/Wage and Hour Division, telephone interview, March 23, 2006.

unionized workers in a craft in a given county.⁹ Where more than one contract may apply, the WHD will use a straight average of the rates contained in the contracts.

Contractors and interested third parties may submit complaints to the Wage and Hour Division if they believe that a rate is inaccurate, but according to officials at the WHD, there is no formal process for evaluating these complaints. The state does not take any other measures, such as examining payrolls of contractors to confirm that the rates listed are actually paid, or otherwise verifying the accuracy of the rates and terms of employment contained in the collective bargaining agreements submitted by unions.¹⁰ There are several ways that inaccuracies could occur: Unions could allow employers to skimp on fringe benefits, allow workers to be put in a work classification receiving lower wages than they would otherwise be entitled to, or offer employers special wage reductions on certain projects that are not reflected in the collective bargaining agreements that are sent to the state. One particular problem area may be in specialized crafts — road construction in particular — for which government agencies are likely to be the main customer. In extreme cases there could in fact be no private market and hence no need for either unions or employers to consider what effect wage rates might have on private-sector customers. Union officials will understandably want to set wages as high as possible, and employers will have little incentive to oppose them as long as these costs can be passed along to the state. Because the state is required by law to pay whatever rate appears in collective bargaining agreements, wage rates would effectively be determined by employers and union officials. In the absence of market competition, these rates are likely to be arbitrary from an economic point of view. The state's failure to verify that the rates found in union collective bargaining agreements are actually enforced in the private sector leaves the state vulnerable to fraud.

Prevailing Wage Laws in Other States

Most states have prevailing wage laws, as does the federal government, but Michigan's is one of the most restrictive. Only three other states — Massachusetts, Ohio and New Jersey — have statutes that explicitly call for a minimum wage based on rates found in collective bargaining agreements.¹¹ A fourth state, New York, has a statute that calls for the use of collectively bargained wages when 30 percent of the local construction work force is unionized, and the state's practice is generally to presume that this threshold has been met throughout the state.¹²

Other states have statutes that leave state or local officials a fair amount of discretion to set prevailing wage rates, neither defining what constitutes a "prevailing" wage nor calling for the application of collectively bargained rates. Among these states, some, such as Illinois, have customarily used union rates.¹³ Other state statutes are more detailed; Tennessee's prevailing wage statute, for instance, gives a listing

⁹ Ibid.

¹⁰ Ibid.

¹¹ Mass. Gen. Laws, chapter 149 §§26 et seq.; N.J. Stat. §§34:11-56:25-34:11-56:44; Ohio Rev. Code §4115.03.

¹² State of New York Commission of Investigation, *The New York State Prevailing Wage Law: An Investigative Analysis* (December 1983), 10-18.

¹³ Armand Thieblot, *Prevailing Wage Legislation* (Philadelphia: University of Pennsylvania, 1986), 152-53.

of worker classifications to be considered and divides the state into districts for determining prevailing rates.¹⁴ Finally, 17 states, including fast-growing ones like North Carolina, Virginia and Arizona, do not have prevailing wage laws in effect, allowing the market to set wages on state-sponsored construction.¹⁵

The Federal Davis-Bacon Act

The federal prevailing wage law is the Davis-Bacon Act of 1931, which applies to government construction projects involving more than \$2,000 of federal funds. The act, which has served as a model for many subsequent state prevailing wage laws, requires that construction workers receive “wages that will be determined by the U.S. secretary of labor to be prevailing for the corresponding classes of laborers and mechanics employed on projects of a character similar to the contract work in the city, town, village, or other civil subdivision of the state in which the work is to be performed. ...”¹⁶ The Davis-Bacon Act does not call for the exclusive use of union wages, nor does it provide guidance as to how a prevailing wage is to be determined out of the many rates that might be found, although the Department of Labor’s practices often result in union wages being applied.

Federal prevailing wages are based on a U.S. Department of Labor survey of employers and unions in a locality.¹⁷ Prior to 1985, if a majority of workers in the area received the same pay rate, that rate was deemed to be the prevailing wage. If there was no majority wage, the wage paid to at least 30 percent of workers would be considered to prevail. If a prevailing wage could not be found under the first two criteria, the Department of Labor took the weighted average of all the rates that had been submitted, accounting for number of workers covered and hours worked.¹⁸

This rule meant that union scale applied quite frequently, especially in areas with a union presence strong enough to trigger the 30 percent rule. The Reagan administration changed the rules considerably in 1985, in particular dropping the 30 percent rule, so that unless a union provided a majority of the workers in a particular craft, it was not guaranteed to set the prevailing wage, and an average wage would be calculated instead.¹⁹ Professor Armand Thieblot, formerly of George Washington University, has presented evidence that the Department of Labor has been prone to manipulate survey results to create the appearance of a union majority wage where none actually exists.²⁰ Nonetheless, the federal law does not mandate the use of union wage rates, and in those counties where union membership is low, the rate set by the federal government will be closer to the market average.

¹⁴ Tenn. Code §§12-4-401 et seq.

¹⁵ Ohio Legislative Service Commission, “Members Only” Brief: Prevailing Wage Laws,” February 25, 2005, 10–14, available online at <http://www.lsc.state.oh.us/membersonly/126prevailingwagelaws.pdf>.

¹⁶ 40 U.S.C. §276(a).

¹⁷ 29 C.F.R. 1.1 et seq.

¹⁸ Hamid Azari-Rad, ed., *Economics of Prevailing Wage Laws, Alternative Voices in Contemporary Economics* (Aldershot, UK: Ashgate, 2005), 14–15.

¹⁹ *Ibid.*

²⁰ Armand Thieblot, “The Twenty-Percent Majority: Pro-Union Bias in Prevailing Rate Determinations,” *Journal of Labor Research*, 26, no. 1 (Winter 2005): 99–134.

Rationales for Preserving the Prevailing Wage

At bottom, there are two main rationales for the enactment and retention of prevailing wage laws. The first is based on notions of social justice and the desire to protect workers on government projects from having their wages undercut as a result of “cutthroat” competition in bidding. The second rationale is that by establishing a wage floor for construction labor, governments encourage the development of a highly skilled construction labor force that is more productive, suffers from fewer workplace injuries and constructs higher-quality buildings.

The Social Justice Rationale

The first rationale would appear, at first glance, to defy basic economic sense: When a government — or any customer, for that matter — solicits bids on construction of a building, the demand for construction labor is increased, meaning that more construction workers may be needed. Employers may then be forced to increase wages to attract qualified workers, especially if they need workers with specialized skills in order to meet their customers’ designs or if there are few unemployed construction workers in the area. But even if the new building requires few specialized skills or there is a large pool of idle construction workers, the process of bidding on a new building should at least tend to stabilize wages, rather than drive them further downward.

The social justice rationale makes more sense (although, as discussed below, it is still flawed) when seen in the light of the conditions that led to the passage of the Davis-Bacon Act. In the early years of the Great Depression, Sen. James Davis of Pennsylvania saw that workers on a federal building in New York had been brought up from the Southern states and were being paid wages well below those customarily paid to local construction workers.²¹ Against the backdrop of economic crisis, the supporters of the federal Davis-Bacon law were distressed to see construction workers’ wages being sharply reduced by what they considered an underhanded tactic: bringing in out-of-state workers who were willing to work for a much lower wage.*

The concern here is not the effect that government construction has on the overall labor market, but the effect that competition might have on workers native to the area of a government-funded project. The prevailing wage law is meant to protect construction workers by shielding them from competitive pressure; in effect, contractors may compete to produce the lowest bid on every other price term, but competition on wages is out of bounds.

There is a problem with this rationale, however. By passing the Davis-Bacon Act, the federal government protected the wages of highly paid construction workers in Northern cities, but in the process significantly limited opportunities for lower-paid workers in the South, who were less likely to be able to go north and find

* It has been argued that racism played a significant role in the passage of the Davis-Bacon Act, and that much of the hostility to the practice of bringing in a work force from out of state was due to the fact that much of that work force was African-American. There is some evidence for this thesis, but I take no position on it. I am unaware of any accusation that racism was a factor in the passage of Michigan’s prevailing wage law.

²¹ Richard Vedder, *Michigan’s Prevailing Wage Law and Its Effects on Government Spending and Construction Employment* (Midland, Mich.: Mackinac Center for Public Policy, September 1999), 3–4.

work because they were prevented from offering to work for lower wages. High-wage workers were protected; low-wage workers were blocked out. As we will see, something similar has come to pass with Michigan's prevailing wage law.

The "High-Wage, High-Skill" Rationale

A second argument focuses on the difficulties of training a highly skilled construction work force. Construction work, the advocates of prevailing wage laws contend, tends to be transient: Jobs in the field are not stable, and construction workers are likely to move between several employers as they undertake and complete various projects. As a consequence, employers are unlikely to provide training, as employers cannot be certain they will capture any of the benefits from the new skills.²² Prevailing wage advocates believe that by placing a floor beneath construction wages on government contracts, the prevailing wage law counteracts this flaw in the construction labor market. In particular, advocates of prevailing wage laws have stressed the value of union apprenticeship programs as a means of creating a highly skilled construction labor force that can command higher wages in the larger marketplace.

