Low Road Detour:

How Repealing Prevailing Wages Will Hurt Kentucky

by Peter Philips, Ph.D.

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Table of Contents:

Executive Summary

- Thirty-one states plus DC have prevailing wage laws while 19 states do not. Federal work is covered by the Davis-Bacon Act.
- What politically prominent advocates of prevailing wage law repeal say:
  - Proponents of prevailing wage law repeal claim that taxpayers can save "up to 38%" on total public construction costs by repealing prevailing wage regulations.
  - In Kentucky today, wage costs as a percent of total construction costs are 19.7%. They are 19.8% nationally.
  - In Kentucky and in the U.S. wage costs as a percent of total costs in construction are almost one-third lower today than they were in 1972 (19.7% vs. 28.4%). Blue-collar wages provide a continually shrinking piece of the total construction pie from which to extract total savings.
  - Cutting 20%, 30%, or more off of total costs from this small and declining piece of construction costs is mathematically impossible, and extracting even small total savings from this shrinking piece of the pie will become increasingly difficult over time.
- What the *Program Review and Investigations Committee Report* says about Repeal:
  - Wages on public construction will fall by 24%.
  - Assuming that labor productivity will not fall with wage cuts, total public construction costs will fall by 3.7%.
- But labor productivity does fall when prevailing wage laws are repealed and wages are cut:
  - Value added per construction worker in prevailing wage law states is 13% to 15% higher than in no-law states.

    - The *Program Review and Investigations Committee Report* cites an author who says that union labor is anywhere from 17% to 52% more productive than nonunion labor.

- Cheap labor strategies threaten the quality of construction and downstream maintenance costs.

    - Prevailing wage laws induce contractors to compete on the basis of who can best train, best equip and best manage blue-collar construction workers. This increases labor productivity over time and provides the basis for paying better wages and benefits.

    - This also creates a more qualified, experienced, reliable and safe labor force which leads to higher quality construction and more reliable, on-time deliveries of construction projects.

- A detailed examination of actual new school construction costs in Kentucky compared to Ohio and Michigan shows no measurable or statistically significant increase in total construction costs due to prevailing wage regulations.

    - 391 new schools built in Kentucky, Ohio and Michigan between 1992 and 2000 were studied.

    - 51% were not done with prevailing wages and 49% were.

    - 68% were built in rural areas and 32% in urban areas.

    - Average square foot costs in 2001 dollars were virtually the same (no difference in the urban schools, and a $2 difference in the rural schools that was not statistically significant).

    - The results of this study were confirmed in a nationwide study of over 4000 new schools published in the *Journal of Education Finance*.

- While prevailing wage repeals will not deliver schools for less, repeals will encourage cutthroat, cheap-labor strategies that will raise public health care costs and reduce contractor contributions into workers comp and unemployment insurance.

- Should Kentucky repeal its prevailing wage law, about 780 construction contractors will drop their workers health insurance.

- About 7400 Kentucky construction workers plus their families will lose the health insurance they now receive.

- Loss of coverage will put pressure on the taxpayer and others who care for the health needs of the uninsured.

- If Kentucky repeals its prevailing wage law, some contractors will seek to low-ball public projects by dodging paying into workers comp, unemployment insurance and Social Security. They will do this by falsely classifying their workers as "independent" subcontractors. Based on practices in states without prevailing wage laws, Kentucky can expect to see a decline in the payment of payroll taxes for about 3600 construction workers with a loss to workers comp and unemployment insurance of around $8.1 million per year.

    - This amounts to a $2.7 million loss in contributions paid into the unemployment insurance system.

    - This amounts to a $5.4 million loss of payments into workers comp.

• About the Author:

Peter Philips received his B.A from Pomona College (1970) and his Ph.D. from Stanford University (1980). He is a Professor of Economics and the senior labor economist at the University of Utah. Philips has published widely on the canning and construction industries in journals such as *Industrial and Labor Relations Review, Industrial Relations, Business History,* the *Journal of Economic History, Historical Methods*, *The Journal of Economic Literature, The Journal of Education Finance, The Journal of Labor Research,* the *Cambridge Journal of Economics,* the *Journal of Industrial Medicine,* the *Journal of Occupational and Environmental Medicine* and the *Industrial Relations Research Association Annual.* Philips is a respected expert on prevailing wage laws and on employment, training, wages, benefits and safety in the construction industry. He has served as an expert on the Davis-Bacon Act for the U.S. Labor Department and the U.S. Justice Department. He has testified before many legislatures on construction regulation issues. His most recent books, *Building Chaos: An International Comparison of Deregulation in the Construction Industry* (Routledge Press, 2003) and *The Economics of Prevailing Wage Laws* (Ashgate Press 2005) analyze the effects of regulations on the construction industry both within the United States and internationally. His most recent journal articles focus on school construction costs, construction labor market regulation, fatalities in the construction workplace and the effect of subcontracting on construction safety. Philips is married with two children, and in the summers, Philips is a volunteer in the Grand Tetons National Park. Philips may be reached at philips@economics.utah.edu . Philips maintains a personal webpage at http://www.econ.utah.edu/~philips/soccer2/index.htm .

Introduction

This report begins with a brief description of the recent detour in public policy where immediately after Hurricane Katrina hit New Orleans, the federal prevailing wage law, the Davis-Bacon Act, was suspended for Louisiana, Alabama, Mississippi and parts of Florida. However, after immediately experiencing problems with substandard wages and the failure of local workers to find work in reconstruction, the Bush Administration, at the urging of 38 Republican Congressman, reinstituted federal prevailing wages.

The report then turns to an examination of the *Program Review and Investigations Committee Report* of 2001. This *Review* found that wages on public works would fall by 24% after the repeal of Kentucky's prevailing wage. Nevertheless, the *Program Review and Investigations Committee Report* emphasized that this did not mean that total construction costs would fall by 24%. In fact, the *Review* took pains to state that it did not know how much, if at all, total construction costs would fall after wages fell by 24%. Assuming that labor productivity would be the same after a 24% cut in wages, the *Review* concluded that costs must at least fall somewhat. Accepting this (doubtful) assumption about productivity and wages, here we show that the *Review's* analysis implies that total costs would fall by 3.7%.

The *Program Review and Investigations Committee Report* assumption that wages can be cut by 24% with little or no effect on labor productivity, capital invested per worker, labor-management strategies, worker morale, etc. are examined in detail in Appendix A. It is important to note that the *Program Review and Investigations Committee Report* did not examine actual construction costs. Rather theirs is a simple back of the envelope calculation that argues—if wages fall by 24% what will happen to total costs assuming labor productivity does not change? In the main body of the work presented here we summarize a study of actual start costs[i] in new school construction in Kentucky, Ohio and Michigan. We examine how these total costs of construction were effected when 1) Kentucky implemented prevailing wages for school construction (1996), 2) Ohio eliminated prevailing wage regulations for school construction (1997), and 3) Michigan first suspended and then re-implemented prevailing wages for school construction with the hiatus lasting from late 1994 to the middle of 1997. This natural experiment allows us to test the effects of the law on costs without making any assumptions about what happens to wages or labor productivity. This "the proof is in the pudding" approach finds no measurably meaningful or statistically significant difference in new school construction due to the presence or absence of prevailing wage regulations.

School construction costs can remain relatively the same even when wages are substantially higher in states with prevailing wage laws simply because contractors respond to this regulation by substituting skilled for unskilled workers, better equipping their workers and better managing their projects. Many of these contractors are union contractors using the truly excellent apprenticeship programs jointly managed by management and labor under collective bargaining. There are also many nonunion contractors that follow the high-wage, high-skill competition

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[i] Start cost is the same as accepted bid price. Final costs will include any additional cost overruns.

strategies encouraged by prevailing wage laws. Excluded from public works by these regulations are the cheap labor contractors that typically use larger numbers of less-skilled and less-well paid workers. In states that have repealed prevailing wages, these contractors come into their own. Apprenticeship training falls. Average wages fall. Productivity falls and value added per worker falls. More disturbingly, contractors abandon paying health insurance and some contractors start passing out 1099's to their workers rather than W-2s. The number of bogus, "independent contractors" in construction is disproportionately high in states without prevailing wage laws. This report estimates that 7400 Kentucky construction workers and their families would lose their contractor-provided health insurance as a result of a repeal of prevailing wage regulations. And 3600 Kentucky construction workers would be taken off the payroll and made into "independent subcontractors" by disreputable contractors seeking to win jobs by dodging contributions into workers comp and unemployment insurance.

