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State Prevailing Wage Laws Reduce Racial Income Gaps in Construction *Impacts by Trade, 2013-2015*

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Executive Summary

Despite acknowledging that state prevailing wage laws increase the incomes of blue-collar construction workers, critics of the laws dubiously claim that they have discriminatory effects—particularly against African American workers. This report, authored jointly by the Illinois Economic Policy Institute (ILEPI) and Project for Middle Class Renewal (PMCR) at the University of Illinois at Urbana-Champaign, critically evaluates the impact of state prevailing wage laws on workers across different racial or ethnic identities in the United States. State prevailing wage laws are an important solution to racial inequality and overall inequality, boosting take-home incomes while having no negative impact on employment opportunities for underprivileged groups.

State prevailing wage laws benefit African American construction workers.

- Prevailing wage has no empirical effect on African American participation and employment in the construction trades.
- African Americans experience a 24 percent increase in annual take-home pay, on average, due to prevailing wage—larger than the effect on their white counterparts (17 percent).
- An African American worker in blue-collar construction workers earns 74 cents, on average, for every dollar earned by a comparable white (non-Latino) construction worker in states without prevailing wage laws and 88 cents, on average, in states with prevailing wage laws.
- The income gap between African American construction workers and white construction workers is 53 percent lower in states with prevailing wage laws (12 cents on the dollar) than in states without prevailing wage laws (26 cents on the dollar).
- A more advanced statistical analysis finds that prevailing wage reduces the income gap between white construction workers and African American construction workers by about 7 percentage points.

Prevailing wage laws help all blue-collar workers earn middle-class incomes in construction.

- Prevailing wage increases annual incomes by 31 percent for ironworkers, 25 percent for operating engineers, 19 percent for electricians, and 17 percent for plumbers and pipefitters.
- Construction workers in states with prevailing wage laws earn between \$1,800 and \$12,000 more per year than similar workers in states without prevailing wage laws.
- State prevailing wage laws improve annual blue-collar construction worker incomes by between 4 and 25 percent, relative to the average middle-class income in the U.S. economy.

Prevailing wage stabilizes minimum wage and benefit standards on public construction projects—benefiting all workers regardless of race or construction trade. As long as they can do the work, all workers with the same level of skill proficiency performing the same job duties with the same equipment must be paid the same prevailing wage and benefits package—no matter their race or gender or any other demographic characteristic unique to the individual. State prevailing wage laws level the playing field for contractors, preventing them from paying less than the local living wage to any group of workers. As a result, state prevailing wage laws raise the incomes of underprivileged groups and reduce overall inequality without having negative impacts on participation in the trades. State prevailing wage laws reduce wage discrimination in construction.

Introduction

Prevailing wage supports blue-collar workers employed on public construction projects. A prevailing wage law stabilizes minimum wage and benefit standards on taxpayer-funded projects. While contractors can pay more than the prevailing wage and benefits package, the minimum compensation standard provided by prevailing wage ensures that all workers— regardless of age, race, ethnicity, sex, gender identification, sexual orientation, religious affiliation, marital status, and veteran status— are paid local market rates in the county where they are building a project. As a result, a prevailing wage law levels the playing field for local contractors and prevents wage discrimination against specific groups of workers.

Critics of state prevailing wage laws have made many suspect claims about the laws. Most of these have been debunked by the preponderance of peer-reviewed evidence. For example, despite claims that state prevailing wage laws increase costs to taxpayers, an extensive review of the peer-reviewed research finds that 75 percent of studies conducted since 2000 report that prevailing wage laws have no effect on total construction costs (Duncan et al., 2014; Duncan, 2011; Mahalia, 2008). In fact, state prevailing wage laws have been found to reduce overall costs to taxpayers because they produce more productive and higher-skilled workers, increase worker wages, and reduce inequality. Apprenticeship enrollments are 6 to 8 percent higher in states with prevailing wage laws and apprentices complete their on-the-job training at a faster rate in these states (Bilginsoy, 2005). A 2014 report found that state prevailing wage laws reduce income inequality between the Top 10 Percent in construction and the Bottom 10 Percent in construction by as much as 45 percent (Manzo & Bruno, 2014). By setting a wage floor for skilled construction workers, prevailing wage helps to lift the hourly pay of low-income construction workers, reducing income inequality. On the other hand, in states without prevailing wage, construction workers are 3.1 percentage points more likely to fall below the official poverty line and 2.5 percentage points more likely to rely on food stamps because they are lower paid (Manzo et al., 2016).

