



# The Benefits of State Prevailing Wage Laws

*Better Jobs and More Productive Competition in the Construction Industry*

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## Overview

Construction industry prevailing wage laws have long operated nationally and in states as a check against the tendency of the construction industry to degenerate into destructive wage and price competition. Such competition can drive skilled and experienced workers from the industry, reduce productivity and quality, and lead to poverty-level jobs, all without saving construction customers any money.

Construction workers on projects covered by Pennsylvania's prevailing wage law must be paid minimum "prevailing" wage and benefit levels which vary by occupation and geographical area within the state. This year, about 20 different proposals to weaken prevailing wage laws have been introduced into the Pennsylvania Legislature. This briefing paper reviews the economic research on prevailing wage laws so that legislators and members of the public can determine their position on these laws based on evidence rather than ideology.

Consistent with the original rationale for establishing prevailing laws, a rigorous body of economic research shows that efforts to repeal these laws lead to:

- less workforce training;
- a younger, less educated and less experienced workforce;
- higher injury rates;
- lower wages; and
- lower health and pension coverage.

Research also reveals that prevailing wage laws do not raise costs, suggesting that the positive effect of higher wages on productivity compensates for higher labor costs:

- Comparing school construction costs before and after Michigan's suspension of its prevailing wage law revealed no difference in costs.
- National analysis of data on school construction costs reveals that prevailing wage laws do not have a statistically significant impact on cost. By far, the biggest impact on school construction costs is whether that construction takes place at times of low unemployment, when construction demand and prices are high, or at times of higher unemployment. Schools built at times of higher unemployment, when construction bids are much lower, can cost more than 20% less per square foot than schools built during times of high demand. Consistent with this estimate, in and immediately after the recent "Great Recession," Pennsylvania was able to finance 28% more projects with American Recovery and Reinvestment Act dollars than initially estimated.<sup>1</sup>

Claims by opponents that prevailing wage laws raise costs by 30%<sup>2</sup> ignore research based on real-world experience and "natural experiments" in states that have repealed prevailing wage laws. These claims

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