Avoiding Detours: How Davis-Bacon Was Restored After Katrina

On September 7, 2005, less than two weeks after Hurricane Katrina, President Bush suspended the Davis-Bacon Act which mandates the payment of prevailing wages on federal public works. Contractors were now free to pay any wage above the federal minimum of $5.15 for workers to rebuild from the devastation. Under headlines such as

- **Immigrant workers rile New Orleans; Rules shelved, crews labor for meager pay**[1]

the media began reporting the effects of the suspension of the Davis-Bacon Act on reconstruction efforts. Local commentators rose in objection to the suspension. For instance, the New Orleans *Times-Picayune* editorialized under the headline—"Rebuilding effort should be localized":

> [W]e are already moving quickly and boldly in the wrong direction....[Y]ou can hardly entice [our citizens] back if you're only willing to pay poverty wages. But in the wake of the disaster, President Bush suspended the Davis-Bacon Act....In essence, there's no ceiling preventing sky-high profits for these [out-of-state] contractors and not much of a floor to ensure that wages to workers are not abysmally low. There is an intelligent way to rebuild our city. This, however, isn't it.[2]

Opposition to the suspension of prevailing wages expanded to 38 House Republicans who sent a letter to President Bush urging the reimplementation of prevailing wages on federal reconstruction efforts in the Gulf States.[3]

Republican Representative Don Young, Alaska, chairman of the House Transportation and Infrastructure Committee wrote that prevailing wage rates were needed to attract an experienced and qualified labor force:

> Since we are committed to rebuilding what was destroyed by Katrina and Rita, we should make certain that the task is done right. With a prevailing wage, and thus a more experienced workforce on the job, construction will be completed in less time which will lower overall costs. A well compensated, quality workforce will also lower future costs associated with maintenance and repair. The residents of the Gulf Coast who struggled through so much need these jobs in order to recover financially. If our ultimate goal truly is to see that the region is rehabilitated, our first action should be to see that those who have suffered so greatly from Katrina and Rita are paid a meaningful wage.[4]

Pennsylvanian Republican Congressman Tim Murphy worried that rebuilding New Orleans on the cheap put the quality of construction at risk and raised the specter of cost overruns.

> Without Davis-Bacon requirements, contractors no longer competed on the basis of who can best train, best equip, and best manage a construction crew. Instead they competed on the basis of who can find the cheapest workers either locally or through importing workers from elsewhere. This put the quality of construction at risk, and potential cost overruns.[5]

Republican Congressman and Deputy Majority Whip Jerry Weller from Illinois wrote President Bush on October 18:

> Our goal should be to rebuild in a manner that is not only cost effective but also has a positive effect on long-term maintenance. It has been proven that projects built by less skilled labor increase the cost associated with long-term maintenance, repair and reconstruction. By paying less for unskilled labor now, we will bear a much larger expense in the future.[6]

Despite these concerns regarding the quality of work, downstream maintenance costs, cost overruns and reasonable wages, others asserted that the suspension of prevailing wages would cut down total construction costs by a huge amount.

In a letter to President Bush the day before Davis-Bacon was suspended, 35 House Republicans asserted:

> ...Davis-Bacon regulations effectively discriminate against contractor employment of non-union and lower skilled workers and can even raise construction costs by up to 38 percent.[7]

This assertion that total construction costs could be cut by "up to 38%" by reducing the wages of blue-collar construction workers is mathematically impossible simply because labor costs as a percent of total construction costs are not all that high. For the U.S. as a whole, in 2002 according to the most recent *U.S. Census of Construction*, blue collar payroll amounted to 19.8% of the total net value of construction.[8] In Kentucky construction workers wages accounted for 19.7% of total net construction costs.[9] If one adds to this an additional 10% to 20% of payroll for benefits, total blue collar construction labor costs run between 22% to 24% of total net construction costs.[10] Thus, even if all workers worked for free, you could not save "up to 38%" on total construction costs by eliminating prevailing wage rates.[11]

Indeed, wage costs as a percent of total costs in construction has been falling steadily for decades both overall in the U.S. and in Kentucky. For instance, in Kentucky in 1972 wage costs as a percent of total costs were 28.4% while thirty years later in 2002 wage costs were 19.7% of total costs. Figure 1 shows the decline in labor costs both nationally and in Kentucky.

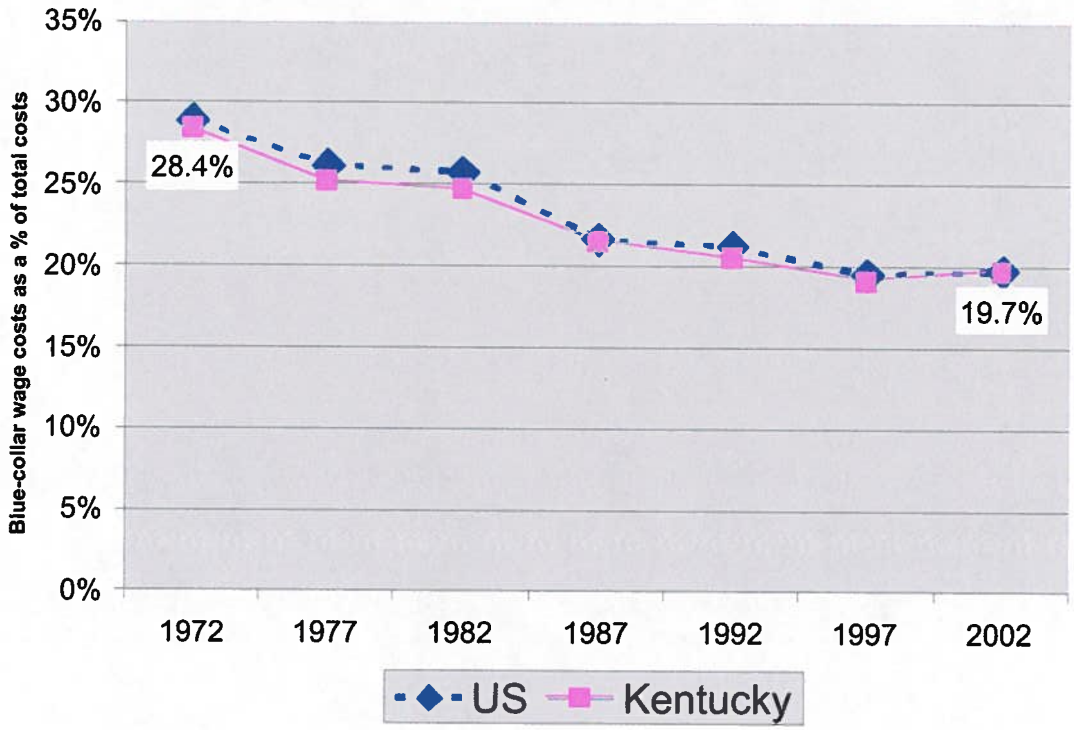


Figure 1: Trends in blue collar wage costs as a percent of total construction costs in Kentucky and the U.S., 1972 to 2002, US. *Census of Construction*

The *Program Review and Investigations Committee Report*

In 2001, a *Program Review and Investigations Committee Report* by Ginny Wilson and others asserted that the elimination of prevailing wage regulations would decrease wages by 24%.[12] This sounds like a figure similar to the "up to 38%" total construction savings claimed by those urging the suspension of the Davis-Bacon Act, but it is not. As the *Program Review and Investigations Committee Report* explicitly states:

> It is important to understand that this estimate **does not** imply that prevailing wages increased the costs of these projects by twenty-four percent. Rather, it indicates that the wage portion of construction costs was twenty-four percent higher as a result of prevailing wages.[13] (emphasis in the original)

The *Program Review and Investigations Committee Report* makes no effort to determine wage costs as a percent of total costs. And **the *Program Review and Investigations Committee Report* does not estimate any specific savings from a repeal of prevailing wage laws**. While the *Program Review and Investigations Report* has several serious errors which will be discussed below, we can nonetheless at this point take the *Program Review and Investigations Committee Report* as given. By so doing, we can calculate based on the *Program Review and Investigations Committee Report's* assumptions what the *Report* implies will be saved by repealing prevailing wages. If currently blue collar payroll costs on prevailing wage jobs equal 19.7% of total costs (the Kentucky average)[14], and if, as the *Program Review and Investigation Committee Report* asserts, this is 24%

higher wages than what would exist without prevailing wage regulations, and if lowering wages by 24% would not affect labor productivity in any way, then without prevailing wage regulations, wage costs at these lower wages would amount to 16% of total costs. (16% plus 24% of 16% equals 19.7%). ***Thus, assuming for the moment that the Program Review and Investigations Committee Report analysis is correct (which it is not), eliminating prevailing wage regulations in Kentucky will cut total construction costs by at best 3.7%.***[15]

While this is a far cry from the 38% savings that some claim, under the philosophy that a dollar saved is a dollar earned, some might say that a 3.7% purported savings is sufficient reason to repeal Kentucky's prevailing wage regulation. Appendix A shows that this alleged 3.7% "savings" in public construction costs is in fact unreliable, but ***even if it were an accurate figure, it would be an incomplete accounting of true costs.*** As the Republican Chairman of the House Transportation and Infrastructure Committee, Don Young of Alaska pointed out:

> With a prevailing wage, and thus a more experienced workforce on the job, construction will be completed in less time which will lower overall costs. A well compensated, quality workforce will also lower future costs associated with maintenance and repair.[16]

The *Program Review and Investigations Committee Report* is not an accounting of construction costs. It is a back-of-the-envelope hypothetical calculation about wages. There is no consideration of whether or not jobs are completed on time. There is no consideration of cost overruns. There is no consideration of the effect of repeals on cutthroat bidding practices leading to unqualified contractors winning the work but being unable to complete the job. There is no consideration of downstream maintenance costs. There is no consideration of how the repeal of prevailing wage regulations destroys apprenticeship training programs and the future qualifications of the construction labor force. There is no consideration of how the loss of health insurance can lead to increased public health costs, nor is there any consideration of how the loss of pension benefits may raise the public cost of supporting the elderly. There is no consideration of how the removal of prevailing wage regulations encourages the subsequent proliferation of misclassified workers.[ii] There is no accounting for the costs of unscrupulous low-wage contractors shedding payroll tax costs by giving their workers 1099 forms rather than W-2's. There is no accounting of the cost to Kentucky's unemployment insurance and workers compensation system of the loss of contributions when the floodgates to unregulated construction lead to a sea of gray market behavior.