This Illinois Economic Policy Institute (ILEPI) and Project for Middle Class Renewal (PMCR) at the University of Illinois at Urbana-Champaign report aims to critically evaluate the impact of state prevailing wage laws on workers across different racial or ethnic identities. While some opponents of prevailing wage laws dubiously argue that intent of the laws is to have a negative impact on people of color, this report assesses actual effects on the annual incomes of blue-collar construction workers by race and by trade across the United States. The analysis uniformly finds that prevailing wage laws benefit people of color by reducing income disparities. Prevailing wage laws are thus an important solution to racial inequality and overall inequality.

Prevailing Wage Laws Do Not Reduce African American Participation in Construction

Peer-reviewed economic research has found *no relationship* between prevailing wage laws and the racial composition of the construction labor force. After accounting for individual factors such as age, gender, residence in a metropolitan area, marital status, educational attainment, and union coverage, there is no evidence that African American workers are discriminated against as a result of prevailing wage laws (Belman & Philips, 2005). In fact, in a forthcoming paper, Professors Belman, Ormiston, and Petty use individual-level data for workers in 1977-1979, 1995, and 2006 to assess the impact of prevailing wage laws on African American employment across time. Using two different statistical approaches, they find a consistent story: there is no evidence to support the claim that prevailing wage laws result in discriminatory outcomes (Belman et al., 2018; Duncan & Ormiston, 2017).

Moreover, a new study on New York City– an urban area covered by prevailing wage– shows that the building trades have become more diverse over time (Mishel, 2017). Despite suspect claims about the *intent* of prevailing wage laws, the most advanced studies on the topic indicate that they do not have a discriminatory *effect* on participation.

The Effect of State Prevailing Wage Laws on Construction Worker Incomes

This report uses 2013, 2014, and 2015 data from the *American Community Survey* (1-year estimates) to analyze the impact of state prevailing wage laws on individual construction workers by trade and race. The information is made publicly available from the Integrated Public Use Microdata Series (IPUMS-USA) dataset provided by the Minnesota Population Center at the University of Minnesota. The data includes *American Community Surveys* (ACS) since 2000 (Ruggles et al., 2017).

The data reveals that prevailing wage laws result in higher annual take-home pay (Figure 1). The analysis measures differences in construction worker income due to the construction trade in which a worker is employed, racial or ethnic identity, gender identification, veteran status, educational attainment status, school enrollment status, immigration status, citizenship status, urban status, usual hours worked per week, and weeks worked per year. After accounting for these other factors, the unique and independent income effect associated with state prevailing wage laws is 15 percent for all blue-collar construction workers. Though not shown in Figure 1, the analysis also reveals that women earn 15 percent less than men and white workers earn 11 percent more than African American workers in the U.S. construction industry– indicating that there are systemic (and historical) factors causing racial and gender disparities in construction occupations. Please see Table A in the Appendix for more information.

Figure 1: Impact of a State Prevailing Wage Law on Blue-Collar Construction Worker Annual Take-Home Income

Impact of State Prevailing Wage Law on Annual Construction Worker Income	
Prevailing wage law	+15.00%***

Source(s): Authors’ analysis of Ruggles et al., 2017– 2013, 2014, and 2015 *American Community Surveys*.

