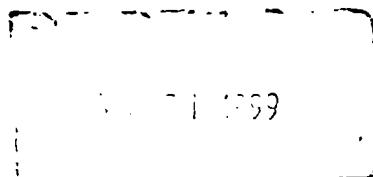


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Construction Labor News+Opinion

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March 1999
Volume 29, Issue No. 3

THIS ISSUE AT A GLANCE

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Coming in COCKSHAW's...

Successes — and failures — of labor-management cooperation ... Annual breakdown of contractor staff salaries...plus other labor related and cost trends.

ATTACKING PREVAILING WAGES

ABC pushes to kill Michigan law; Industry experts argue against repeal

The bitter battle over prevailing wages flared up again this month in Michigan.

Lawmakers there — backed by the "merit shop" ABC — have introduced legislation to repeal the state's 33-year old Prevailing Wage Act.

The central argument to ax Michigan's statute is the same made by opponents of *all* wage laws — that repeal will save significant taxpayer dollars.

The problem is that in Michigan and elsewhere repeal advocates fail to produce *verifiable* data to support the alleged savings.

"That's because," bluntly states noted University of Utah economist Peter Philips, "most savings' claims can't stand up to scrutiny."

Philips is an authority on construction issues who has authored numerous studies comparing costs in states with, and without, prevailing wage laws. His latest cost analysis focused on Michigan and was presented during a "Prevailing Wage Symposium" March 3 in Lansing.

The special symposium was sponsored by AGC's Greater Detroit and Michigan chapters, Michigan's NECA and SMACNA affiliates, the Greater Michigan Plumbing & Mechanical Contractors Assn., and the Michigan State Building Trades Council.

At the meeting, Philips offered data on Michigan school costs. He targeted those building types because, when broken

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down into elementary, middle and high schools, they make a good "apples-to-apples" comparison.

Years covered in the Utah economist's analysis were 1992-1998. During that period Michigan's Act was suspended for more than two years after a U.S. district court judge ruled it "invalid and unenforceable."

But the law was reinstated in July 1997 when a federal appeals court overruled the district court decision.

The suspension made possible comparisons of schools built with — and without — Michigan's prevailing wage law.

Philips examined building costs for all three levels of schools. His study analyzed cost data for 49 elementary schools, 32 middle schools and 23 high schools, a total of 104 facilities.

The economist brought construction costs in the 1992-1998 period to constant 1998 dollars by using the Consumer Price Index (CPI) for housing costs.

Analysis of costs reflect no savings after Michigan's law was suspended

Philips' comparison of construction costs for the 104 schools before, during and after the state's prevailing wage act was suspended is instructive.

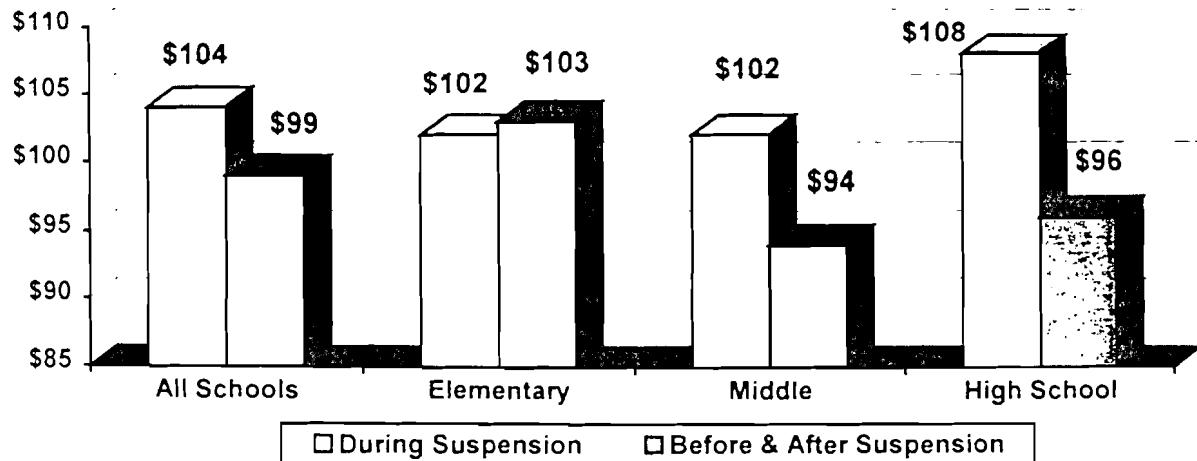
It reveals that during the "before and after" period (i.e., when the law was in effect), building costs for the 104 schools averaged \$99 per square foot — versus \$104 during suspension. (See graph below.)