These are downstream costs that may well offset the alleged upfront 3.7% savings that the *Program Review and Investigations Committee Report* purported to find should Kentucky repeal its prevailing wage law. In this report, we will take each of these issues in turn. But first, let us see whether or not this alleged 3.7% upfront savings even actually exists.[iii]

[ii] Misclassification of workers occurs when a contractor gives his workers 1099 tax forms rather than W-2s thus misclassifying them as subcontractors. This allows the contractor to avoid paying payroll taxes—social security contributions, workers comp and unemployment premiums. By jettisoning payroll taxes, unscrupulous contractors can underbid legitimate contractors on public works while transferring the costs of workers comp and unemployment insurance to others.

[iii] Appendix A provides a more detailed analysis of the problems in the *Program Review and Investigations Committee Report.*

Looking at Actual Total School Construction Costs

The adage that the proof is in the pudding applies here. The question is not what happens to wage rates when prevailing wage regulations are removed, but rather what happens to overall construction costs. It turns out that in the 1990s, a natural experiment occurred that can help us answer this question. In 1996, Kentucky went from not having a prevailing wage law on schools to implementing prevailing wages. In 1997, Ohio went from having prevailing wage regulations on schools to removing the law. Due to a court decision, Michigan suspended its prevailing wage regulations on schools in late 1994 only to re-implement the regulation in the middle of 1997. So we have a natural experiment that employs both a before-and-after comparison, and a here-and-there comparison of new school construction costs, with and without prevailing wage regulations, in adjacent states. Figure 2 shows the timing in the 1990s when each state had and did not have prevailing wage regulations in force.

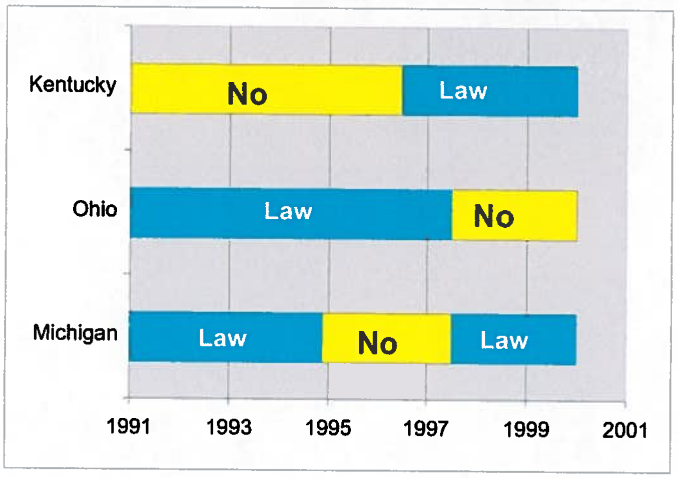


Figure 2: Prevailing Wage Policy by State 1991-2000

Using FW Dodge data covering 391 new schools constructed in Kentucky, Ohio and Michigan over the period 1992 to 2000, analysis done by this author in 2001 showed that there was no measurable, statistically significant difference in the total cost of construction associated with the removal of prevailing wage regulations.[17]

Characteristic of Schools in Study	
Number of New Schools in Study	391
Average Square Foot Size of the School	86,415
Average Total Cost of the Project (Year 2000 dollars	$8,483,937
Percent of All Schools	
Michigan	38%
Ohio	36%
Kentucky	26%
Percent of School with a Gym-Pool Facility	7%
Percent of Urban Schools	32%
Percent of Schools Built Under Prevailing Wages	49%

Table 1: Description of the new schools used in the study

Table 1 shows that of the 391 new schools with an average size of 86,415 feet, almost half (49%) were built under prevailing wages and half (51%) were not. Michigan, which had prevailing wages, dropped them and then took them up again, accounted for 38% of the schools in the sample. Ohio accounted for 36% and Kentucky accounted for 26% of the schools. Thirty-two percent of the schools were in urban areas while the rest were rural. All the monetary figures in the study were normalized in the year 2000 dollars and the average project cost was almost $8.5 million. Before looking at all three states, we will start by looking at the adjacent states of Kentucky and Ohio.

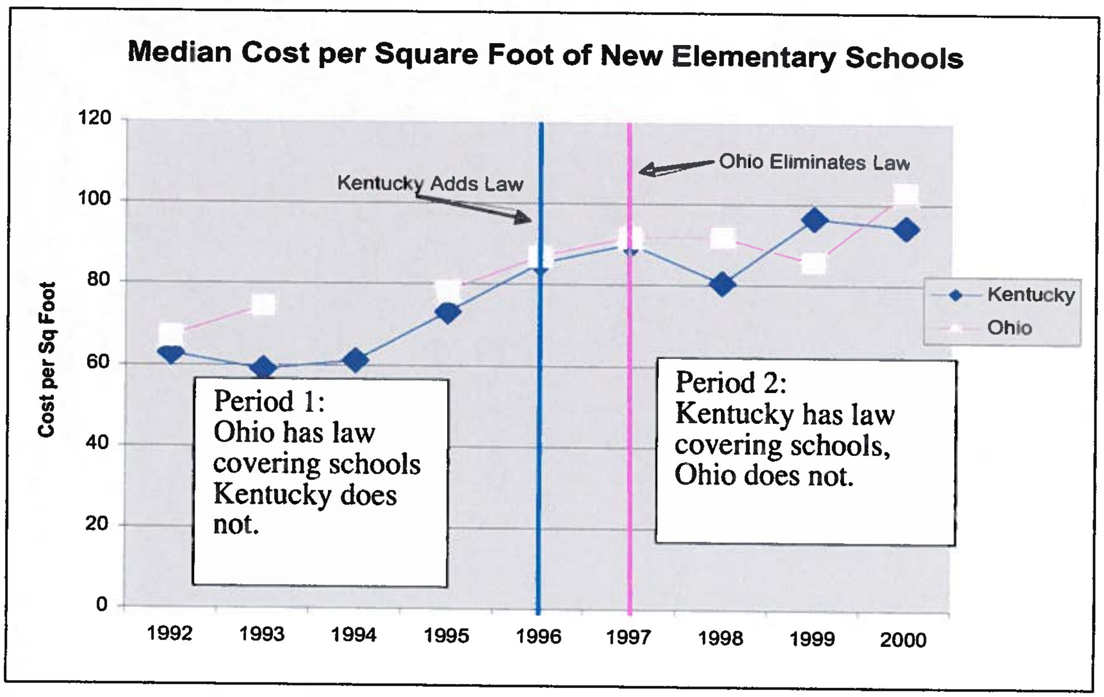


Figure 3: Square foot cost of new schools in Kentucky and Ohio before and after changes in each state's prevailing wage law

A simple comparison in Figure 3 of the median square foot cost of new school construction based on "start costs" (or accepted bid price) in Kentucky and Ohio over the 1992 to 2000 time period shows no discernable cost effect either of Kentucky implementing prevailing wages in 1996 nor Ohio removing prevailing wages for schools in 1997. [18] Table 2 shows the mean square foot cost of rural schools in periods in which there was no law ($96) compared to when there was a law ($98). Table 2 also shows for urban schools the mean square foot cost when there was no law ($114) and when there was a law ($114). **In both cases there is no statistically significant difference in these average square foot costs.**

	New Public Schools						
		Real (Inflation Adjusted) Square Foot Cost					
	a	b	c	d	e	f	g
1		Rural Schools			Urban Schools		
2		Mean	Standard Deviation	Number	Mean	Standard Deviation	Number
3	No Law	$96	$26	161	$114	$36	40
4	Law	$98	$24	104	$114	$34	86
5	t-test	-0.76			0.05		
6	Statistically Significant Difference?	No			No		

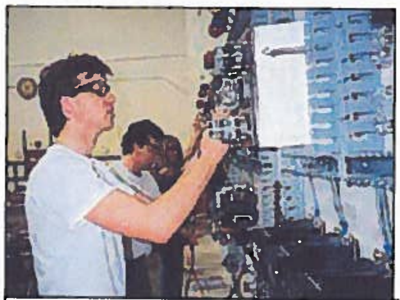
Table 2: Comparison of the Real (Inflation-Adjusted) Square Foot Cost of New Public Schools by Urban and Rural Schools and Built without or with Prevailing Wages

This 2001 *Kentucky-Ohio-Michigan Study* goes on to apply a more sophisticated econometric model to these 391 new schools finding that there were statistically significant effects on total costs if ground were broken on a project at the onset of winter, and that rural schools were statistically less expensive compared to urban schools, and that Kentucky schools were less expensive compared to Ohio and Michigan, and if a school had a pool it was more expensive than if it did not. However, ***there were no measurably or statistically significant effects of prevailing wages on total start costs.***

In subsequent peer-reviewed[iv] research on more than 4000 new schools built nationwide published in the *Journal of Education Finance*,[19] the results of the *Kentucky-Ohio-Michigan Study* were confirmed. ***There was no measurably or statistically significant effect on start costs associated with the presence of prevailing wage regulations.*** Additionally, it was found that substantial savings on school construction could be found if schools were built counter-cyclically. By avoiding building into what *Engineering News Record* calls "cost storms" when construction is booming, there is a measurably large and statistically significant savings that can accrue to the public. Such counter-cyclical spending can also benefit the construction industry and the local community by dampening the chronic boom-bust cycle of construction. Those who wish to save on public construction monies would be well advised to avoid breaking ground as winter hits and to seek breaking ground when the economy slumps. Repealing prevailing wages will result in lower wages, benefits, training and productivity, but does not promise substantial savings on total construction costs. To see this, we begin by looking at the effects of prevailing wage law repeals on training, productivity and wages.