But markets can and will adjust to these sorts of difficulties, usually without government intervention. There is some evidence that strong prevailing wage laws are associated with greater participation in apprenticeship programs.²³ This, however, does not prove that these same workers are more productive than workers who receive other forms of training, including informal on-the-job training. For instance, participation in union apprenticeships may be associated with strong prevailing wage laws simply because there is a strong union presence that has successfully lobbied for strong prevailing wage laws. Prevailing wage critics have also argued that worker transience is mostly associated with unionized contractors, who utilize union hiring halls that dispatch workers to the contractors, while nonunion contractors are more likely to be able to maintain a stable work force, making it more practical for them to provide training themselves.²⁴

The Effects of Michigan's Prevailing Wage Law

A key problem with the high-wage, high-skill rationale, as discussed in detail below, is that the balance of the evidence indicates that prevailing wage laws do relatively little to improve the productivity of construction labor, and in fact tend to make construction labor more expensive overall. This finding suggests that the artificial wage floor created by prevailing wage laws can result in higher costs for taxpayers.

The Decline of the Union Movement in Michigan

By the terms of Michigan's prevailing wage statute, the Michigan Department of Labor and Economic Growth is required to look at union rates exclusively

²² Hamid Azari-Rad, ed., *Economics of Prevailing Wage Laws*, 39–40.

²³ *Ibid.*, 149–68.

²⁴ Armand Thieblot, "A New Evaluation of Impacts of Prevailing Wage Repeal," *Journal of Labor Research*, vol. 17, no. 2 (Spring 1996): 307–09.

in determining the prevailing wage. At the time the state law was passed, this might have been a reasonable way to find a prevailing wage. While there are no reliable figures for the state prior to 1983, it is estimated that in 1966, just one year after Michigan's law was passed, union members made up 41.4 percent of the U.S. construction work force.²⁵ Given Michigan's history as a heavily unionized state, it is very likely that half or nearly half of Michigan construction workers were covered by collective bargaining agreements, and the union rates generally did prevail at the time Michigan's law was passed.

But since 1966, the percentage of American workers who belong to unions has been inexorably dropping, and workers in Michigan and the construction industry are no exception.* According to an analysis of U.S. Census Bureau data, the trend for the last 20 years has been downward: In 1986, 32.8 percent of construction workers in Michigan were union members; by 1996, that figure was 25.6 percent; and in 2006, only 22.1 percent of Michigan construction workers were union members.²⁶ Hence, Michigan's prevailing wage law is based on wage rates for a shrinking minority of construction workers.

Prevailing Wage and Construction Industry Compensation

At first glance, the biggest beneficiaries of prevailing wage laws would seem to be nonunion construction workers employed on state construction projects. Unionized workers, one might be inclined to think, would have little to gain, because they receive union wages on every project. But the observed effects of prevailing wage laws are different. In nine states that repealed their prevailing wage laws between 1979 and 1988, construction workers overall saw slight declines in their wages.²⁷ The decline was far from evenly spread: Construction wages declined by 2 percent to 4 percent, but most of the declines actually occurred among unionized workers, who saw their wages drop by around 10 percent. Nonunion construction workers' wages were fairly stable.²⁸

A comparison of the Michigan Department of Labor and Economic Growth's "prevailing" wages to the average wages found among nonunion contractors in Michigan shows that the minimum wages set by DLEG may be more than twice the average wage among nonunion contractors. In 2005, for instance, carpenters in the Midland-Bay City-Saginaw area earned an average of \$17.65 per hour, including wages and fringe benefits, at merit shop companies, according to PAS Inc., a Michigan-based private company that tracks costs in the U.S. construction industry. But on state-sponsored construction, carpenters would have had to receive wages and fringes totaling at least \$35.25 per hour — an increase of 99.7 percent. Construction laborers in the Midland-Bay City-Saginaw area earned \$11.68 an hour at nonunion companies, but the 2005 prevailing wage figure from the DLEG was \$27.17, or 132.7 percent higher.²⁹

These are, to be sure, extreme examples, but when reliable figures can be found for nonunion wages in the many crafts in the construction work force,

* Admittedly, this conclusion is based on two sources using different methodologies and covering separate time periods, but both sources have one thing in common — significant decreases in union membership among construction workers. Leo Troy and Neil Sheflin estimate that union members made up 41.4 percent of the national construction work force in 1966, but only 23.5 percent in 1984. (*U.S. Union Sourcebook*, 1st ed. ([IRDIS: West Orange, NJ, 1985], 3–15). Hirsch and MacPherson estimate that nationally union membership declined among construction workers between 1986 and 2006 from 23.3 percent to 14.0 percent. These estimates are available online at <http://www.trinity.edu/bhirsch/unionstats>.

²⁵ Leo Troy and Neil Sheflin, *U.S. Union Sourcebook*, 1st ed. (West Orange, N.J.: IRDIS, 1985), 3–15.

²⁶ Calculations based on Census Current Population Survey data by Barry Hirsch and David MacPherson, available online at <http://www.trinity.edu/bhirsch/unionstats>.

²⁷ Daniel Kessler and Lawrence Katz, "Prevailing Wage Laws and Construction Labor Markets," *Industrial and Labor Relations Review* 54, no. 2 (January 2001): 259–74.

²⁸ *Ibid.*

²⁹ PAS Inc., *Merit Shop Survey*, 2004 and 2005; and Michigan Department of Labor and Economic Growth, Wage and Hour Division, *Prevailing Wage Rates for State Funded Projects*, available at http://www.dleg.state.mi.us/bwuc/bsr/wh/whc_tbl_2005.htm. All rates listed here include both base pay and fringes, unless otherwise noted.

the corresponding prevailing wage is on average considerably higher than the corresponding merit shop wage. For instance, in 2005, the prevailing wage was 48.5 percent higher in the Grand Rapids area, 51.9 percent higher in the Detroit area and 86.0 percent higher in the Saginaw area.³⁰ And the high costs are not limited to the state's urban areas: In 2004, prevailing wages in Hillsdale County averaged 56.3 percent higher than the corresponding average merit shop wages for the state of Michigan.*³¹ Overall, in 25 total comparable categories of workers in the Grand Rapids, Detroit and Saginaw areas in 2005, prevailing wage rates were 58.6 percent higher than the wages found at merit shop contractors.[†]³²

The U.S. Bureau of Labor Statistics, which surveys wages in 15 Michigan metropolitan areas, includes both union and nonunion employers in determining median wages. As a result, estimates from the BLS tend to be a bit higher than the average for nonunion contractors alone, but by the same token, BLS' coverage of the entire labor market means that the bureau's median wage figures should serve well as an alternative measurement of the true prevailing wage.‡ The BLS figures do not include fringe benefits, while the prevailing wage rates issued by DLEG do include fringe benefits, so any comparison requires adjustments for fringe benefits. A review of PAS and U.S. Department of Labor data indicates that fringe benefits for union and nonunion compensation in the construction industry range from the teens to the low 30s as a percentage of base pay.³³ Adjusting the BLS figures upward by 30 percent to account for fringe benefits,§ a comparison of median wages in the construction industry in 2005 with the 2005 prevailing wage rates in Michigan shows that Michigan's prevailing wage law resulted in an average wage increase of 39.1 percent.

Graphic 1: Selected Wayne County Labor Costs

Class	BLS Median	BLS Adjusted	Prevailing Wage	Percentage Difference **
Bricklayers	\$26.28	\$34.16	\$44.26	29.6
Carpenters	\$20.25	\$26.33	\$41.37	57.2
Construction Laborers	\$18.33	\$23.83	\$31.54	32.4
Electricians	\$31.16	\$40.51	\$46.88	15.7
Painters	\$18.84	\$24.49	\$36.66	49.7
Plumbers	\$26.93	\$35.01	\$49.58	41.6
Iron/Steel Workers	\$29.38	\$38.19	\$45.86	20.1

Source: U.S. Department of Labor, Bureau of Labor Statistics and Michigan Department of Labor and Economic Growth

Under this measurement, not all construction workers necessarily benefitted: Union rates for electricians in the Saginaw area in 2005, for instance, were essentially the same as the adjusted median wage reported by the BLS. But the vast majority of workers appear to have received double-digit pay increases on prevailing wage work compared to BLS median wages; of a total of 156 measurements of workers' wages spread over 15 Michigan metro areas in 2005, only 13 comparisons indicated that workers would not have received pay increases in excess of 10 percent. Some workers would have seen dramatic increases: Cement masons in the Ann Arbor area would have had their wages increased by 99.8 percent, from \$21.91 per hour (on a BLS median wage of \$16.85) to a prevailing wage of \$43.76 per hour, while

* The figure for Hillsdale County probably understates the extent to which prevailing wages inflate labor costs. The average statewide merit shop wages include urban areas, where costs will tend to be higher, while the prevailing wages apply to Hillsdale County only.

† The figures for each of the 25 categories in the three counties appear in Appendix A.

‡ It should be noted that the BLS figures include construction workers engaged in both residential and commercial construction. While it is possible that this might affect median wages for some categories, the effects seem to be minor. The overall results from the BLS comparisons are consistent with other measurements of construction industry wages and with the results of investigations of the effects of prevailing wage laws on the overall cost of construction.

§ This 30 percent figure in most cases overstates the fringe benefits earned by construction employees working on private-sector projects. As a result, the disparity between prevailing wage rates in public construction and the wage rates in private construction projects will tend to be understated here.