Breaking down the above findings by type of schools shows that:

- The mean, or average, square foot cost on new elementary schools built under Michigan's prevailing wage law was \$103 — compared to \$102 during the court-ordered suspension.
- For middle schools, the average square foot cost was \$94 for facilities built under the law — compared to \$102 during suspension.
- The average square foot cost for high

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**Mean PSF Cost of New Schools in Michigan
Before, During and After Prevailing Wage Act Suspension**



Source Dr Peter Philips, Economics Department, University of Utah



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schools built under the law was \$96 — compared to \$108 when the Act was not in force.

Although the overall cost data appear to reflect dollar savings for schools built under Michigan's prevailing wage law, Philips advises that the cost differences are "statistically insignificant."

But — and this is the key point — the cost data clearly refute arguments of those who claim repeal will save state taxpayers money.

Also, the Utah economist's findings in Michigan are consistent with his other studies.

For example, our May 1998 issue detailed Philips' examination of building costs for 15 Great Plains states. The data showed no statistically significant differences in new school costs in states with, and without, wage laws.

In yet another study in 1996, Philips compared five prevailing wage states (New Mexico, Texas, Oklahoma, Wyoming and Nevada) to four "no law" states (Arizona, Utah, Idaho and Colorado).

This analysis also found no cost advantage from building in the states with no wage laws.

In fact, it showed just the opposite. Study data revealed a \$6 psf less cost for elementary schools and an \$11 psf less cost for middle and high schools in the five-states *with* prevailing wage laws.

Claims that 'high' union wage rates inflate building costs are not valid

This newsletter's publisher, Peter A. Cockshaw also spoke at the Prevailing Wage Symposium in Lansing March 3.

The national labor analyst disputed another cost argument made by repeal advocates — that union wages are too high and inflate

construction costs.

"Such arguments were valid in the 1960's and 1970's," Cockshaw pointed out, "but in the 1990s conditions are totally different."

Unlike the high wage climate in the 60's and 70's, he explained, construction wages and benefits now trail manufacturing's by \$1.27 an hour (see February issue, page five).

Also, when you factor in the Consumer Price Index, union wages-fringes rose only \$.94 an hour during the 1990-1998 period.

Moreover, low pay — not high pay — is the main reason why there are wide-spread skilled shortages in construction.

Repealing wage laws, in Michigan or anywhere else, will worsen this problem by lowering wages further.

Wage law repeal adversely impacts both union and open shop employers

Cockshaw then made another crucial point. "Although some see it as such, the prevailing wage fight is not strictly a union vs. non-union battle.

"Many non-signatories have as much to lose from repeal as signatories.

"That's because astute open shop contractors offer wages and benefits comparable to union employers. Absent prevailing wage law enforcement, cutthroat competitors will steal work from these contractors as well.

"They'll do so by low-balling the bid with lower-paid, lower-skilled workers — or low ball the bid using benefit-avoidance scams now epidemic in the private sector."

Cockshaw concluded: "The current repeal battle, in Michigan and elsewhere, is between responsible employers — union and open shop — on one side and those who win work by any means on the other." ☒



Contractor Executives' Pay Rose 5.6%

Compensation outpaces increases in other industries

Construction executive wage increases continue to outpace those in other industries.

In 1998, this industry's pay hikes averaged 5.6% — compared to 4.6% for executives nationally.

Last year was the twelfth consecutive year that construction executives bettered their colleagues in other industries.

So reports PAS, Inc. in its latest "Contractor Compensation Quarterly." These trends and others were extrapolated from PAS's 1999 Executive Compensation Survey for Contractors.

The Michigan-based consulting firm notes that the 5.6% pay boost construction

executives received last year was a "real increase of 4%." This is due to the fact that inflation rose only 1.6% during 1998.