[iv] Peer-review refers to the academic process whereby research proposed for publication is sent to a set of independent experts in the field for review. The research is only published after it passes the evaluation of these reviewers and the journal editor.

The Effect of Repeals on Training, Productivity and Wages

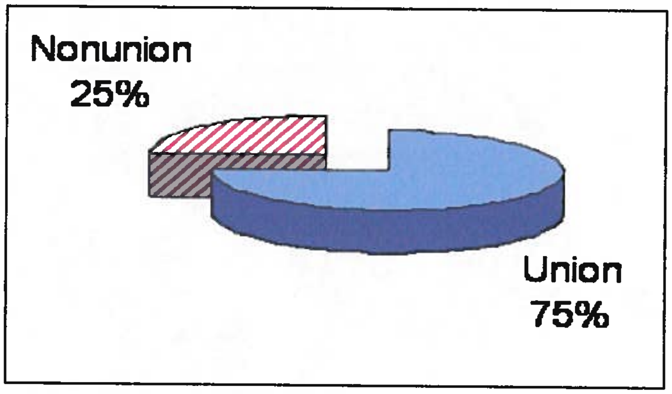


Electrician apprentices go to school and learn on-the-job for five years.

In construction, helpers help—and apprentices learn. The apprenticeship system in construction is the largest privately financed post-secondary education system in the United States. Depending on the construction trade, apprentices go to school while obtaining on-the-job training for a period ranging from two to five years. In many cases, primarily in the union sector, apprentices are rotated between employers to become exposed to a variety of tasks and skills. Apprenticeship training is formal, monitored, measured and tested. On prevailing wage jobs, all novice workers must be enrolled in a formal apprenticeship program. They cannot simply be helpers in dead-end unskilled jobs leading nowhere.

Helpers, to the extent that they are allowed to learn, do so on a catch-as-catch-can basis without formal classroom training, without testing, without conscious rotation between skills, without monitoring and without measurement. Their learning is not overseen by a master worker, and their education is not planned or supervised by an apprenticeship committee. Many helpers do not advance in the trade, and many leave the industry after a short period. It is not surprising that where prevailing wage laws are repealed, apprenticeship training falls off significantly.

When prevailing wage laws are repealed, contractors, no longer obliged to train their novice workers, can cut their bids by jettisoning the costs of formal training. Public owners, obliged to accept the lowest bid begin giving work to contractors who do not train. Apprenticeship training in Kansas construction fell by 38% in the four years after that state repealed its prevailing wage law in 1987. Minority apprenticeship training in Kansas fell by 54%.



Union contractors train 75% of all graduating apprentices in Kentucky construction.

The decline in apprenticeship training was due to a shift away from collective bargaining towards open shop (or merit) shop construction. Merit shop contractors accounted for only 12% of all apprentices being trained in Kansas. As the merit shop share of the market grew after repeal, apprenticeship training fell substantially.[20] Kentucky is in a similar situation. In Kentucky, 75% of all graduating construction apprentices come from programs created by collective bargaining. Among minorities and women, 84% of all graduating construction apprentices come from union-management programs.[21] The *Program Review and Investigations Committee Report* in saying that prevailing wage repeal will lower the wage bill on public works by 24% assumes that all the work will go to nonunion contractors. If so, helpers will replace apprentices on public jobs; training will cease, and what happened in Kansas is likely to happen in Kentucky. ***Overall in Kentucky should the state repeal prevailing wages, construction apprenticeship***

training will fall by roughly 40% and women and minority training will fall by roughly half. When training stops the knowledge and skills of the local construction labor force deteriorates. Workers become less skilled and work becomes less safe. Injuries rise and workers' compensation premiums escalate. Future construction costs rise as the qualifications of the local construction labor force decline. Other industries are put at risk to the extent their future depends upon a qualified construction labor force erecting the technologically sophisticated infrastructure of the future.

A sewer line can be dug using large numbers of unskilled workers equipped with shovels or a handful of skilled workers equipped with backhoes. The wages of the skilled workers will be higher, but labor costs as a percent of total costs could easily be the same or lower.

There is always more than one way to skin a cat in construction as elsewhere. You can build an earthen dam with hundreds of unskilled, low-wage menial laborers armed with shovels and buckets, or you could build that same dam with a handful of workers operating million-dollar belly-loaders and other earth-moving heavy equipment. Which way is best? The low-wage, low-skill road might be best in a situation of massive unemployment of unskilled workers. But a high-skill, high-wage approach leads to better results in wealthier societies. This approach creates and reproduces a skilled labor force that is not only better equipped to handle technical and sophisticated work that the shovel and bucket brigade could never tackle, but also this approach creates a community of middle class families out of blue collar jobs.

One fact that all sides agree upon is the fact that prevailing wage law repeals cut construction worker incomes. Figure 4 shows that in states with lower-wage construction workers, the productivity of those workers is lower and the value added from their work to society is lower.[22]

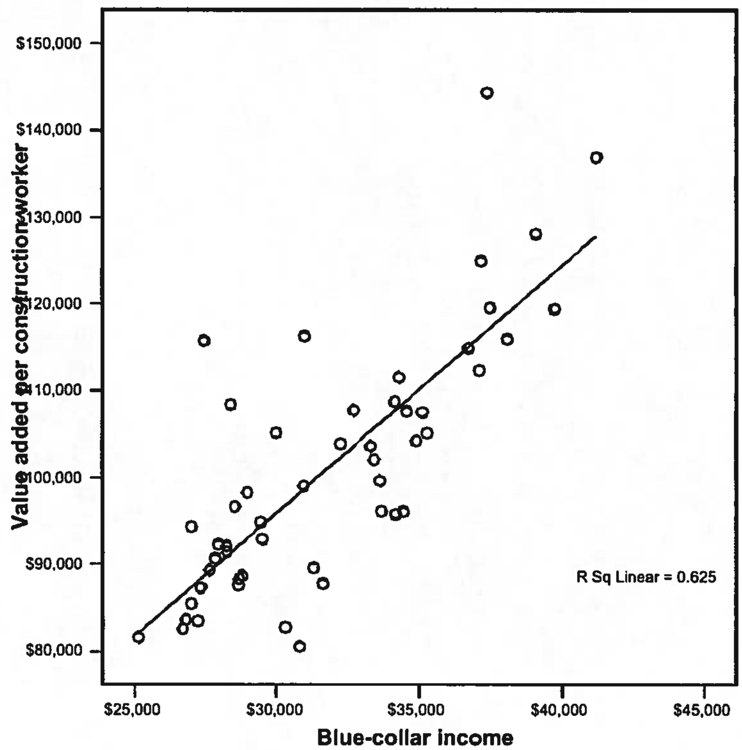


Figure 4: Annual income per worker and value added per worker by state, 2002

Table 3 shows that states with prevailing wage laws have, on average, 13% to 15% higher value added per worker compared to states without prevailing wage laws. This is because prevailing wage laws encourage training, capital investment and better labor management practices.

Table 3 Average value added per worker in states with and without prevailing wage laws, 2002[23]

No Law		Law		Percent Higher in Law States	
Mean	Median	Mean	Median	Mean	Median
$93,523	$90,637	$105,505	$104,685	13%	15%

Increased worker value added and income provides the ability for the construction industry to provide its workers with health insurance, pensions, Social Security contributions, money for workers compensation coverage and unemployment insurance. Because construction is a highly turbulent and dangerous industry, monies for workers compensation and unemployment insurance are crucial. And like for all working families, money for health insurance and retirement security are crucial. Prevailing wage regulations by encouraging construction to develop along the high value added growth path, helps insure that construction workers and their families can provide for themselves and contribute to the community.

Repeal Is About Cutting Health Insurance and Payroll Taxes

Proponents of prevailing wage law repeal talk about cutting worker wages by 24%, but the real cuts come in worker health insurance, pension coverage and payroll taxes for unemployment and workers comp premiums. Figure 5 shows that in states with prevailing wage laws, blue-collar construction worker incomes are 15% higher than in states without prevailing wage laws, but legally mandated payments into workers comp, unemployment insurance and social security are 25% higher in prevailing wage law states. Furthermore, employer contributions to health insurance for construction workers and their families plus pension coverage are 65% higher in prevailing wage law states. Repealing prevailing wage laws allows unscrupulous, low-wage contractors to lower wages some, but these repeals encourage such contractors to throw out health insurance and worker comp premiums almost entirely. If the industry does not pay for the health, safety and retirement costs of construction workers, the taxpayer can be left with the bill.