** This figure represents the percentage by which the prevailing wage exceeds the adjusted Bureau of Labor Statistics wage.

³⁰ Ibid.

³¹ Ibid.

³² Ibid.

³³ PAS Inc., Merit Shop Survey; U.S. Department of Labor, Prevailing Wage Determinations, General Decision MI20030081, effective January 20, 2006. (Unlike DLEG, the U.S. Department of Labor lists both base pay and fringe benefits in its prevailing wage determinations.)

carpenters in the Muskegon area would have seen their hourly wages boosted from \$14.00 (on a BLS median wage of \$10.77) to \$31.15, an increase of 122.5 percent. The cost of the prevailing wage law in 2005 varied from region to region. Wages in the Flint area would have received a boost of 20.4 percent, while in the Bay City area, the average wage boost would have been 66.8 percent. In the Detroit area, DLEG's prevailing wage rates were on average 39.0 percent higher than the corresponding median wage found by the BLS after adjusting for benefits.³⁴

Given these calculations with BLS and PAS figures, Michigan's prevailing wage law and its requirement that union wages be used on state construction projects adds roughly 40 percent to 60 percent to the cost of labor.

As a consequence, what Michigan law calls a "prevailing" wage is actually an above-market wage paid to a shrinking minority of construction workers. In the process, the state effectively subsidizes high-cost unionized contractors. Unionized companies with workers compensated well above average need not fear competition from companies that pay their workers a market-based wage when bidding on state-sponsored construction.

Another Perspective: Prevailing Wages and the Larger Work Force

Under the state prevailing wage law, the workers receiving the biggest boosts are not necessarily those with the greatest need. For example, consider the city of Detroit's "living wage," which is intended to ensure that low-skilled workers are not exploited in the course of city business. In 2006, companies and nonprofits doing business with the city were required to pay all employees working on city business — not just construction — a minimum of \$12.50 per hour,* which was 25 percent more than the amount that a full-time worker would need to meet the federal poverty line for a family of four.³⁵ By comparison, construction laborers — workers in one of the least-skilled occupations in the construction industry — at nonunion contractors in the Detroit area received an average base wage (including benefits) of \$19.60 per hour, 56.8 percent higher than the Detroit living wage. Electricians at nonunion firms had an average hourly wage of \$30.83, better than twice Detroit's living wage.³⁶

Michigan's prevailing wage law boosts these wages, already well above poverty level, even higher: Class I (underground) Laborers, one of the lower-paid categories of laborers, received \$31.54 per hour on state-supported construction in Wayne County in 2006, more than 2.5 times Detroit's living wage, while electricians received a minimum of \$44.37 per hour, more than 3.5 times Detroit's living wage.³⁷

The BLS estimates that in 2005 the median wage for all workers in the metropolitan Detroit area (including both hourly and salaried employees) worked out to \$17.72 per hour.³⁸ Again, this figure does not include fringe benefits, and again, assuming that fringe benefits are worth 30 percent of straight wages, we estimate total wages and benefits of \$23.04 per hour.³⁹ In 2005, the Michigan Wage and

* As of 2006, this figure was the required "living wage" for employees who do not receive health care benefits. Workers who receive sufficient health care benefits as defined by the Detroit ordinance could have received a wage as low as \$10.00 per hour.

³⁴ Calculations by the Mackinac Center for Public Policy, based on U.S. Department of Labor, Bureau of Labor Statistics, *Metropolitan Area Occupational Employment and Wage Estimates*, 2005; and Michigan Department of Labor and Economic Growth, *Prevailing Wage Determinations*, 2005.

³⁵ City of Detroit Finance Department, City of Detroit Ordinance 45-98.

³⁶ PAS Inc., *Merit Shop Survey*.

³⁷ Michigan Department of Labor and Economic Growth, Wage and Hour Division, *Prevailing Wage Rates for State Funded Projects*.

³⁸ U.S. Department of Labor, Bureau of Labor Statistics, *Metropolitan Area Occupational Employment and Wage Estimates*.

³⁹ This is a reasonably generous estimate, at least by the standards of the construction industry in the Detroit area. With a few exceptions, fringe benefits as a percentage of base pay range from the teens to the low 30s in both the union and nonunion sector. PAS Inc., *Merit Shop Survey*; U.S. Department of Labor, *Prevailing Wage Determinations*, General Decision MI20030081, effective January 20, 2006.

Hour Division's prevailing wage determinations for Wayne County listed 118 separate wage categories, of which only two were compensated at less than \$23.04 per hour. Sixty-four classes of workers would have received hourly pay and fringe benefits in excess of \$40 per hour.* Working full time for 50 weeks per year on state-supported construction — but without working overtime — these workers would have received state-mandated compensation in excess of \$80,000 per year.

Michigan's construction work force, overall, is fairly well paid. In 2006, the median wage for construction workers, including both union and nonunion workers across the state, was \$20.31 per hour (excluding fringe benefits) — 28.1 percent higher than the median wage of \$15.86 for all workers in Michigan.^{† 40} Even if one believes that government should take active steps to redistribute income to low-wage workers, in most cases this is not what Michigan's prevailing wage law does. To the contrary, the prevailing wage law generally mandates large pay increases to workers who frequently would earn above-average wages without any government intervention.

Prevailing Wage, Productivity and Cost-Effectiveness

Prevailing wage advocates claim that by boosting construction wages, the law promotes a better-trained and more productive construction work force — the high-wage, high-skill argument. U.S. Census data suggests construction workers may be more productive in states with strong prevailing wage laws — but this does not mean that prevailing wage laws are cost-effective.

We compared states with strong prevailing wage laws to states without prevailing wage laws by using U.S. Census Bureau data to calculate value-added per construction worker and value-added per dollar of compensation. In 18 states without prevailing wage laws, the value-added per worker is \$142,027, while the value-added per worker in 11 states with strong prevailing wage laws is \$159,304, indicating that on a worker-for-worker basis, construction labor is 12.2 percent more productive in states with strong prevailing wage laws.⁴¹

It should be noted, however, that these “value added” calculations are likely to inflate the value of construction done by higher-wage workers. The Census Bureau defines value added as the “value of business done less costs for construction work contracted out to others and costs for materials, components, supplies, and fuels.”⁴² The “value of business done” calculation, in turn, is based on the sum of “receipts, billings, or sales.”⁴³ Construction bids will include an allowance for labor costs, so these will be recaptured as part of a contractor's receipts. The Census' “value added” calculations do not, however, attempt to adjust for variations in labor costs, even though higher labor costs in and of themselves do not add to the functionality of a building. As a consequence, the value added on a construction project in a high-wage jurisdiction may appear to be higher than in a jurisdiction

* While the prevailing wage law mandates compensation in excess of \$40 per hour for most categories of construction workers, it is not necessarily the case that this figure applies to a majority of Wayne County construction workers.

† These BLS figures include work performed under the state prevailing wage law. However, state and local government construction only amounted to approximately 15 percent of total construction in Michigan in 2002, and not all of this government-supported construction would have been covered by the prevailing wage statute. Average non-union wages found by PAS also compare favorably with the average wage for all workers in the state. Given the limited amount of construction subject to the prevailing wage law, it is very likely that construction workers would have earned more than the BLS median wage even in the absence of the prevailing wage law.

⁴⁰ U.S. Department of Labor, Bureau of Labor Statistics, *OES Occupational Employment and Wage Estimates, Michigan*.

⁴¹ Source: Mackinac Center calculations based on U.S. Census Bureau, *2002 Economic Census, Construction Industry Series*, Table 3, 3.

⁴² See U.S. Census Bureau, *2002 Economic Census, Construction Industry Series*, A3., Appendix A.

⁴³ *Ibid.*

with relatively low construction wages. Because states with strong prevailing wage laws tend to have higher construction wages, the value added by workers in strong prevailing wage states may be somewhat inflated. With this in mind, it is possible that productivity per worker is not significantly higher in states with strong prevailing wage laws.

Furthermore, the same Census data indicates that payroll costs per construction worker are 19.2 percent higher in the strong prevailing wage states than in states with no prevailing wage laws. If one divides construction value-added by construction labor payroll, one finds that in strong prevailing wage states, each dollar paid for construction labor generates \$4.27 in value-added, but in states without prevailing wage laws, a dollar of construction labor generates \$4.54 in value-added. On a dollar-by-dollar basis, construction labor is 6.3 percent more productive in states without prevailing wage laws.

It should be noted that Michigan's overall labor costs by this measurement are fairly good; the average dollar spent on labor yielded \$5.02 value added. But there is little reason to credit the prevailing wage law with this — several states without prevailing wage laws do much better on this measurement. And as noted above, construction labor generally provides more value in states without prevailing wage laws.

This is roughly what one would expect to see when the cost of labor is boosted artificially: Employers make increased use of equipment or training to improve the productivity of their labor force, but there is no guarantee that employers will be able to completely offset the increased cost of labor. A government can command that wages be increased, but it cannot command that there be machinery or knowledge to make up for the higher wages.