***Result is statistically significant at $p \leq 0.01$. For more, please see Table A in the Appendix.

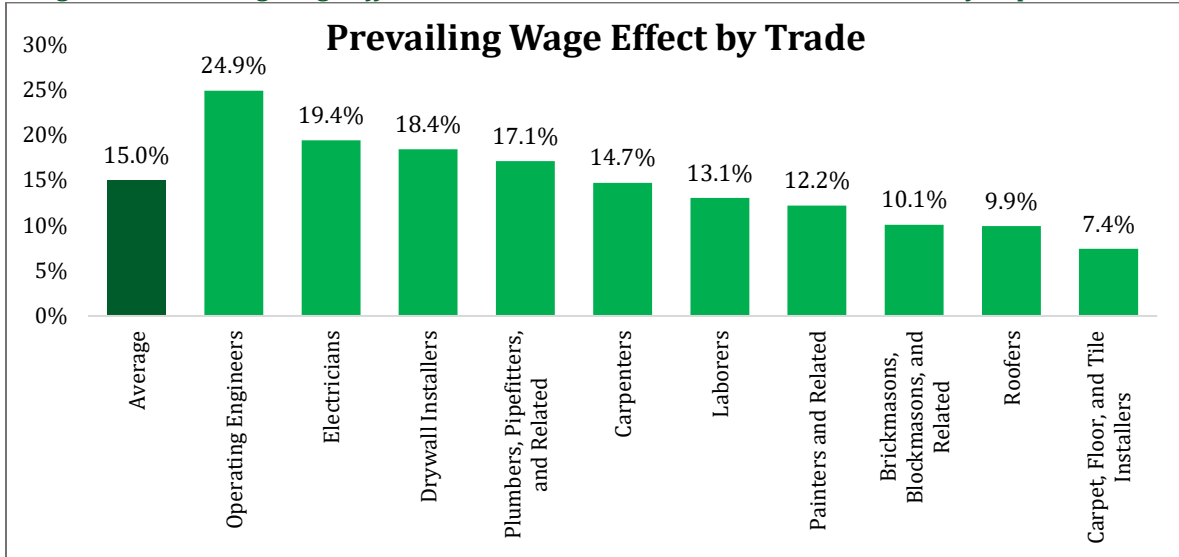
Prevailing wage laws statistically increase the incomes of construction workers by 15 percent, on average. The remaining analyses present the independent impact of state prevailing wage laws by trade or demographic group– accounting for the same factors. All results shown are statistically significant. Note, however, that the analyses only investigate the effect of prevailing wage on annual take-home incomes and do not include fringe benefits or apprenticeship training. However, state prevailing wage laws also tend to improve benefits and increase training (Fenn et al., 2018).

The Effect of State Prevailing Wage Laws by Construction Trade

Construction workers in some trades experience a larger annual take-home income effect from state prevailing wage laws (Figure 2). Figure 2 displays impacts on the ten largest construction trades, by employment level, in the United States. Four of the ten trades have a higher income effect than the overall average: operating engineers (25 percent), electricians (19 percent), drywall installers (18 percent), and plumbers and pipefitters (17 percent). The effect is between 10 percent and 15 percent for carpenters, laborers, painters, and brickmasons and blockmasons. Roofers and floor installers are much more likely to work in the private residential market, but still experience a positive impact on

their incomes from prevailing wage laws– indicating that state prevailing wage laws may have spillover effects that improve compensation standards on private construction projects.

Figure 2: Prevailing Wage Effect on Blue-Collar Construction Worker Income by Top 10 Trades



Source(s): Authors' analysis of [Ruggles et al., 2017](#)– 2013, 2014, and 2015 *American Community Surveys*.

Figure 3: Prevailing Wage Effect on Blue-Collar Construction Worker Income by Trade

Construction Trade	Prevailing Wage Effect
Ironworkers	30.5%***
Operating Engineers	24.9%***
Glaziers	22.2%***
Electricians	19.4%***
Drywall Installers	18.4%***
Plumbers, Pipefitters, and Related Workers	17.1%***
Plasterers and Stucco Masons	17.0%***
Construction Helpers	15.3%***
Carpenters	14.7%***
Sheet Metal Workers	14.3%***
Construction Supervisors	13.7%***
Laborers	13.1%***
Miscellaneous Construction Workers	12.7%***
Painters and Related	12.2%***
Brickmasons, Blockmasons, and Related Workers	10.1%***
Insulation Workers	10.0%*
Roofers	9.9%***
Construction Inspectors	9.0%
Cement Masons	8.8%*
Carpet, Floor, and Tile Installers	7.4%**
Average	15.0%***