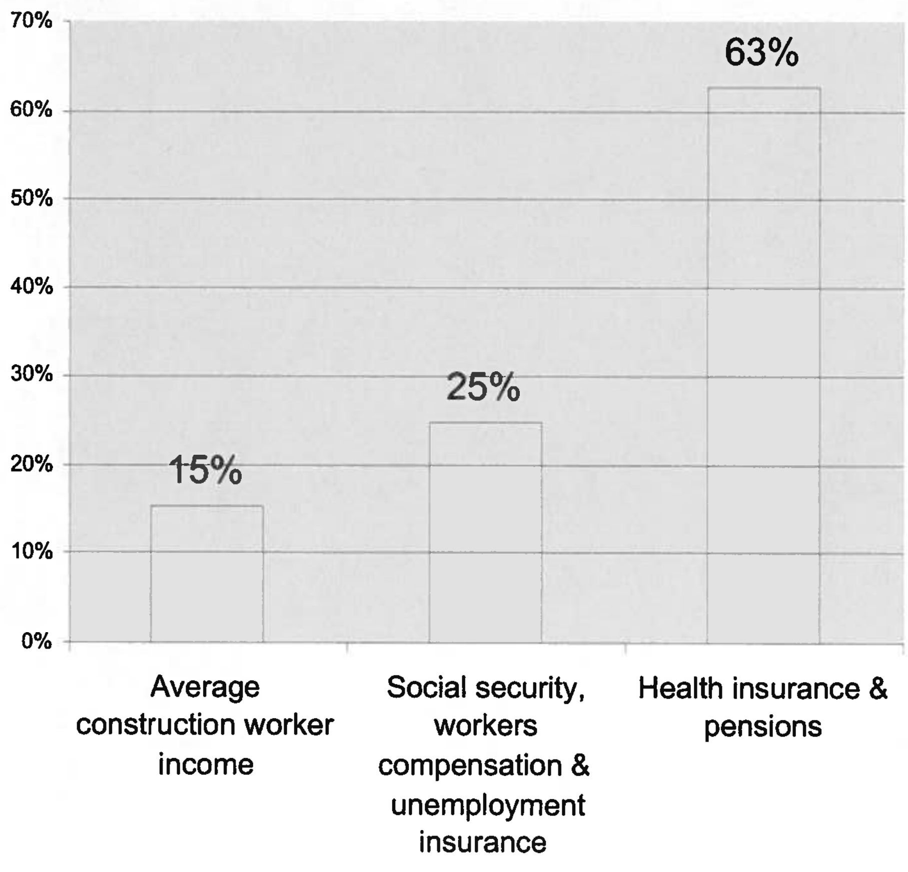


Figure 5: In prevailing wage law states, construction worker incomes are 15% higher, but payroll contributions to unemployment and workers comp are 25% higher and contractor health and pension contributions are 63% higher. Source: US *Census of Construction*, 2002.

Prevailing Wages, Health Insurance and Public Health Costs

In 2003, construction provided less health insurance for workers than any other major sector of the economy: only 43% of establishments in construction provided health insurance compared to 69% in manufacturing and 56% in the overall economy.[24 v]

Prevailing wage regulations require that contractors not only pay better wages but also provide benefits. Health insurance, if not provided, can end up costing taxpayers money. Almost all union contractors provide health insurance. Most high-wage nonunion contractors also provide health insurance, but many low-wage nonunion contractors do not. Figure 6 shows the distribution of health insurance among employed union and nonunion construction workers.[vi] One-third of nonunion construction workers have no form of health insurance, whatsoever. In contrast, only 4% of union construction workers have no health insurance at all.[25] The primary reasons union workers have health insurance is collective bargaining requires that union contractors put into all their bids the hourly cost of health insurance contributions.[vii] One reason some nonunion workers have health insurance is because prevailing wage jobs require that all contractors put the cost of health insurance into their bids on public works. Some high-wage nonunion contractors that do a lot of public works have very good health insurance programs.

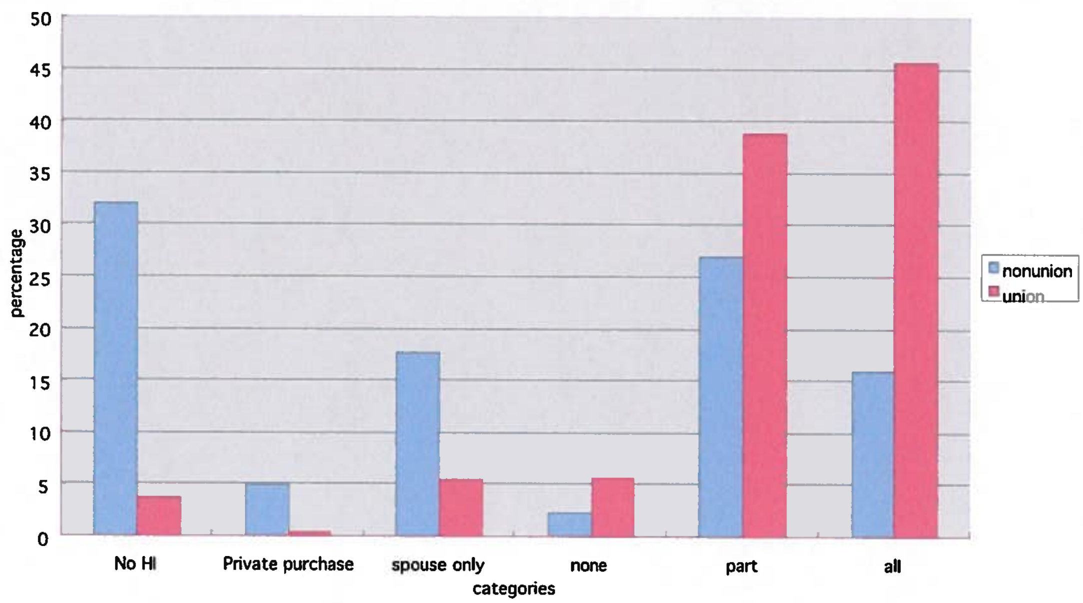


Figure 6: The distribution of health insurance among union and nonunion construction workers

[v] Construction is grouped with agriculture, fisheries and forestry. All three of these industries share similar problems regarding paying health insurance—small firms, seasonal work and considerable movement of workers from employer to employer.

[vi] These data are drawn from *the Survey of Income Program Participants* and include only employed construction workers..

[vii] The 4% of union workers who do not have health insurance are, for the most part, those newly hired and on a waiting period prior to qualifying for insurance. Within a local area, union workers can go from contractor to contractor and retain their health insurance. Typically, nonunion workers lose their insurance, if they have any, when they switch contractors.

The fact that one-third of nonunion construction workers do not receive any form of health insurance is mirrored by the fact that states without prevailing wage laws have fewer contractors offering health insurance. In states with prevailing wage laws, 44% of construction contractors offered at least some of their workers health insurance while in states without prevailing wage laws, only 34% of contractors offered health insurance. Kentucky was slightly ahead of the national average for the all industries with 58% (compared to 56% nationally) of all establishments offering some form of health insurance to at least some of their employees. Kentucky fell below the average for prevailing wage law states in construction contractors offering health insurance to at least some of their employees—39% (compared to 44% in law states nationwide).[26] While more Kentucky contractors offer health insurance compared to the average no-law state (39% vs. 34%), repealing Kentucky's prevailing wage law puts the state at risk of becoming worse than the average no-law state.

On average, 22% fewer construction contractors pay health insurance to any of their employees in states that do not have prevailing wage laws compared to states that do.[viii] In Kentucky, this would mean the percent of contractors providing health insurance would fall from 39% to 30% of all contractors. Based on US 2002 *Census of Construction* data for Kentucky, about 780 contractors would drop health coverage for their workers should the state repeal its prevailing wage. This would affect both blue collar and white collar workers in these firms, and with an average of 9.5 employees per contractor, about 7400 construction employees and their families would lose health insurance because of repeal.

Failure to pay health insurance in the construction industry can end up costing the taxpayer. Professor Jeff Waddoups of the University of Nevada at Las Vegas found that in Clark County (the Las Vegas area), construction workers formed a disproportionate share of patients receiving uncompensated care from public hospitals.[27] Professor Waddoups found that compared to other sectors of the local economy, and considering the relative size of the construction industry, ***uninsured construction workers and their dependents were 88% more likely to receive uncompensated health care***. Professor Waddoups concluded:

> All uncompensated [health] care costs [in Clark county] attributable to [uninsured] employed construction workers over the period amounted to $6.3 million and the total cost of uncompensated care to the employed and their dependents was over $37 million for the years 1998-2000.

This is a "pay-me-now-or-pay-me-later" issue. Repealing prevailing wage regulations will lower wages, benefits and health insurance coverage. The construction work force will become poorer and more in need of a social safety net paid for by taxpayers. Prevailing wage repeal will mean that construction workers will put greater pressure on a public health care system that is already struggling to meet the needs of others.

[viii] This calculation assumes that there is little systematic difference in the role of fisheries, agriculture and forestry across law and no-law states. An examination of the 31 states with prevailing wage laws and the 19 states without suggests that this is the case.