And in the process of using training or equipment to improve labor productivity, employers may make do with less labor or refuse to hire untrained workers, reducing employment opportunities in construction. In 18 states without prevailing wage laws, construction workers made up 5.3 percent of the work force in 2004, compared with only 4.2 percent for strong prevailing wage states, an indication of the possibility that prevailing wage laws limit opportunities in the construction industry. In Michigan, construction employment made up only 3.7 percent of the employment in the state's economy.⁴⁴

In short, while individual workers may be more productive in states with strong prevailing wage laws, strong prevailing wage laws are also associated with higher payroll costs. The overall effect is to make construction labor more expensive, not less. This may be an attractive trade-off for construction workers (assuming they are able to find steady work), but it is a poor deal for business owners outside of the construction industry. Although the law does not apply to them directly, businesses seeking to build new facilities or expand existing facilities are likely to find it more expensive to do so in states with strong prevailing wage laws.

⁴⁴ U.S. Department of Labor, Bureau of Labor Statistics, *Occupational Employment Survey*, 2004.

Workplace Safety and Quality of Construction

There is conflicting evidence on the question of what effect prevailing wage laws have on workplace safety. A regression analysis of nonfatal injury rates between 1976 and 1999 done by economist Hamid Azari-Rad shows lower injury rates in states with prevailing wage laws. Depending on the class of injury, prevailing wage laws were associated with injury reductions of as much as 10.2 percent.⁴⁵ But data compiled by the Occupational Safety and Health Administration between 1975 and 1978 tell a dramatically different story: States without prevailing wages had significantly lower construction injury rates.⁴⁶ Furthermore, OSHA data show that states that repealed their prevailing wage laws between 1978 and 1990 had declining injury rates, just like states that had prevailing wage laws throughout that period and states that did not have prevailing wage laws.⁴⁷ As in the earlier OSHA numbers, states without prevailing wage laws tended to have lower injury rates than states with prevailing wage laws. Unlike Azari-Rad's data set, the OSHA figures included fatal injuries, making the OSHA data more complete.

In the end we cannot draw any firm conclusions on injury rates, partly because of the conflicting evidence, and partly because there has been no direct comparison of injury rates between prevailing wage jobs and non-prevailing-wage jobs (regardless of the state in which the work was performed). As we will see later, this kind of job-by-job comparison has been performed numerous times for overall construction costs. Regardless, it appears unlikely that prevailing wage repeal would bring about an increase in construction workplace injuries — and might very well be associated with a decrease.

Nor is there compelling evidence that prevailing wage laws improve the quality of construction, although this is a difficult thing to quantify and track, and few studies have dealt with this aspect of prevailing wages. One measurement, admittedly crude, of the effect that prevailing wage laws have on construction quality is a survey of public school officials in Ohio performed by the Ohio Legislative Service Commission in 2000, two years after Ohio exempted public school districts from the state's prevailing wage law. Only 2 percent of school officials reported that the quality of construction had declined, indicating that prevailing wage laws had no effect, or at least that school districts had other means at their disposal to ensure that construction work was performed competently.⁴⁸

In a more extensive report issued a year and a half later by the OLSC, the overwhelming majority of respondents, 91 percent, reported no change in construction quality since the exemption took effect, while 3 percent reported lower quality and 6 percent reported that construction quality had improved.⁴⁹

Difficulties for Bidders

Michigan's prevailing wage law has had other significant effects on the process of public construction. The practice of the state's Wage and Hour Division is to use

⁴⁵ Hamid Azari-Rad, ed., *Economics of Prevailing Wage Laws*, 181–83.

⁴⁶ Armand Thieblot, "A New Evaluation of Impacts of Prevailing Wage Law Repeal," 310.

⁴⁷ *Ibid.*, 311.

⁴⁸ "Prevailing Wage Exemption Provides Schools with Lower Costs, Higher Quality Education," Buckeye Institute for Public Policy, May 1, 2000, available online at <http://www.buckeyeinstitute.org/article/509>.

⁴⁹ Ohio Legislative Service Commission, *S.B. 102 Report: The Effects of the Exemption of School Construction Projects from Ohio's Prevailing Wage Law*, May 20, 2002, 11.

union work classifications to create prevailing wage scales. This is a reasonable step in light of the law's requirements, but one that has the effect of imposing not only union wages, but also union work classifications on nonunion contractors that bid on and win public construction contracts. The finely detailed classifications will often be unfamiliar to nonunion contractors, especially smaller companies that rely less on specialization. A typical prevailing wage determination from the WHD may list more than 100 different work categories. Categories can be very detailed: Crane operators can be paid any of five separate rates depending on the length of the crane's boom and jib; laborers' pay can vary depending on how far outside the building they are working.⁵⁰ By contrast, wage reports for nonunion companies typically list only 30 occupations.*

Apprehension about possible legal liability from inadvertent violations may lead some nonunion contractors to forgo bidding on public construction. These contractors would be at risk of misapplying union categories with which they are unfamiliar, and even if they understand those categories, their own practices might not align with the union standards imposed by Michigan's prevailing wage. In such situations, potential legal liability would lead contractors to place workers in higher-paying work classifications. Some contractors would adjust their bids upward to account for this risk; others might forgo bidding on government contracts, reducing competition. Either way, taxpayers would bear the increased cost of government construction.

The Ohio report cited earlier also found that some nonunion contractors had concerns about the effect that widely differing wage scales might have on employee morale: Workers might perceive favoritism in assignments to more lucrative government contracts, or they might react negatively when returning from union-scale public work back to market-wage work for a private-sector customer.⁵¹ The Ohio report indicated that prevailing wage laws tend to reduce the number of bidders on public construction, increasing the cost to taxpayers.⁵²

Overall Cost of Construction

As detailed earlier, the exclusive use of union rates in setting prevailing wages results in wages that are 40 percent to 60 percent higher than the average found in the marketplace. Professor Richard Vedder's analysis of construction costs using 1997 U.S. Census Bureau data revealed that depending on the type of construction, labor costs appear to make up 20 percent to 30 percent of the overall cost of construction.⁵³ A similar analysis based on figures from the 2002 economic census showed little change: Depending on how nonconstruction workers (mainly office and administrative staff) are treated, payroll for construction workers appears to make up somewhere between 23 and 28 percent of the cost of construction nationally. Census figures for Michigan are similar.⁵⁴

* See, for instance, PAS Inc., *Merit Shop Reports* or BLS *Occupational Employment Survey*.

⁵⁰ Michigan Department of Labor and Economic Growth, Wage and Hour Division, *Prevailing Wage Reports for State Funded Projects*.

⁵¹ Ohio Legislative Service Commission, *S.B. 102 Report*, 9.

⁵² *Ibid.*, 9-10.

⁵³ Richard Vedder, *Michigan's Prevailing Wage Law*, 14.

⁵⁴ Author's calculations based on U.S. Census Bureau, *2002 Economic Census, Construction Industry Series, Commercial Building Construction*, tables 2 and 3.

Assuming that labor costs make up 25 percent of construction costs, the prevailing wage would add 10 percent to 15 percent to the overall cost of construction. As we will see in the next section, this estimate matches fairly closely with the experience of jurisdictions that have either added prevailing wage laws or granted exemptions from them.

Experience of Michigan and Other Jurisdictions

Michigan is among the states where prevailing wage laws have been repealed, albeit temporarily. From December 1994 to June 1997, Michigan's prevailing wage law was held to be invalid by the federal courts.⁵⁵ During that time, school districts were free to consider bids from nonunion contractors that were predicated on the payment of market wages. In 20 cases where nonunion contractors did so, they were consistently able to make bids lower than unionized companies. On average, the potential savings from the use of market wages were in excess of 10 percent and as high as 16 percent.⁵⁵

During that time, the state's construction industry added 17,600 jobs annually, compared to annual job growth of only 4,000 in the years prior to 1994. In his analysis of the suspension of the prevailing wage law, Vedder adjusted the numbers to account for the effects of weather and the expansive mid-1990s economy, but he nonetheless concluded that prevailing wage suspension was responsible for the creation of 11,000 new construction jobs between 1994 and 1997.⁵⁶

In 1992 the Canadian province of British Columbia enacted the Skill Development and Fair Wage Policy, a prevailing wage law that set minimum construction wages at 90 percent of union rates. Economists Cihan Bilginsoy and Peter Philips analyzed the bids received on 54 school construction projects made before and after the policy took effect, and they found that construction costs appeared to increase by 16 percent once the policy took effect.⁵⁷ More recently, an analysis in California showed that when low-income housing construction was made subject to prevailing wage laws, the cost of construction was significantly higher. The authors of that study, affiliated with the University of California at Berkeley, concluded that a new state law that would extend California's prevailing wage law to all state-subsidized housing construction would increase the cost of new construction by between 9 percent and 37 percent.⁵⁷

But perhaps the best indicator of what effects prevailing wage repeal might mean for Michigan can be found in Ohio, where the state Legislature exempted public school construction from that state's prevailing wage law in 1997. Like Michigan's law, Ohio's prevailing wage law calls for the exclusive use of collective bargaining

* In *Associated Builders and Contractors, Saginaw Valley Area Chapter v. Perry*, 869 F.Supp. 1239 (E.D.Mich.1994), a U.S. district court found that the Michigan Prevailing Wage Act was in conflict with the Employee Retirement Income Security Act of 1974, a law that pre-empts any state law relating to benefits. The manner in which the Michigan Department of Labor treated fringe benefits in calculating the prevailing wage and determining whether an employer paid that wage was found to relate to benefits. Because the trial court found a significant portion of the Michigan Prevailing Wage Act to be unenforceable, it ordered that the act in its entirety was unenforceable.