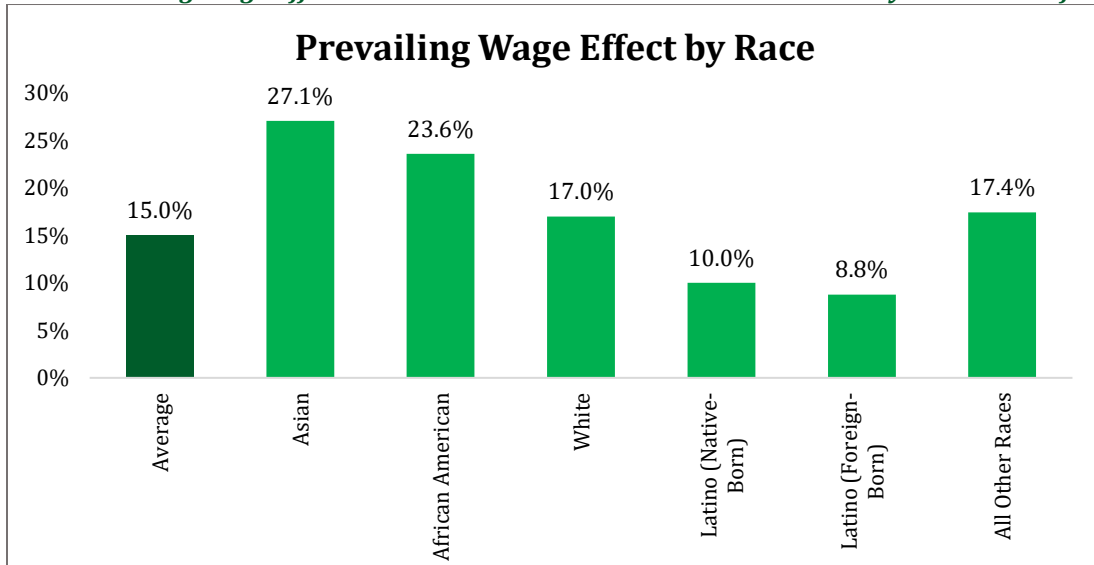
Source(s): Authors' analysis of [Ruggles et al., 2017](#)– 2013, 2014, and 2015 *American Community Surveys*.
 *** $p \leq 0.01$; ** $p \leq 0.05$; * $p \leq 0.10$. Prevailing wage had no statistically significant impact on the wages of insulation workers, construction inspectors, cement masons, and carpet, floor, and tile installers.

Figure 3 displays all 20 construction trades identified in the *American Community Survey* occupation codes (IPUMS-USA) dataset. At 31 percent, ironworkers see an even larger impact from prevailing wage laws on incomes than operating engineers. While the effect is smaller or statistically insignificant for other construction trades, it is important to note that the impact of state prevailing wage laws on blue-collar wages is uniformly positive across all trades— including for those occupations primarily engaged in private residential construction. By establishing minimum standards for middle-class wages on public works projects, prevailing wage helps to lift earnings for all workers.

Prevailing Wage Laws Reduce Racial Income Inequality

State prevailing wage laws increase annual take-home incomes for workers of all racial backgrounds (Figure 4). Compared to the 15-percent average prevailing wage effect, blue-collar construction workers who are of Asian descent see a 27 percent increase in annual incomes due to prevailing wage. Prevailing wage boosts the incomes of African American construction workers by an average of 24 percent. White workers see a 17 percent increase in annual incomes. The only demographic group by racial identification with a lower benefit from state prevailing wage laws are Latino or Latina workers. Native-born Latinos experience a 10 percent increase and foreign-born Latinos experience a 9 percent increase in annual earnings due to prevailing wage laws. The smaller impacts on Latino and Latina workers may be influenced by their higher participation in the residential construction workforce, which is not directly affected by most state prevailing wage laws. Nevertheless, workers of all races experience significantly higher incomes when prevailing wage laws are present. Prevailing wage laws protect middle-class standards from unscrupulous, low-wage contractors and help to close the racial wage gap between African Americans and white workers.

Figure 4: Prevailing Wage Effect on Blue-Collar Construction Worker Income by Racial Identification



Source(s): Authors' analysis of [Ruggles et al., 2017](#)– 2013, 2014, and 2015 *American Community Surveys*.