Repeals and Payroll Taxes

Threatening the Viability of the Workers Compensation and Unemployment Insurance Systems

Payroll taxes provide funds for Social Security, workers compensation insurance and unemployment insurance, benefits needed by construction workers and their families. But in the arcane world of construction subcontracting, it is not difficult for unscrupulous contractors to magically turn workers into bogus independent subcontractors. Often it is as easy as passing out 1099 forms instead of W-2's to members of your work crew. Union contractors cannot do this because the union would not let them. High-wage nonunion contractors would be stupid to try this because their skilled work force would not stand for it, and would go elsewhere. Turning workers into bogus "independent" subcontractors is a trick low-wage contractors can get away with simply because their low-wage workers are cash-starved and will not put up a fuss if Social Security contributions or workers compensation contributions are not paid.

If so-called independent subcontractors always took 1099s and never received W-2's, then pseudo-subcontractors would not be covered by workers compensation or unemployment insurance. Social Security would be their problem. However, because construction workers move often between contractors, the bogus subcontractor one day becomes a legitimate worker the next. Now this worker is covered by workers compensation and unemployment insurance, but he has not been paying into the system. So a weakened insurance system has to cover an expanded workforce when bogus subcontracting strategies become common.

Prevailing wage regulations discourage bogus subcontracting strategies by discouraging the whole range of shady practices tied to low-wage contracting and cutthroat bidding. But once prevailing wage laws are removed, the floodgates are opened and unscrupulous bidding practices proliferate. We can measure the effect of prevailing wage law repeals on the practice of bogus subcontracting and estimate the cost to Kentucky in terms of lost worker compensation and unemployment insurance taxes.

Construction has many legitimate independent contractors with no employees. The handyman who refinishes basements, the electrician doing home repairs, the college student painting houses in the summer, all represent legitimate forms of contracting where there is one person with no employees. This is a large and longstanding sector of overall construction activity. Currently there are about 2 million self-employed construction workers (15% of all the self-employed doing $126 billion worth of work) compared to a little more than 5 million construction workers employed by contractors.[28] Looking at the ratio of self-employed construction workers to those employed-by-contractors will give us an idea of the extent of legitimate self-employed compared to bogus independent subcontractors. What we will see is that where prevailing wage laws are absent, there are substantially more independent contractors than in states with prevailing wage laws.

Table 4: Independent Contractors as a Percent of Employed Blue-Collar Construction Workers by Type of Contractor and Legal Regime , 2002[29]

	Independent Contractors as a Percent of Blue Collar Construction Workers		Increase in Bogus "Subcontractors"
	Law States	No Law States	Percent Greater
All Independent Contractors	33.5%	38.3%	12.4%
Building Contractors	42.6%	48.9%	12.8%
Highway Contractors	8.4%	9.6%	12.4%
Specialty Contractors	49.5%	56.4%	12.2%

Table 4 shows that in states without prevailing wage laws, the ratio of independent contractors in construction to blue-collar construction workers is systematically higher across all contractor types compared to states with prevailing wage regulations. This approximate 12% increase in independent contractors reflects the practice of creating bogus subcontractors who should have been receiving W-2's but instead were getting 1099's allowing their true employer to dodge payroll taxes.

Based on 2002 construction employment in Kentucky, shifting 12% of the work force from paid employment to independent subcontractor status would mean that about 3600 workers in Kentucky would no longer be paying into the workers compensation system nor the unemployment insurance system for at least part of the year. Assuming that for each worker $15,000, or approximately half of their annual income, was no longer paid in wages, $54 million in wages would no longer have payroll taxes paid on it. Assuming a 10% workers comp rate and an unemployment insurance rate of 9.5%, then about ***$8.1 million annually would be lost to Kentucky's unemployment and workers compensation insurance systems due to a repeal of Kentucky's prevailing wage law.***[ix]

Conclusion

If skilled and well paid labor can build schools and roads and other public works for roughly the same amount of money that less-skilled and poorly paid workers can, the question becomes which road is the better development path for Kentucky? The high-skilled, high-wage growth path creates construction careers out of an inherently turbulent and often unstable industry. Kentucky construction workers are able to provide for their families and insure themselves and their children against ill-health and injury. They stick with the industry because the industry pays for the basic income and insurance needs of a middle-class family. By sticking with the industry, these Kentucky workers become more experienced, more skilled and better qualified to build the technically demanding infrastructure that underlies and buttresses all other sectors of Kentucky's economy. Truly, what is good for construction is good for the Kentucky economy as a whole.

The alternative, low-wage growth path urged by some will shed Kentucky of much the skills it has built up over the years. With a 24% cut in income and even bigger cuts in health insurance and pensions, with the loss of workers compensation coverage and

[ix] For workers comp the calculation is 3600 workers times $15,000 times 10% equaling a loss of $5.4 million annually to the workers compensation fund. For unemployment insurance the calculation is 3600 times the first $8,000 in income (from any one contractor) times 9.5% equaling a $2.7 million yearly loss to the unemployment insurance fund.

unemployment insurance, skilled and experienced Kentucky construction workers will migrate to other industries or move to other states in order to provide for their families. A newer, younger, less attached and less skilled workforce will replace many of the workers now employed in Kentucky. Because this workforce will be less experienced and younger, it will be less safe. The risk of injuries will rise just as the number of workers covered by workers comp will be falling. The lack of health insurance and workers comp coverage will put pressure on public hospitals and other agencies providing for the uninsured.

Downstream maintenance costs on public construction will also be put at risk. Construction is not inherently routine and unskilled work. The workers themselves need to know what they are doing and cannot rely entirely upon architects, engineers and supervisors to be watching them and instructing them at every turn. Building inspectors can probe and test, but they cannot be everywhere. A lot of mistakes in construction get buried behind walls or under concrete only to surface months and years later. A skilled, experienced and committed labor force makes fewer mistakes. Workers brought up to feel that construction is a career and a craft bring a solid work ethic and sense of proper workmanship to the job. Prevailing wage laws simply insure good workmanship by helping preserve the presence of professional, career construction workers in what is otherwise a casual and turbulent labor market.

Prevailing wage regulations help preserve quality workmanship and insure against downstream remakes, repairs, and undue maintenance costs. Because of this, prevailing wages help lower overall construction costs. At the start-cost stage, at the point that the bid has been accepted, the high-skill and low-skill approaches are often a wash. Downstream, skilled labor is always more likely to deliver a quality product simply because they know what they are doing. In the long run, local economies that develop a high-skilled construction labor force are better positioned to compete in all the industries that rely upon technically advanced and solid construction. And in the bigger picture, the high-skilled construction development path builds a blue-collar middle class in Kentucky better economically capable of being responsible parents, good neighbors and solid citizens.

Appendix A: The Erroneous Assumptions and Analysis of the *Program Review and Investigations Report*

The *Program Review and Investigations Committee Report* makes simple erroneous assumptions that lead to false conclusions. First, The *Program Review and Investigations Committee Report* assumes that as wages rise, labor costs as a percent of total costs will rise. And as wages fall, labor costs as a percent of total costs will fall. The *Program Review and Investigations Committee Report* explicitly rejects the idea common to economics that as wages rise, contractors substitute capital for labor, skilled workers for unskilled workers and better labor management for lax labor management in order to offset those higher wage rates with higher labor productivity. The *Program Review and Investigations Committee Report* states:

> It is argued by some that the additional wage costs of requiring prevailing wages are offset because contractors substitute more productive workers or use more equipment. Because this analysis only examines the workers that actually worked on the project, it incorporates any productivity gains achieved by this type of substitution.[30]

The *Program Review and Investigations Committee Report* is saying—"Hey, it's the same worker in both places, so it must be the same productivity! Right?" Wrong. This is false for three basic reasons.

- **First**, the *Program Review and Investigations Committee Report* does not measure the **capital equipment provided the worker** on the prevailing wage job compared to the non-prevailing wage job. This is a mistake. Perhaps The *Program Review and Investigations Committee Report* assumes: "Hey, it's the same contractor, so it has to be the same capital equipment!" Such an assumption would be false. Not only do contractors have older and newer, worse and better pieces of machinery in their warehouse, but also contractors often rent their machinery. On higher wage jobs, they are more likely to rent better, newer and more equipment to boost the productivity of their workers. Figure 8 shows the value of rented machinery per worker by state in 2002 by the average construction blue-collar income level in that state. Higher wages lead to more equipment provided each construction worker, and Figure 7 shows that more equipment per worker leads to higher individual labor productivity—something The *Program Review and Investigations Committee Report* ignores.[31]

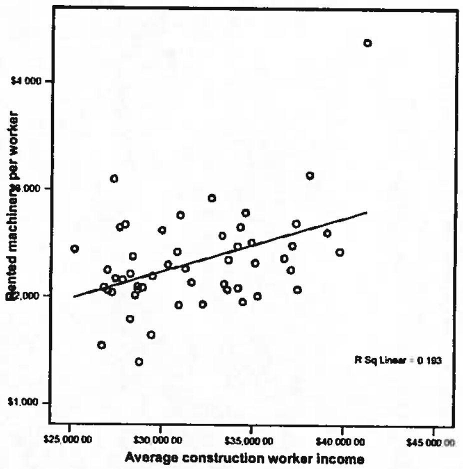


Figure 7: Value of machinery rented per blue-collar worker by blue-collar income, 50 states and DC, 2002