On appeal, the 6th U.S. Circuit Court reversed the trial court's holding (see *Associated Builders and Contractors, Saginaw Valley Area Chapter v. Perry*, 115 F.3d 386 [6th Cir. 1997]). In reversing, the court held that there was nothing in ERISA itself or the legislative history surrounding ERISA's passage to indicate congressional intent to pre-empt laws such as Michigan's Prevailing Wage Act.

† It should be noted that during the period that prevailing wages were suspended in Michigan, builders had to account for the risk that the prevailing wage would be reinstated and that they might be liable for back pay. This likely muted the effect of prevailing wage suspension, diminishing both savings and employment gains.

‡ Cihan Bilginsoy and Peter Philips, "Prevailing Wage Regulations and School Construction Costs: Evidence from British Columbia," *Journal of Education Finance* 24 (Winter 2000): 415-32. In spite of the cost increase, which they concede to be statistically significant, Bilginsoy and Philips conclude that prevailing wage repeal, as a cost-saving strategy, is "misguided."

⁵⁵ Richard Vedder, *Michigan's Prevailing Wage Law*, 14.

⁵⁶ Richard Vedder, *Michigan's Prevailing Wage Law*, 7-11.

⁵⁷ Sarah Dunn, John M. Quigley, and Larry A Rosenthal, "The Effects of Prevailing Wage Requirements on the Cost of Low-Income Housing," *Industrial and Labor Relations Review* 59, no. 1 (October 2005): 141-57.

agreements in determining prevailing wages, and Ohio's climate, both physically and economically, is similar to Michigan's. Repeal of prevailing wage should have similar results for Michigan contractors, government agencies and construction workers.

Five years after the exemption was enacted, the Ohio Legislative Service Commission, at the behest of the state Legislature, reviewed data on school construction costs before and after the exemption took effect. The commission's analysis accounted for changes in the cost of construction materials, building types and differences between rural and urban districts. The commission found that the exemption had allowed Ohio public schools to save a total of \$487.9 million, 10.7 percent of construction spending.⁵⁸ The biggest impact was on additions to existing buildings, where the exemption produced savings of 19.9 percent.⁵⁹ The OLSC also concluded that public school construction was not a large enough portion of the overall construction industry in Ohio to have a significant effect on employment or wages in the construction industry.⁶⁰

The Overall Cost of the Prevailing Wage for Michigan Taxpayers

From our estimates of labor costs and the experience of Michigan and other jurisdictions, it seems reasonable to conclude that Michigan's prevailing wage law, by mandating union wage rates on all public construction, adds 10 percent to 15 percent to the cost of all public construction. Because state and local governments spend billions of dollars annually on construction, this imposes a heavy burden on the state's taxpayers.

In fiscal 2002,* Michigan state government spent more than \$1.44 billion on construction, while public schools spent \$1.32 billion, and local governments spent approximately \$2.6 billion.⁶¹ Some of this construction was covered by the federal Davis-Bacon Act. The Davis-Bacon Act itself mandates the payment of prevailing wages on any project where the federal government provides more than \$2,000, and although the act does not explicitly mandate union scale, there is anecdotal evidence of some bias in that direction.⁶² For the sake of simplification, this paper will assume that where the Davis-Bacon Act applies, the potential savings for the state and local governments would be negligible if Michigan's prevailing wage law were repealed.

The Davis-Bacon Act has had the heaviest impact in road construction. In 2002, Michigan's state and local governments received \$661 million in highway funding from the federal government.⁶³ The state of Michigan has customarily passed a quarter of federal roads funding on to local governments.⁶⁴ This proportion would leave \$496 million of state-managed road construction subject to the federal Davis-Bacon Act.

* The year 2002 is the most recent for which U.S. Census data on state and local construction spending are available.

⁵⁸ Ohio Legislative Service Commission, *S.B. 102 Report*, 22–25.

⁵⁹ *Ibid.*

⁶⁰ *Ibid.*, 36–37.

⁶¹ U.S. Census Bureau, *Compendium of Government Finances, 2002*, 115; U.S. Census Bureau, *Statistical Tables, Public Elementary-Secondary Education Finances: 2001–02*, table 9.

⁶² Armand Thieblot, "The Twenty-Percent Majority," 99–134.

⁶³ Federal Highway Administration, *Highway Statistics 2002*, Table SF 21: State Funding for Highways – Summary, available online at <http://www.fhwa.dot.gov/policy/ohim/hs02/sf21.htm>.

⁶⁴ Michigan Department of Transportation, *State Long-Range Transportation Plan 2005-2030: Finance Technical Report*, 2006, 5.

State departments of transportation have some flexibility in how federal highway funds are used. While it is possible for federal funds to be spread out over many projects, making all of those projects subject to the Davis-Bacon Act, it is also generally possible to concentrate them into several projects, leaving the remaining state road projects free from Davis-Bacon mandates.⁶⁵ Consequently, of the \$1.44 billion in state government construction spending in 2002, only the \$496 million in federal highway funds received by state government would have been covered by Davis-Bacon laws. The remaining \$945 million in state construction spending, both highway and nonhighway, would have involved minimal federal money, leaving state government free to apply its own wage policy. If we assume that the state prevailing wage law increased construction costs by 10 percent — a conservative assumption — the state would have saved approximately \$86 million in state construction spending in 2002.*

The state also transferred \$1.08 billion to local governments for road construction and maintenance in 2002. While exact figures for highway construction by local governments are not available, we do know that overall capital outlay (a category that includes both construction and related expenses, such as land acquisition) made up around 43 percent of highway spending in Michigan in 2002.⁶⁶ Assuming that same ratio applied on these transferred funds would give us \$464 million that was used for capital outlay. From this one could reasonably estimate that around half, \$232 million, was spent on road construction that was not subject to the federal Davis-Bacon Act.[†] This in turn leads to an additional \$21 million in likely savings on highway construction and maintenance if the state prevailing wage law had not been in effect.

Public school districts across the state spent \$1.32 billion on construction in 2002. Because the state acts as a surety on most of the bonds used for public school construction in Michigan, the overwhelming majority of this construction is covered by the state prevailing wage law. We estimate that 90 percent of school construction is affected by the prevailing wage law, or approximately \$1.2 billion in 2002.[‡] Thus, in the absence of the prevailing wage law in 2002, school districts would have spent \$109 million less.

Given the three estimates above, it is reasonable to project that repeal of the state's prevailing wage law would have saved \$216 million in 2002. (An estimate of the possible savings for county and municipal governments with the repeal of the state prevailing wage law on projects that are partly funded by the state is beyond the scope of this report.)

* Our assumption that the prevailing wage law adds 10 percent to the cost of construction implies that repeal would result in a savings of 9.09 percent.

† John C. Taylor, an associate professor of marketing and logistics at Grand Valley State University, made a similar assumption in making his own estimate of the possible savings from state prevailing wage law repeal. See John C. Taylor, *Road Funding, Time for a Change* (Midland, Mich.: Mackinac Center for Public Policy, 2007), 74. Taylor used a different base year (2004) and made slightly different assumptions on the effect of the prevailing wage law, to come up with an estimate of \$25 million in likely savings.

‡ According to municipal funding expert Lou Schimmel, "nearly all" of school construction is at least partially funded by qualified bonds. Mike Alandt, director of the Municipal Advisory Council of Michigan, puts that figure at 80 percent to 90 percent. Lou Schimmel, telephone interview, March 9, 2007; Mike Alandt, telephone interview, March 16, 2007.

⁶⁵ Shirley Ybarra, former director, Virginia Department of Transportation, telephone interview, February 4, 2006.

⁶⁶ Federal Highway Administration, *Highway Statistics 2002*, Table SF 21: State Funding for Highways – Summary, available online at <http://www.fhwa.dot.gov/policy/ohim/hs02/sf21.htm>.

In addition, many of Michigan's largest local governments, such as Detroit, Ann Arbor and Lansing, have prevailing wage statutes of their own.⁶⁷ While there appear to be no county prevailing wage laws on the book, there are at least nine municipal prevailing wage laws in Michigan, covering cities with approximately 15 percent of the state's population.*⁶⁸ In 2002 Michigan municipalities spent another \$1.2 billion on construction projects other than roads (road spending was discussed earlier), and if we assume that municipalities' construction spending roughly mirrored their share of the population, these nine municipal governments would have spent approximately \$180 million.⁶⁹ By our earlier estimate, these communities could have spent \$16 million less on the same construction if they had not enacted prevailing wage ordinances, or if the Michigan Legislature had precluded local governments from enforcing prevailing wages.

Overall, we estimate that in 2002 alone, Michigan taxpayers would have saved \$232 million on construction spending by school districts and by state and municipal governments in the absence of state and municipal prevailing wage laws. This is a fairly cautious estimate, based on a relatively modest assumption of the cost of Michigan's prevailing wage law on average construction costs. An equivalent amount in 2007 dollars would be \$269 million.†

Solutions to the Prevailing Wage Problem

Repeal

Michigan's prevailing wage law increases the cost of construction on state-supported projects by 10 percent to 15 percent, adding hundreds of millions of dollars to the burdens borne by state taxpayers. The law also forces union work rules and wages on a construction industry that is increasingly nonunion. Unions represented 32.8 percent of Michigan construction workers in 1986, but only 22.1 percent of construction workers in 2006.