In the United States, 71 percent of African Americans in blue-collar construction careers are employed in six trades: operating engineers, carpenters, plumbers and pipefitters, laborers, electricians, and painters. *American Community Survey* data was only available to determine

statistically-significant relationships between state prevailing wage laws and the average annual incomes of African American workers in six specific trades. The remaining 29 percent of African Americans employed in blue-collar construction occupations are included in an aggregated “all other construction occupations” category (Figure 5).

Figure 5: Prevailing Wage Effect on African Americans by Construction Trade

Construction Trade	Prevailing Wage Effect	Share of African Americans in Construction
Operating Engineers	34.9%***	6.9%
Carpenters	26.9%***	26.6%
Plumbers, Pipefitters, and Related Workers	26.2%***	8.3%
Laborers	26.0%***	17.0%
Electricians	21.4%***	4.0%
Painters and Related Workers	19.1%**	8.4%
All Other Construction Occupations	17.5%***	28.9%
Average Effect on African Americans	23.6%***	100.0%

Source(s): Authors' analysis of [Ruggles et al., 2017](#)– 2013, 2014, and 2015 *American Community Surveys*.

***p ≤ 0.01; **p ≤ 0.05; *p ≤ 0.10.

State prevailing wage laws have a significant impact on the annual incomes of African Americans in all construction trades (Figure 5). In particular, the prevailing wage effect is strongest for African Americans employed as operating engineers, for whom the policy boosts annual incomes by 35 percent. The prevailing wage effect is over 20 percent for African Americans working as carpenters, plumbers and pipefitters, laborers, and electricians. Note that the prevailing wage effect on African American workers is larger across all trades– including the catch-all for all other construction occupations (18 percent)– than the effect on their white counterparts (17 percent). African Americans see a bump in wages regardless of the trade in which they are employed, helping to reduce racial or ethnic income inequality.

The Upshot of State Prevailing Wage Laws: Middle-Class Incomes

By increasing annual take-home incomes for all construction workers regardless of trade and reducing racial income disparities, prevailing wage laws help blue-collar workers earn middle-class incomes (Figure 6). Middle-income households were defined as those earning between \$42,000 and \$125,000 in 2014 ([Fry & Kochhar, 2016](#)). Meanwhile, workers across the United States earned an average wage and salary income of \$47,258 between 2013 and 2015. This means that the average U.S. worker would be considered “middle class” by himself or herself and also if he or she lived in a household with a partner earning an average income.

Figure 6 shows that construction workers are more likely to earn an income classified as “middle class” if they live in a state with a prevailing wage law. Laborers in prevailing wage states earn over \$4,000 more than their counterparts in states without prevailing wage laws. Operating engineers earn almost \$12,000 more. Electricians earn about \$9,000 more. In the ten largest construction trades, construction workers in states with prevailing wage laws earn between \$1,800 and \$12,000 more per year than similar workers in states without prevailing wage laws.

Figure 6: Average Construction Worker Income by Prevailing Wage Status vs. the National Average

Average Income of Workers in the Ten Largest Blue-Collar Construction Trades			
Construction Trade	States with PWLs	States without PWLs	Difference
All Workers in U.S. Economy (All Industries)	\$47,258		--
Laborers	\$32,659	\$28,199	+\$4,460
Carpenters	\$36,417	\$30,058	+\$6,359
Electricians	\$49,316	\$40,387	+\$8,929
Painters and Related Workers	\$29,420	\$25,399	+\$4,021
Plumbers, Pipefitters, and Related Workers	\$46,775	\$39,096	+\$7,679
Operating Engineers	\$49,981	\$38,314	+\$11,667
Roofers	\$29,027	\$26,528	+\$2,499
Drywall Installers	\$32,836	\$26,054	+\$6,782
Carpet, Floor, and Tile Installers	\$31,224	\$29,376	+\$1,849
Brickmasons, Blockmasons, and Related Workers	\$34,944	\$29,493	+\$5,451

Source(s): Authors' analysis of [Ruggles et al., 2017](#)– 2013, 2014, and 2015 *American Community Surveys*.