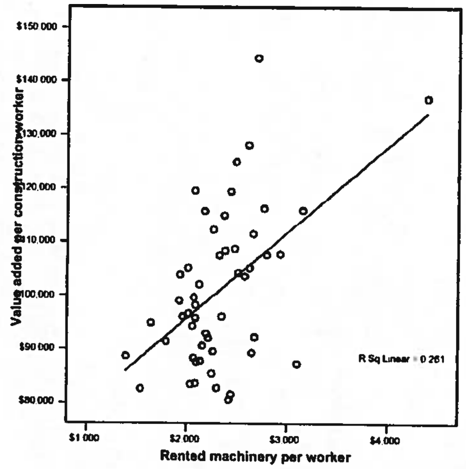


Figure 8: Value added per blue-collar worker by the value of rented machinery per worker, 50 states and DC, 2002

Now we come to the issues of **moonlighting** and **crew mix**. Workers' wages reflect workers' productivity. But what if a worker receives two different wage rates from the same employer on two different jobs? Which wage reflects that worker's actual productive abilities? Can a worker's productivity be different working for the same employer on two different jobs? The *Program Review and Investigations Committee Report* assumes that a worker cannot have two different productivities on two different 9
jobs, and if a worker is paid two different wage rates, then the lower of the two represents that worker's actual productivity. These are incorrect assumptions for two reasons. First, the *Program Review and Investigations Committee Report* ignores the **"moonlighting effect"** where a worker takes a lower wage than his productivity in order to supplement his main work. A high school math teacher might teach driver's ed, or a skilled industrial electrician might re-wire someone's basement. In both cases, it is the higher wage rate that reflects the worker's actual productivity. Second, the *Program Review and Investigations Committee Report* ignores the **"crew mix"** effect. Individual productivity is partially the result of the team of workers the individual joins. The *Program Review and Investigations Committee Report* only looks at a random sample of individual workers drawn from different crews, and it never looks at the crew composition on prevailing wage jobs vs. other work. Thus, it misses the fact that low-wage contractors tend to assign their A-Team to prevailing wage jobs. We can see these two effects by looking first at high-wage contractors that *typically do public works,* and then looking at low-wage contractors that *occasionally do public works.*

- **The case of the high-wage contractor that mainly does public works**
  - **The *Program Review and Investigations Committee Report* mistakes moonlight wages for day-job productivity:**

  Many contractors specialize in public school construction, or water and sewer projects, or road construction or other specific kinds of public works. For these contractors, the vast majority of their work is on these specific kinds of public projects. These contractors develop a skilled labor force that is compatible with the wages and requirements of public works. However, in moments of slack work, these contractors may take on a private job, sometimes small jobs or jobs requiring less skill. A road contractor may pour a residential driveway. A school contractor may refinish a basement. A waterworks contractor may put in a swimming pool. On these private jobs, their workers are over-skilled and underpaid. Their workers take this work at lower rates simply to fill in the inevitable slack time in the boom-bust pattern of construction. If their contractor offered a steady diet of this lesser work pouring driveways or refinishing basements, these over-skilled, underpaid workers would move on to better-paying jobs that better matched their qualifications. For these skilled workers, you cannot assume (as The *Program Review and Investigations Committee Report* does) that their moonlight wage reflects their day-job productivity. And *you cannot assume, as* The *Program Review and Investigations Committee Report does, that eliminating prevailing wage regulations would induce these workers onto public construction for 24% lower wages.*

- **The case of the low-wage contractor who does occasional public works**
  - **Bringing You're A-game and You're A-team**

Low-wage contractors who do only occasional public construction often select their best workers for this work in order to compete at the higher wages required by prevailing wage regulations. Worker productivity is not just an individual matter as The *Program Review and Investigations Committee Report* assumes, nor is individual effort unresponsive to wages as it assumes. Any one construction worker's productivity is dependent on his crewmates who deliver material on time, cooperate well, complete tasks quickly and correctly, maintaining a strong work ethic and group morale. In short, teamwork affects individual productivity. Because The *Program Review and Investigations Committee Report* looked at individuals instead of crews, it fails to capture the work-crew component of construction labor productivity. And *you cannot assume, as The Program Review and Investigations Committee Report does, that at 24% lower wages, these A-teams teams will be formed or that these teammates will apply themselves as they now do on this premium work.*

By not looking at capital equipment per worker, by not looking at work crews, their composition and management, and by not knowing which job it examines is the worker's day job, the *Program Review and Investigations Committee Report* totally loses track of the productivity effects wages can have. Furthermore, by looking at a random set of individuals instead of looking at construction projects, themselves, The *Program Review and Investigations Committee Report* does not know if these projects were brought in on time, whether there were cost overruns or anything about the quality of the work done.

Knowing little about actual productivity in construction, The *Program Review and Investigations Committee Report* nonetheless concludes that prevailing wages "do not ensure an associated improvement in quality or productivity."[32] Despite this conclusion, The *Program Review and Investigations Committee Report* concedes that

> It is generally accepted that in a competitive labor market a higher quality worker will be able to command a higher wage, assuming all other factors equal. Therefore, one would expect that a $20 plumber would likely do better work than a $15 plumber.[33]

Nonetheless, the *Program Review and Investigations Committee Report*, relying upon Professor Steve Allen's 1984 and 1987 articles, argues that "in areas where unions have market power, they can bargain for wages above labor's contribution to the value of output and still maintain market share."[34] Thus, concluding that "while some of the higher wages observed [on prevailing wage jobs] may be attributable to more qualified workers, the higher wages are also the result of market power of unions in the area."[35]

Setting aside the fact that Professor Allen was referring to union strongholds such as Chicago, San Francisco and New York, the *Program Review and Investigations Committee Report* either did not read or fully ignored the main thrust of the articles which it relies upon.

In the first of the two Steve Allen articles upon which The *Program Review and Investigations Committee Report* relies, "Unionized Workers Are More Productive," Professor Allen summarizes his paper thus:

> Apprenticeship training and hiring halls probably raise union productivity, while jurisdictional disputes and restrictive work rules lower it....union productivity, measured by value added per employee, is 44 to 52 percent higher than nonunion. The estimate declines to 17 to 22 percent when estimates of interarea construction price differences are used to deflate value added.[36]

Professor Allen then concludes his paper thusly:

> The empirical evidence presented here strongly supports the hypothesis of a large, positive union productivity effect in this sector [i.e. construction]....Through what mechanism does unionism lead to higher productivity? The most likely factors, based upon the discussion of the case study evidence, were (1) better training at the journeyman level through joint apprenticeship programs, (2) changes in the occupational mix (including reduced use of unskilled labor and lower foreman to journeyman ratios), (3) reduced recruiting and screening costs for contractors, and (4) greater managerial ability.[37]

Ignoring these major conclusions of Allen's research, The *Program Review and Investigations Committee Report* focuses on a minor point that is irrelevant in the case of Kentucky. Allen finds that where union density is very strong, such as in the case of New York City, union workers receive higher wages than nonunion workers, not only because they are more productive but also because they have very strong market power. While this may hold for Chicago, New York and San Francisco, this is a fairly irrelevant point for Lexington, Louisville or rural Kentucky. In Kentucky, union workers have higher wages because they are better trained, better equipped and better managed. And, incidentally, this can also be said for most high-wage nonunion workers in Kentucky. You get what you pay for, and prevailing wage regulations simply require that on public works, you should buy the best.

And the best can be very good indeed. Figure 4 (see above) shows value added per blue-collar construction worker by state in relation to annual wages in 2002 from the US *Census of Construction*. As wage income rises from $25,000 per year to $40,000, value added per worker goes from $80,000 per year to $130,000. While a small portion of this increase may be due to union market power in some states compared to others (The *Program Review and Investigations Committee Report*'s point), the vast majority of this increase in value added is due to the training and management improvements associated with higher wages that The *Program Review and Investigations Committee Report* ignores and dismisses. The *Program Review and Investigations Committee Report* also ignores the social costs associated with cheap, unskilled labor policies. The construction workers in states where their skills earn them a higher income contribute more to social security, workers compensation funds, unemployment insurance programs, health insurance, retirement programs, local taxes and the local economy.

Endnotes:

[1] Mary Lou Pickel, *The Atlanta Journal-Constitution*, October 19, 2005 Section: News, p. 1A. Other such stories include: "New Orleans rebuilds as tensions rise; Influx of Latino workers has local businesses and contractors feeling left out," Kelly Brewington, *The Baltimore Sun*, October 14, 2005 Section: Telegraph, p. 1A; "Nuevo Orleans? An influx of Hispanic workers in the wake of Hurricane Katrina has some officials wondering why locals aren't on the front line of recovery," James Varney, *Times-Picayune*, October 18, 2005 , New Orleans, Section: National, p. 1; "Immigrant workers becoming visible part of New Orleans work force," Deon Roberts, *New Orleans City Business*, New Orleans, October 15, 2005.

[2] Lolis Eric Elie, *Times -Picayune*, New Orleans, Section: Metro, p. B1.