It is not clear that prevailing wage laws improve the quality of construction or the safety of construction workers. To the extent that prevailing wage laws improve the productivity of construction workers, that improvement is more than offset by the higher wages that are also associated with prevailing wage states. And the prevailing wage law has a reverse Robin Hood effect: Its main beneficiaries are construction workers who already earn hourly wages well above the average for workers in this state.

Lawmakers may be concerned that prevailing wage repeal will leave construction workers vulnerable to downward pressure on wages in the marketplace. This concern is understandable, but misplaced: Construction spending by state and local governments in Michigan totaled \$5.4 billion in 2002, only about 15 percent of the \$36 billion in construction work done in Michigan that same year.⁷⁰

* Those municipalities are Detroit, Warren, Lansing, Ann Arbor, Livonia, Battle Creek, Bay City, Kalamazoo and Saginaw. For population figures, see US Census Bureau "Quick Facts" available online at <http://quickfacts.census.gov/qfd/states/26000.html>

† This figure was calculated using the consumer price index to adjust for inflation.

⁶⁷ Detroit, see ordinances §18-5-60; Ann Arbor, see chapter 14 §1:319 and Lansing ordinances §206:18.

⁶⁸ U.S. Census Bureau, *State and County Quick Facts: Michigan*, <http://quickfacts.census.gov/qfd/states/26000.html> (accessed August 11, 2007).

⁶⁹ Mackinac Center for Public Policy calculations based on data from the U.S. Census, 2002 *Census of Government, State and Local Government Finance*.

⁷⁰ U.S. Census Bureau, *Michigan 2002: 2002 Economic Census, Construction*, 3.

At a time when a shrinking state economy is leading to lower tax revenues for state and local governments, a policy associated with increased costs, lower employment and minimal (if any) benefits is ripe for repeal. A temporary judicial suspension of Michigan's prevailing wage produced exactly the sort of effects that Michigan policymakers should be looking to bring about in the state's current economy: increased employment and efficiency in government spending. Repeal of Michigan's prevailing wage law would be the best option.

Alternatives to Repeal

If policymakers are unwilling to repeal prevailing wage outright, there are a number of ways to reduce the scope of Michigan's prevailing wage law or update its provisions to reflect the current state of the economy. Any of the following proposals will reduce the burden on taxpayers while still leaving construction workers with some protection from labor market competition.

Exempt Public School Construction

The state contributes relatively little to the actual cost of public school construction, serving only as a backer of construction bonds; the actual money comes from school districts. Lansing's involvement in the details of bidding on public school construction is minimal. As in Ohio, public school construction is a relatively modest part of the overall construction marketplace, and the effect of this exemption on construction labor markets should be minimal. Nevertheless, exempting public school construction from Michigan's prevailing wage mandate could save taxpayers approximately \$120 million annually, based on 2002 estimates.

Temporary Suspension

The Davis-Bacon Act allows the president to suspend prevailing wage requirements in cases of emergency, permitting faster and cheaper reconstruction of government buildings and speedier restoration of vital services and infrastructure.⁷¹ As the state of Michigan confronts its own economic crisis, lawmakers should consider suspending prevailing wage as a means to balance budgets without increasing taxes or reducing state construction. During this time, the state could study the effect of the law's suspension on Michigan's construction wages, employment and quality.

Change How the State Calculates Prevailing Wages

Changing the state's calculation of the prevailing wage so that it reflects actual market conditions is not without complications, but if it is done correctly, state and local government could enjoy most of the cost savings that they would realize after repealing the prevailing wage law.

⁷¹ 40 U.S.C. §276a-5.

Such a change would require a careful redrafting of the law. The prevailing wage statute currently calls for the exclusive use of collectively bargained (that is, union) rates in determining prevailing wages. The statute should instead call for the state's department of labor to calculate the average wages of all qualified workers, union and nonunion, for each class of construction labor.

Most of the costs of Michigan's prevailing wage law come about because of the statutory tie to union wages, which might have covered half of Michigan's construction work force at the time the law was passed, but cover less than a quarter of that same work force today. Union wages are on average 40 percent to 60 percent higher than those paid to nonunion construction workers, who make up more than three-quarters of Michigan's construction industry. If the tie to union rates were dissolved, contractors would still be prohibited by law from paying below-average wages, but taxpayers would no longer be forced to pay wages well above those typical for the industry. The cost of labor on government construction would then be reasonably close to the cost of construction labor for private-sector customers.

At the same time, the state should consider basing the work classifications for prevailing wages on a neutral source, such as the U.S. Department of Labor's Standard Occupational Classification or the North American Industry Classification System. Under the current practices of the state's Wage and Hour Division, work classifications can vary from county to county or shift as new collective bargaining agreements take effect. The use of a neutral set of work classifications would allow union and nonunion contractors to refer to one consistent set of rules that apply across the state.

Lawmakers should also consider reducing the number of geographic divisions used for setting prevailing wages, or even call for the creation of a single, statewide rate schedule. In an age when markets for goods and services are increasingly global, it would seem more than reasonable to think of the Detroit area, for example, as a single construction marketplace with fairly consistent wages, as opposed to the current practice of issuing separate wage determinations for Oakland, Macomb, Washtenaw, Livingston, Monroe and Wayne counties. A single statewide rate schedule would be simplest and would provide more than adequate protection to the state's construction labor force. There is no compelling reason the state of Michigan should protect construction workers in Flint against competitors from Traverse City, especially if both are paid, at a minimum, average wages for the state.

If the Legislature were to adopt these recommended changes to prevailing wages, it would need to give precise directions to state agencies for calculating rates — specifically, how wage data are to be collected, and how the data are to be used to set a final rate. Lawmakers should bear in mind that when prevailing wages are miscalculated, whether due to fraud, mathematical error or the requirements of

an outdated prevailing wage statute, government and taxpayers bear the greater risk. Construction workers are not obligated to accept work at the rates set by the state. If the rate calculated by the state understates the correct wage, workers should still be able to find work at the true prevailing wage, which would be a higher rate of pay. But if the rate determined by the state is erroneously high, contractors are obligated to pay the higher wage unless the error is found and corrected. This cost will most likely be passed on to government agencies and, ultimately, taxpayers.

Lawmakers should resist the temptation simply to defer to federal Davis-Bacon determinations. While in theory the rate determinations made by the U.S. Department of Labor should reflect the overall labor market, the research noted earlier into DOL's determinations has uncovered evidence that wage data have been manipulated in favor of union rates.⁷² In a state like Michigan, with a history of strong unions, the opportunities and pressures for such manipulation would be particularly strong. Michigan would be better advised to set its own standards with strict procedures in place to ensure fair determinations based on accurate data.

There is one other alternative that the state could consider, which is to adopt the Bureau of Labor Statistics determinations. BLS annually calculates statewide median wages for hundreds of occupations, including more than 30 separate categories of construction work. The BLS' "State Occupational Employment and Wage Estimates" covers the entire marketplace, union and nonunion, and provides a sound basis for prevailing wage determinations if state legislators prefer to delegate that task to an agency outside of state government.

Revise the Prevailing Wage Law To Focus on Low-Wage Workers

Another, simpler step that the state could take to rein in the cost of the prevailing wage while leaving a floor beneath construction wages is to establish what might be called a "median-wage rule." Under this median-wage rule, the state would still make use of collective bargaining agreements in setting prevailing wage rates, but the law would be focused on protecting the pay of lower-wage workers.

The rationale for this rule is fairly straightforward and entirely in keeping with Michigan's traditional concern for low-wage workers. Michigianians hope to improve wages and working conditions for those on the lower rungs of the economic ladder, but most construction workers are not really on the lower rungs. Construction workers can and often will receive generous compensation for their skills and effort; there is no need for the state to mandate wages that are substantially above average for the community as a whole.

Under the median-wage rule, the Wage and Hour Division would mandate minimum wages equal to the lesser of the collectively bargained wage or to the

⁷² Armand Thieblot, "The Twenty-Percent Majority," 99-134.

median wage for all workers (not just construction workers) in the state with a reasonable adjustment made for fringe benefits.

With the median-wage rule in place, workers on state-supported construction projects would still be protected by a wage floor, but contractors (and, by extension, taxpayers) would not be forced by law to pay wages that are significantly higher than the average for all Michigan workers.

The median-wage rule would also require action by the Legislature, but compared to generating accurate prevailing wage determinations, this median-wage rule would be much simpler to draft and implement.

Conclusion

Whatever the intentions behind the prevailing wage law when it was passed, it is difficult to develop a rationale for its continuation, at least in its current form.

The prevailing wage law forces the payment of union wages on state construction projects despite the fact that union workers made up just 22.1 percent of the construction work force in Michigan in 2006. In the process, the law provides a boost in compensation of 40 percent to 60 percent to construction workers who already receive wages well above the average for workers in this state. This cost is ultimately passed on to Michigan taxpayers, who lose \$232 million annually — a conservative estimate calculated in 2002 dollars — without any discernible benefit for the vast majority of Michiganians.