The result is that blue-collar construction workers in states with prevailing wage laws earn incomes that are consistent with the average middle-class salary across the United States, while their counterparts in states without prevailing wage laws do not (Figure 7). Take plumbers and pipefitters, for example. In states without prevailing wage laws, they earn 83 percent as much income as the average U.S. worker. By contrast, they earn 99 percent as much as the average U.S. worker in states with prevailing wage laws, a 16 percentage-point reduction in the income gap. Operating engineers earn slightly more than the national average (106 percent) in states with prevailing wage laws compared to just 81 percent as much as the national average in states without. Across the ten largest trades, state prevailing wage laws improve annual blue-collar construction worker incomes by between 4 and 25 percent relative to an average middle-class income throughout the entire U.S. economy.

Figure 7: Average Worker Income by Prevailing Wage Status as Percent of National Average

Average Income of Ten Largest Blue-Collar Construction Trades Compared to National Average Income			
Construction Trade	States with PWLs	States without PWLs	Difference
Laborers	69.1%	59.7%	+9.4%
Carpenters	77.1%	63.6%	+13.5%
Electricians	104.4%	85.5%	+18.9%
Painters and Related Workers	62.3%	53.7%	+8.5%
Plumbers, Pipefitters, and Related Workers	99.0%	82.7%	+16.2%
Operating Engineers	105.8%	81.1%	+24.7%
Roofers	61.4%	56.1%	+5.3%
Drywall Installers	69.5%	55.1%	+14.4%
Carpet, Floor, and Tile Installers	66.1%	62.2%	+3.9%
Brickmasons, Blockmasons, and Related Workers	73.9%	62.4%	+11.5%

Source(s): Authors' analysis of [Ruggles et al., 2017](#)– 2013, 2014, and 2015 *American Community Surveys*.

State prevailing wage laws ensure that blue-collar construction workers earn self-sufficient incomes (Figure 7). In fact, previous research has found that only 9 percent of construction workers in states with prevailing wage laws earn incomes that are below the poverty level while 15 percent of their

counterparts in states without prevailing wage earn poverty-level incomes (Manzo et al., 2016a). By promoting a living wage such that blue-collar workers earn incomes closer to the middle-class average, state prevailing wage laws decrease poverty, reduce income gaps, and improve consumer spending among working families.

Finally, state prevailing wage laws reduce racial income gaps in construction, particularly between African American workers and white (non-Latino) workers (Figure 8). In states without prevailing wage laws, the average African American construction worker earns just under \$28,900 per year. This average annual income equates to 74 cents for every dollar earned by the average white construction worker in those states (about \$38,900). By contrast, the racial income gap is much smaller in states with prevailing wage laws, where the average African American construction worker earns nearly \$40,500 annually. An African American construction worker earns 88 cents for every dollar earned by the average white construction worker in states with prevailing wage laws, a 14-cent gain. Importantly, in the blue-collar construction trades, African Americans in states with prevailing wage laws also earn nearly \$1,600 more in annual take-home income than their white counterparts in states without prevailing wage laws.

While Figure 8 provides summary statistics and does not control for other factors, Figure 9 accounts for other important factors such as age, gender, level of educational attainment, urban status, veteran status, citizenship status, immigration status, year, usual hours worked per week, weeks worked over the year, and construction trade of employment. While data since the late 1970s has resulted in no evidence that state prevailing wage laws reduce African American employment in construction (Duncan & Ormiston, 2017), state prevailing wage laws do have a larger impact on the incomes of African American construction workers (24 percent) than white construction workers (17 percent) (Figure 4).

Figure 8: Average Worker Income by Racial Identification and by Prevailing Wage Status

Average Income of Blue-Collar Construction Workers: By Racial Identification and By State	States with PWLs	States without PWLs
White (non-Latino) Workers	\$45,976	\$38,864
African American Workers	\$40,460	\$28,864
African American Incomes Per \$1 Earned by White (Non-Latino) Workers	\$0.88	\$0.74

Source(s): Authors' analysis of Ruggles et al., 2017– 2013, 2014, and 2015 *American Community Surveys*.

*Reported only for workers with positive (non-zero) incomes.

As a result, prevailing wage laws reduce income inequality between African American construction workers and white construction workers (Figure 9). Among construction workers, the ratio of white incomes to African American incomes is 1.35 in states without prevailing wage laws. Applying results from regression analyses on construction worker incomes by racial background reveals that the white to African American income ratio would statistically fall to 1.27 if states without prevailing wage laws enacted the policy– controlling for other observable factors. This would result in a 7 percentage-point decrease in racial income inequality in construction occupations from the current levels in these states.