[3] "Group of House Republicans Calls on Bush To Reinstate Davis-Bacon on Katrina Projects," BNA, Construction Labor Report, Volume 51 Number 2541, Wednesday, September 28, 2005, Page 1017. The Republican signers of the letter include: Rodney Alexander (LA) Mark Kirk (IL) Don Sherwood (PA) Sherry Boehlert (NY) Randy Kuhl (NY) John Shimkus (IL) Jo Ann Emerson (MO) Ray LaHood (IL) Rob Simmons (CT) Phil English (PA) Steven LaTourette (OH) Christopher Smith (NJ) Mike Ferguson (NJ) Frank LoBiondo (NJ) John Sweeney (NY) Mike Fitzpatrick (PA) John McHugh (NY) Michael Turner (OH) Vito Fossella (NY) Candice Miller (MI) James Walsh (NY) Melissa Hart (PA) Timothy Murphy (PA) Greg Walden (OR) Jim Gerlach (PA) Bob Ney (OH) Curt Weldon (PA) Nancy Johnson (CT) Todd Platts (PA) Jerry Weller (IL) Tim Johnson (IL) Jim Saxton (NJ) Don Young (AK) Sue Kelly (NY) Chris Shays (CT) Peter King (NY) Joe Schwarz (MI).

[4] October 26, 2005, http://donyoung.house.gov/PressRelease.aspx?NewsID=1592.

[5] http://murphy.house.gov/News/DocumentSingle.aspx?DocumentID=36166

[6] Letter to President George Bush signed by Jerry Weller, October 18, 2005.

[7] Letter to President George Bush signed by Tom Feeney, Jeff Flake, Marilyn Musgrave and 32 others, September 7, 2005.

[8] US Bureau of the Census, Economic Census, Subject Series, *Construction*, "Industry: Summary 2002," Issued October 2005, EC02-23SG-1, blue collar construction payroll from Table 1. Employment Statistics for Establishments by Industry: 2002, and the net value of construction from Table 2. General Statistics for Establishments by Industry: 2002. The net value of construction nets out work subcontracted to others. Payroll for Construction Workers includes the gross earnings paid in the reporting year to all construction workers on the payroll of construction establishments. It includes all forms of compensation such as salaries, wages, commissions, dismissal pay, bonuses, and vacation and sick leave pay, prior to deductions such as employees' Social Security contributions, withholding taxes, group insurance, union dues, and savings bonds. See www.census.gov "Economic Census" button to obtain these data.

[9] US Bureau of the Census, Economic Census, Geographic Series, *Construction*, Kentucky: 2002 Issued September 2005, EC02-23A-KY, Tables 1 and 2.

[10] Table 3. "Detailed Statistics for Establishments by Subsector: 2002," in the *Census of Construction* provides some guidance regarding the cost of benefits in construction. Total fringe benefits including payroll taxes and voluntary benefits amount to 23.8% of total payroll for *all employees* (not just blue collar construction workers). White collar workers typically receive more benefits in construction for two reasons. First, the average white collar worker in construction in 2002 earned $43,215 in wages and salaries while the average blue collar worker in construction earned $32,580. Typically, workers with higher incomes receive more legally required and voluntary benefits. Second, white collar workers tend to stay with one contractor longer while blue collar workers tend to move from contractor to contractor. In the nonunion sector, moving between contractors can lead to loss of health insurance and other benefits. For these reasons, the almost 2 million white collar workers in construction probably receive a disproportionate share of the 23.8% of benefits paid compared to the 5 million blue collar workers. Consequently, a 10% to 20% estimate of benefits paid to blue collar workers is reasonable. Kentucky benefit costs as a percent of total costs are similar to the national average.

[11] The legislative record is replete with assertions from critics of prevailing wage laws that repeal would save from 20% to 25% or more on total construction costs. Some contractors assert that their labor costs are 40% to 50% of their total costs and that by cutting wages in half, total costs would fall by 20% to 25%. Contractor statements about their labor costs are invariable misleading for three reasons. First, the contractor is often a subcontractor, and currently general contractors tend to buy the bulk of materials for a project. Thus, when the subcontractor says *his* labor costs are a high proportion or *his* total costs it is

because he is buying a small percentage of the material costs for the job. Second, both specialty and general contractors tend to give their labor costs as a percent of *their* costs and not the owner's cost. The contractors leave out their profits when they think of *their* costs thus shrinking the denominator and inflating the estimate of labor costs as a percent of construction costs. Finally, contractors tend to think in terms of variable costs and not capital depreciation, rent and other off-site costs. Thus, the percentage they give tends to be labor divided by labor plus materials forgetting fixed costs and profits. Additionally, many contractors answering this question tend to be low-wage contractors using labor intensive management strategies that save on capital equipment and white collar labor expenses. The *Census of Construction* figures avoid all these errors.

[12] Ginny Wilson, et al., *An Analysis of Kentucky's Prevailing Wage Laws and Procedures*, Research Report No. 304, Legislative Research Commission, Frankfort, Kentucky, December 13, 2001. (Hereinafter called the *Program Review and Investigations Committee Report*). See in particular Table 4.4 p. 58.

[13] *Program Review and Investigations Committee Report*, p. 58.

[14] The *Census of Construction* does not break out all prevailing wage work compared to other work. However, some heavy and highway work—notably "highway, street and bridge construction" (Industry code NAICS 2373) and "water, sewer lines and related construction" (Industry Code NAICS 23711) are almost entirely done under prevailing wage regulations in Kentucky. Blue collar wage costs as a percent of total net construction costs are 15.6% for road construction and 21.5% for water and sewer construction. Economic Census, Geographic Series, *Construction*, Kentucky: 2002 issued September 2005, EC02-23A-KY, Tables 1 and 2. The *Census of Construction* does not break out school contractors separately. They are included in NAICS 236220—Commercial and institutional building construction. Blue collar payroll as a percent of the net value of construction for this group in Kentucky in 2002 was 18.1%. Specialty contractors as a group , NAICS 238, in Kentucky in 2002 showed a blue collar payroll as a percent of the net value of construction of 25.2%.

[15] The *Program Review and Investigation Report* was unable to determine whether worker benefits would be cut if prevailing wage laws were removed. Sixty percent of benefits paid in construction are legally required social security, workers compensation and unemployment insurance contributions. If we assume that prevailing wage repeal wiped out all health insurance, pension contributions and other voluntary benefits paid to workers on public works, then the "savings" on total construction would be an additional 1% to 1.8%. However, the loss of health insurance for construction workers might well increase public health costs and the loss of pension benefits might well increase public aid to the elderly.

[16] Cited above.

[17] Peter Philips, "*A Comparison of Public School Construction Costs In Three Midwestern States that Have Changed Their Prevailing Wage Laws in the 1990s,*" University of Utah, 2001. (Hereinafter the *Kentucky-Ohio-Michigan Study*).

[18] "Start costs" refer to the accepted bid price and do not include change orders, cost overruns, downstream maintenance costs, scheduling problems or other auxiliary aspects of construction costs.

[19] Hamid Azari-Rad, Peter Philips, and Mark Prus, "Making Hay When It Rains: The Effect Prevailing Wage Regulations, Scale Economies, Seasonal, Cyclical And Local Business Patterns Have On School Construction Costs," *Journal of Education Finance*, 27 (SPRING 2002). 997-1012. Similar results were found by the same authors in "Sate Prevailing Wage Laws and School Construction Costs," *Industrial Relations*, Vol. 42, No. 3 (July 2003). Using Canadian data for British Columbia Cihan Bilginsoy and Peter Philips again found no measurably or statistically significant effect of the implementation of British Columbia's Fair Wage law: "Prevailing Wage Regulations and School Construction Costs: Evidence From British Columbia," *Journal of Education Finance* v25 no3 p415-31 Winter 2000. The *Journal of Education Finance* is published from the University of Arkansas and is "The leading journal in the field of education finance" *Industrial Relation* is published by the University of California and is one of the oldest labor economics journals in the US. Both journals accept articles for publication only after a rigorous blind reviewing process by experts in the field.

[20] Peter Philips, "Kansas and Prevailing Wage Legislation," University of Utah, February 1998.

[21] William J. Londrigan, M.P.A. and Joseph B. Wise, III, M.B.A., "Apprentice Training In Kentucky: A Comparison of Union and Non-Union," March 1987.

[22] US Bureau of the Census, Economic Census, Subject Series, *Construction*, "Industry: Summary 2002," Issued October 2005, EC02-23SG-1, op. cit.
[23] *Census of Construction*, 2002, Geographical Series, Summary.
[24] Agency for Healthcare Research and Quality. Percent of private-sector establishments that offer health insurance by industry groupings and State: United States, Table V.A.2(2003), May 10, 2004, http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Index503.htm .
<http://www.meps.ahrq.gov/MEPSDATA/ic/1996/Tables_II/TIIA2.pdf>
[25] US Census Bureau, *Survey of Income Program Participants* (SIPP), 1996-2000 panel, author's calculation for a sample of 789 employed construction workers, [25] .
[26] Agency for Healthcare Research and Quality. Percent of private-sector establishments that offer health insurance by industry groupings** and State: United States, Table V.A.2(2003), May 10, 2004, http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Index503.htm
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[32] *Program Review and Investigations Committee Report*, p. 65.
[33] *Program Review and Investigations Committee Report*, p. 64.
[34] *Program Review and Investigations Committee Report*, p. 64.
[35] *Program Review and Investigations Committee Report*, p. 64.
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