The need for a prevailing wage law is dubious, but lawmakers who wish to preserve a wage floor on state-supported construction have several reform options that will still allow the people of Michigan to realize significant savings on government construction. The key is to free contractors from the unnecessary burden of matching the wages found in collective bargaining agreements and to allow those contractors to pay market wages on state construction projects.

However well-intentioned Michigan's prevailing wage law might have been when passed, it now costs taxpayers hundreds of millions of dollars annually while it boosts the pay of higher-wage construction workers and closes opportunities for lower-wage construction workers. In a time of high unemployment and dwindling revenues, this costly law ought not go unchanged.

Appendix A

Graphic 2: Nonunion Compensation vs. Michigan Prevailing Wage 2005* (Metropolitan Area/COUNTY)

PAS Craft Categories	Nonunion Total Compensation	Prevailing Wage	Percentage Difference	Wage and Hour Division Categories
Detroit/WAYNE				
Block/Stone Masons	\$30.66	\$44.26	44.4	Same
Bricklayers	\$33.05	\$44.26	33.9	Same
Carpenters	\$23.45	\$40.24	71.6	Carpenter/Piledriver
Cement Masons	\$28.09	\$38.42	36.8	Same
Electricians	\$30.83	\$46.88	52.1	Inside Wireman
Roofers	\$25.42	\$43.36	70.6	Same
Welders	\$24.54	\$35.53	44.8	Compressor/Welder Operator
Laborers	\$19.60	\$31.54	60.9	Class I/Underground
Grand Rapids/KENT				
Carpenters	\$22.36	\$31.15	39.3	Carpenter/Piledriver
Cement Masons	\$22.52	\$29.65	31.6	Same
Electricians	\$27.63	\$35.49	28.4	Inside Wireman
Structural Ironworkers	\$23.67	\$33.74	42.5	Same
Metal Bldg. Mechanic	\$20.13	\$33.18	64.8	Pre-engineered Metal Work
Painters	\$18.89	\$29.09	54.0	Same
Pipefitters	\$25.20	\$40.68	61.4	Plumber and Pipefitter
Sheet Metal Workers	\$22.65	\$34.62	52.8	Same
Sprinkler Fitters	\$25.12	\$40.36	60.7	Same
Welders	\$23.17	\$32.70	41.1	Class F Operating Engineer
Laborers	\$15.77	\$24.68	56.5	Class A Laborer
Saginaw/SAGINAW				
Carpenters	\$17.65	\$35.25	99.7	Carpenter/Piledriver
Cement Masons	\$18.86	\$33.19	75.9	Same
Electricians	\$26.15	\$39.23	50.0	Inside Wireman
Pipefitters	\$22.81	\$42.77	87.5	Plumber and Pipefitter
Sheet Metal Workers	\$21.68	\$36.93	70.3	Same
Laborers	\$11.68	\$27.17	132.7	Class A Laborer
Average			58.6	

* The state prevailing wage figures are provided by county, and the PAS Inc. nonunion compensation figures are provided by metropolitan area.

Nonunion total compensation calculated from PAS Inc. wage and fringe benefit data in PAS' "Merit Shop Special Reports."
Prevailing wage data taken from the Michigan Department of Labor and Economic Growth Wage and Hour Division.

Appendix B

**Graphic 3: Adjusted Median Wages vs. Michigan Prevailing Wage 2005*
(Metropolitan Statistical Area/COUNTY)**

Class	BLS Median	BLS Adjusted †	Prevailing Wage	Percentage Difference‡	Note
Ann Arbor/WASHTENAW					
Bricklayers	\$27.77	\$36.10	\$44.27	22.6	
Carpenters	\$21.06	\$27.38	\$40.86	49.2	
Cement Masons	\$16.85	\$21.91	\$43.76	99.8	
Construction Laborers	\$16.29	\$21.18	\$29.31	38.4	Hazardous Class A
Operating Engineers	\$22.99	\$29.89	\$34.50	15.4	Fireman or oiler
Electricians	\$31.01	\$40.31	\$49.19	22.0	
Painters	\$22.81	\$29.65	\$36.66	23.6	
Plumbers	\$29.70	\$38.61	\$45.62	18.2	
Roofers	\$20.36	\$26.47	\$35.68	34.8	
Sheet Metal Workers	\$28.69	\$37.30	\$49.72	33.3	
Structural Iron/Steel Workers	\$20.57	\$26.74	\$45.86	71.5	
<i>Average</i>				39.0	
Battle Creek/CALHOUN					
Carpenters	\$17.62	\$22.91	\$32.15	40.4	
Cement Masons	\$18.85	\$24.51	\$30.83	25.8	
Construction Laborers	\$13.75	\$17.88	\$25.22	41.1	Class A
Operating Engineers	\$20.79	\$27.03	\$31.05	14.9	Oiler, fireman, heater oper.
Electricians	\$22.44	\$29.17	\$39.69	36.1	
Painters	\$15.84	\$20.59	\$28.60	38.9	
Plumbers	\$23.73	\$30.85	\$44.17	43.2	
Sheet Metal Workers	\$26.28	\$34.16	\$39.32	15.1	
<i>Average</i>				31.9	
Bay City/BAY					
Carpenters	\$12.98	\$16.87	\$35.25	108.9	
Construction Laborers	\$14.36	\$18.67	\$27.17	45.5	
Operating Engineers	\$20.11	\$26.14	\$30.70	17.4	Class G: Oiler, fireman etc
Plumbers	\$12.01	\$15.61	\$42.77	173.9	
Roofers	\$19.11	\$24.84	\$33.51	34.9	
Sheet Metal Workers	\$23.61	\$30.69	\$36.93	20.3	
<i>Average</i>				66.8	
Detroit/WAYNE					
Bricklayers	\$26.28	\$34.16	\$44.26	29.6	
Carpenters	\$20.25	\$26.32	\$41.37	57.2	
Tile and Marble Setters	\$30.67	\$39.87	\$35.99	-9.7	Tile finisher
Cement Masons	\$19.27	\$25.05	\$38.42	53.4	
Construction Laborers	\$18.33	\$23.83	\$31.54	32.4	Underground Class I
Operating Engineers	\$22.34	\$29.04	\$34.50	18.8	Fireman or oiler
Drywall Installers	\$14.09	\$18.32	\$37.30	103.6	Drywall Taper (only listing)
Electricians	\$31.16	\$40.51	\$46.88	15.7	
Glaziers	\$22.75	\$29.57	\$40.02	35.3	
Painters	\$18.84	\$24.49	\$36.66	49.7	
Plumbers	\$26.93	\$35.01	\$49.58	41.6	
Plasterers	\$19.19	\$24.95	\$38.32	53.6	

* The state prevailing wage figures are provided by county, and the Bureau of Labor Statistics median wage figures are provided by metropolitan statistical area.

† The adjustment is a 30 percent increase to account for fringe benefits.

‡ This figure represents the percentage by which the prevailing wage exceeds the adjusted Bureau of Labor Statistics wage.

Class	BLS Median	BLS Adjusted †	Prevailing Wage	Percentage Difference‡	Note
Roofers	\$23.10	\$30.03	\$43.36	44.4	
Sheet Metal Workers	\$24.58	\$31.95	\$49.72	55.6	
Structural Iron/Steel Workers	\$29.38	\$38.19	\$45.86	20.1	
Elevator Installer	\$29.75	\$38.68	\$47.71	23.4	
<i>Average</i>				39.0	
Detroit Suburbs/OAKLAND					
Bricklayers	\$25.00	\$32.50	\$44.26	36.2	
Carpenters	\$22.33	\$29.03	\$41.37	42.5	
Tile and Marble Setters	\$20.20	\$26.26	\$35.99	37.1	Tile finisher
Cement Masons	\$22.55	\$29.32	\$38.42	31.1	
Construction Laborers	\$17.11	\$22.24	\$31.54	41.8	Underground Class I
Operating Engineers	\$24.02	\$31.23	\$34.50	10.5	Fireman or oiler
Drywall Installers	\$22.87	\$29.73	\$37.30	25.5	Drywall Taper (only listing)
Electricians	\$30.44	\$39.57	\$46.88	18.5	
Glaziers	\$20.30	\$26.39	\$40.02	51.6	
Painters	\$20.29	\$26.38	\$36.66	39.0	
Plumbers	\$26.31	\$34.20	\$49.58	45.0	
Plasterers	\$30.30	\$39.39	\$38.32	-2.7	
Roofers	\$19.91	\$25.88	\$43.36	67.5	
Sheet Metal Workers	\$23.59	\$30.67	\$49.72	62.1	
Structural Iron/Steel Workers	\$25.39	\$33.01	\$45.86	38.9	
Elevator Installer	\$28.72	\$37.34	\$47.71	27.8	
<i>Average</i>				35.8	
Flint/GENESSEE					
Bricklayers	\$25.49	\$33.14	\$40.50	22.2	
Carpenters	\$22.73	\$29.55	\$35.85	21.3	
Tile and Marble Setters	\$24.45	\$31.79	\$30.31	-4.6	Tile finisher
Cement Masons	\$19.44	\$25.27	\$33.79	33.7	
Construction Laborers	\$18.58	\$24.15	\$28.63	18.5	Hazardous Class A
Operating Engineers	\$19.84	\$25.79	\$30.70	19.0	
Drywall Installers	\$20.11	\$26.14	\$31.19	19.3	Finisher (only listing)
Painters	\$15.69	\$20.40	\$28.87	41.5	
Plumbers	\$29.08	\$37.80	\$47.06	24.5	
Roofers	\$22.07	\$28.69	\$33.51	16.8	
Sheet Metal Workers	\$29.41	\$38.23	\$42.90	12.2	
<i>Average</i>				20.4	
Grand Rapids/KENT					
Bricklayers	\$19.36	\$25.17	\$32.91	30.8	
Carpenters	\$17.62	\$22.91	\$31.15	36.0	
Tile and Marble Setters	\$20.32	\$26.42	\$26.12	-1.1	finisher
Cement Masons	\$17.65	\$22.95	\$29.65	29.2	
Construction Laborers	\$14.26	\$18.54	\$24.68	33.1	Class A
Operating Engineers	\$18.46	\$24.00	\$31.05	29.4	Class G: Oiler, fireman etc
Drywall Installers	\$18.18	\$23.63	\$33.12	40.1	
Electricians	\$21.24	\$27.61	\$35.49	28.5	
Glaziers	\$16.74	\$21.76	\$35.66	63.9	
Painters	\$14.14	\$18.38	\$29.09	58.3	
Plumbers	\$21.96	\$28.55	\$40.68	42.5	

† The adjustment is a 30 percent increase to account for fringe benefits.