The totality of the information demonstrates that state prevailing wage laws reduce income gaps in construction. State prevailing wage laws increase the incomes of workers in every blue-collar construction trade, bringing their take-home pay closer to the national average for middle-class workers in the United States. The laws also close the racial income gap in construction occupations, with African Americans earning incomes that are 12 cents less per dollar than those earned by white workers in states with prevailing wage laws compared to 26 cents less per dollar in states without

prevailing wage laws. Finally, the most advanced analysis finds that the income gap between white construction workers and African American construction workers would close by about 7 percentage points if states without prevailing wage laws enacted the laws. Put simply, blue-collar construction workers are better off when they live in a state with a prevailing wage laws.

Figure 9: Prevailing Wage Impact on Racial Income Inequality in Blue-Collar Construction Trades

Racial Income Inequality in Blue-Collar Construction Trades: White Incomes to African American Incomes	
<u>Impact from Regression Results</u>	
States without Prevailing Wage Laws: White to African American Income Ratio	1.346
If State Enacted Prevailing Wage Laws: White (+17.0%) to African American (+23.6%) Income Ratio	1.274
Impact if States Enacted Prevailing Wage Laws	-7.2 p.p.

Source(s): Authors' analysis of [Ruggles et al., 2017](#)– 2013, 2014, and 2015 *American Community Surveys*.

Conclusion

Prevailing wage stabilizes minimum wage and benefit standards on public construction projects—benefiting all workers regardless of construction race or trade. However, some construction trades and demographic groups experience higher income effects due to prevailing wage. Prevailing wage boosts take-home income for African American construction workers by 24 percent, for example. As a result, African American construction workers earn 88 cents for every dollar earned by their white counterparts in states with prevailing wage laws, significantly higher than the 74 cents per dollar earned by their white counterparts in states without prevailing wage laws. Advanced estimates controlling for other factors reveals that state prevailing wage laws close the racial income gap by about 7 percentage points in construction. Importantly, state prevailing wage laws do not have a negative impact on the incomes of any construction trade or demographic group.

State prevailing wage laws solidify local middle-class standards, effectively providing minimum wages for public construction. As long as they can do the work, all workers with the same level of skill proficiency performing the same job duties with the same equipment must receive (at least) the same prevailing wage and benefits package— no matter their race or gender or any other demographic characteristic unique to the individual. Prevailing wage raises take-home incomes of underprivileged groups and reduces overall inequality without having negative impacts on participation in the trades. Therefore, prevailing wage reduces wage discrimination in construction and helps lift all construction workers into the middle class.

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Appendix

Table A shows results from a robust regression analysis on the average impact of state prevailing wage laws on annual incomes from wages and salaries for workers in blue-collar construction occupations. All other regression analyses in this report control for these variables, except for the specific construction trade or racial identity being studied. For more information and full regression results in a .txt format, contact study author Frank Manzo IV at fmanzo@illinoisepi.org.

Table A: Robust Regression on Blue-Collar Construction Worker Annual Income, Results, 2013-2015

Robust Regression on Construction Worker Income	
Variable	Effect (Standard Error)
Prevailing wage law	0.1500*** (0.0050)
<i>Important controls</i>	
Female	-0.1535*** (0.0172)
White	0.1061*** (0.0194)
African American	-0.0100 (0.0228)
Latino or Latina	-0.0599*** (0.0201)
Veteran	0.0487*** (0.0103)
Hours worked	0.0214*** (0.0004)
<i>Other dummy variables</i>	
Construction trade	Y
Educational attainment	Y
School enrollment status	Y
Foreign-born status	Y
Citizenship status	Y
Weeks worked (intervals)	Y
Urban status	Y
Year	Y
Constant	7.1463 (0.0383)
Observations	122,133
Weighted	Y
R ²	0.4737

Source(s): Authors' analysis of [Ruggles et al., 2017–2013, 2014, and 2015 American Community Surveys](#).
 ***p ≤ 0.01; **p ≤ 0.05; *p ≤ 0.10.