‡ This figure represents the percentage by which the prevailing wage exceeds the adjusted Bureau of Labor Statistics wage. The state prevailing wage figures are provided by county, and the Bureau of Labor Statistics median wage figures are provided by metropolitan statistical area.

Class	BLS Median	BLS Adjusted +	Prevailing Wage	Percentage Difference [‡]	Note
Plasterers	\$19.97	\$25.96	\$29.86	15.0	
Roofers	\$13.47	\$17.51	\$23.75	35.6	
Sheet Metal Workers	\$18.96	\$24.65	\$34.62	40.5	
Structural Iron/Steel Workers	\$21.80	\$28.34	\$33.74	19.1	
Elevator Installer	\$33.31	\$43.30	\$44.78	3.4	
<i>Average</i>				31.5	
Holland/OTTAWA					
Bricklayers	\$18.92	\$24.60	\$32.91	33.8	
Carpenters	\$16.46	\$21.40	\$31.15	45.6	
Cement Masons	\$15.37	\$19.98	\$29.65	48.4	
Construction Laborers	\$12.84	\$16.69	\$24.68	47.9	Class A
Operating Engineers	\$17.79	\$23.13	\$31.05	34.3	Class G: Oiler, fireman etc
Drywall Installers	\$17.70	\$23.01	\$33.12	43.9	Taper and finisher
Electricians	\$19.75	\$25.68	\$35.49	38.2	
Painters	\$16.15	\$20.99	\$29.09	38.6	
Plumbers	\$21.45	\$27.89	\$40.68	45.9	
Roofers	\$13.65	\$17.75	\$23.75	33.8	
Sheet Metal Workers	\$15.32	\$19.92	\$34.62	73.8	
<i>Average</i>				44.0	
Jackson/JACKSON					
Carpenters	\$19.48	\$25.32	\$34.67	36.9	
Cement Masons	\$17.20	\$22.36	\$33.02	47.7	
Construction Laborers	\$13.68	\$17.78	\$28.80	61.9	Class A Hazardous
Operating Engineers	\$19.24	\$25.01	\$30.70	22.7	
Electricians	\$23.22	\$30.19	\$49.19	63.0	
Plumbers	\$20.34	\$26.44	\$44.17	67.0	
<i>Average</i>				49.9	
Kalamazoo/KALAMAZOO					
Bricklayers	\$17.30	\$22.49	\$36.56	62.6	
Carpenters	\$18.20	\$23.66	\$32.15	35.9	
Cement Masons	\$18.01	\$23.41	\$30.83	31.7	
Construction Laborers	\$16.86	\$21.92	\$25.22	15.1	
Operating Engineers	\$21.94	\$28.52	\$31.05	8.9	
Electricians	\$15.74	\$20.46	\$36.62	79.0	
Painters	\$16.72	\$21.74	\$28.60	31.6	
Plumbers	\$26.70	\$34.71	\$38.94	12.2	
Roofers	\$16.73	\$21.75	\$29.49	35.6	
Sheet Metal Workers	\$22.45	\$29.18	\$39.32	34.7	
<i>Average</i>				34.7	
Lansing/INGHAM					
Bricklayers	\$23.82	\$30.97	\$38.74	25.1	
Carpenters	\$18.42	\$23.95	\$35.47	48.1	
Tile and Marble Setters	\$18.88	\$24.54	\$26.12	6.4	Finisher
Cement Masons	\$25.14	\$32.68	\$33.02	1.0	
Construction Laborers	\$17.71	\$23.02	\$28.02	21.7	
Operating Engineers	\$18.85	\$24.51	\$30.70	25.3	
Drywall Installers	\$12.91	\$16.78	\$33.12	97.3	
Electricians	\$23.84	\$30.99	\$49.19	58.7	

† The adjustment is a 30 percent increase to account for fringe benefits.

‡ This figure represents the percentage by which the prevailing wage exceeds the adjusted Bureau of Labor Statistics wage. The state prevailing wage figures are provided by county, and the Bureau of Labor Statistics median wage figures are provided by metropolitan statistical area.

Class	BLS Median	BLS Adjusted †	Prevailing Wage	Percentage Difference‡	Note
Glaziers	\$22.17	\$28.82	\$35.66	23.7	
Painters	\$13.04	\$16.95	\$29.09	71.6	
Plumbers	\$21.31	\$27.70	\$44.17	59.4	
Roofers	\$13.00	\$16.90	\$30.75	82.0	
Sheet Metal Workers	\$20.86	\$27.12	\$39.32	45.0	
Structural Iron/Steel Workers	\$22.18	\$28.83	\$45.86	59.1	
<i>Average</i>				44.6	
Monroe/MONROE					
Carpenters	\$17.00	\$22.10	\$41.37	87.2	
Cement Masons	\$23.69	\$30.80	\$35.55	15.4	
Construction Laborers	\$16.01	\$20.81	\$29.31	40.8	Hazardous Class A
Painters	\$21.00	\$27.30	\$36.66	34.3	
Plumbers	\$21.00	\$27.30	\$40.91	49.9	
Sheet Metal Workers	\$19.15	\$24.89	\$42.73	71.6	
<i>Average</i>				49.0	
Muskegon/MUSKEGON					
Carpenters	\$10.77	\$14.00	\$31.15	122.5	
Construction Laborers	\$13.94	\$18.12	\$24.68	36.2	Class A
Operating Engineers	\$19.36	\$25.17	\$31.05	23.4	Class G: Oiler, fireman etc
Painters	\$11.45	\$14.89	\$29.09	95.4	
Roofers	\$11.13	\$14.47	\$24.04	66.1	
<i>Average</i>				68.7	
Benton Harbor/BERRIEN					
Carpenters	\$15.04	\$19.55	\$32.15	64.4	
Construction Laborers	\$12.34	\$16.04	\$25.22	57.2	
Operating Engineers	\$18.62	\$24.21	\$31.05	28.3	
Electricians	\$27.19	\$35.35	\$40.27	13.9	
Painters	\$15.78	\$20.51	\$28.60	39.4	
Plumbers	\$21.10	\$27.43	\$38.94	42.0	
Roofers	\$15.99	\$20.79	\$31.23	50.2	
Sheet Metal Workers	\$19.48	\$25.32	\$38.81	53.3	
<i>Average</i>				43.6	
Saginaw/SAGINAW					
Bricklayers	\$17.17	\$22.32	\$36.05	61.5	
Carpenters	\$17.24	\$22.41	\$35.25	57.3	
Cement Masons	\$13.61	\$17.69	\$33.19	87.6	
Construction Laborers	\$18.49	\$24.04	\$27.17	13.0	
Operating Engineers	\$19.28	\$25.06	\$30.70	22.5	
Drywall Installers	\$22.76	\$29.59	\$29.55	-0.1	Finisher
Electricians	\$30.42	\$39.55	\$39.23	-0.8	
Painters	\$28.68	\$37.28	\$27.83	-25.4	
Plumbers	\$31.23	\$40.60	\$42.77	5.3	
Roofers	\$15.73	\$20.45	\$33.51	63.9	
Sheet Metal Workers	\$26.09	\$33.92	\$36.93	8.9	
Structural Iron/Steel Workers	\$23.50	\$30.55	\$45.86	50.1	
<i>Average</i>				28.7	
Average of All Sample Categories				39.1	

† The adjustment is a 30 percent increase to account for fringe benefits.

‡ This figure represents the percentage by which the prevailing wage exceeds the adjusted Bureau of Labor Statistics wage. The state prevailing wage figures are provided by county, and the Bureau of Labor Statistics median wage figures are provided by metropolitan statistical area.

Source: U.S. Department of Labor, Bureau of Labor Statistics and Michigan Department of Labor and Economic Growth

Acknowledgments

A large number of people have contributed to this study. Armand Thieblot, Bill Wilson and David Masud all provided valuable thoughts as peer reviewers. James Hohman and John Taylor also provided invaluable assistance with the state construction spending estimates, for which I am grateful.

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