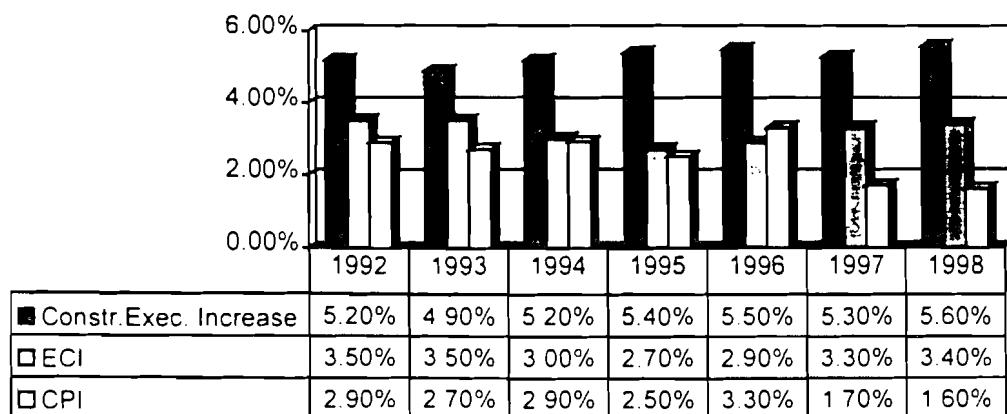
PAS's summary also analyzes average base salaries for five benchmark executive positions over the six-year period of 1994-1999 (this year's salaries are projected).

The following chart and graph show percent increases in construction executive

Benchmark Positions	1994	1995	1996	1997	1998	1999
Board Chairperson	\$160,000	\$171,000	\$170,000	\$185,000	\$178,000	\$198,000
Senior V.P.	\$94,000	\$93,000	\$97,000	\$97,000	\$108,000	\$112,000
V.P. Operations	\$79,000	\$79,000	\$86,000	\$86,000	\$85,000	\$94,000
Chief Estimator	\$54,000	\$58,000	\$60,000	\$61,000	\$65,000	\$73,000
General Supt.	\$57,000	\$61,000	\$62,000	\$63,000	\$67,000	\$69,000

wages compared to the Employment Cost Index (ECI) and Consumer Price Index (CPI) during the 1992-1998 period. ☒

Construction Executives Increases Compared to Employment Cost Index & Consumer Price Index



Source: PAS Inc., 75 E. Henry Street, Saline MI 48176. Phone (313) 429-1199



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Coming in COCKSHAW's...

The price of "special incentives" many owners must now offer to man their projects ... Pay practices in the open shop sector ... plus other labor related and cost trends.

DEFATING WAGE LAW REPEAL

Michigan labor-management coalition bests ABC in prevailing wage battle

"Against all odds" was the title of a popular movie in the 1980s.

And very steep odds were exactly what Michigan's labor and management faced this year as ABC and its legislative allies tried to pass a bill repealing the state's prevailing wage law.

Stacking the odds against prevailing wage law supporters were a Republican-controlled legislature and Republican governor.

"One leading Senator told me flat out that 'we're going to repeal prevailing wages and there's little you can do to stop us,'" recalls Mike Crawford, manager of the National Electrical Contractors Association's Michigan Chapter.

But stop them they did.

"Now, after a bitter six-month battle," Crawford explains, "a bipartisan majority of Michigan legislators will not back repeal of prevailing wages."

How the various signatory employer groups and building trades unions defeated the repeal forces is a compelling story.

It also serves as a dramatic example of what labor and management can accomplish when they work closely *together*.

But before we relate it, some background is necessary.

In Michigan, the "merit shop" ABC has waged an unrelenting struggle to kill the 33-year old wage prevailing law, which was enacted in 1965.

The "merit shop's" major repeal thrust first focused on the

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courts. And after a long legal fight, ABC's Saginaw Valley Chapter thought it had won the war in November 1994.

Then U.S. District Judge Robert Cleland ruled Michigan's Act "invalid and unenforceable." But a federal appeals court overturned that decision in July 1997.

This year, bolstered by a 58 to 52 Republican majority in the state House and a 23 to 15 Republican majority in the Senate — plus a Republican Governor — ABC was confident it had the votes to kill the law outright.

Most neutral political observers shared that view. But the "merit shop" hadn't counted on a determined organized sector — one which vowed to "pull-out-all-the stops" to defeat repeal.

Big boost for anti-repeal drive was strong labor-management ties

A key to this effort was a signatory sector that, unlike many areas of the country, enjoys strong contractor association-labor ties. Explains Bart Carrigan, executive vice president of the Associated General Contractors of America's Michigan Chapter:

"One big asset is a very well funded labor-management mechanism that has the muscle to tackle critical issues."

"We also are fortunate in having a head of the state Building Trades Council, Tom Boensch, who is very effective in creating coalitions among his unions and Michigan's construction industry."

It didn't take long for this employer-labor coalition to spring into action after it learned of the legislature's plans to introduce a bill repealing the prevailing wage law.

The group's first action was to develop a workable step-by-step battle plan.

That plan was a "textbook" political action strategy which, in COCKSHAW's view, can serve as a model for any group facing a

similar challenge.

The first component is identifying, and then uniting, your allies. In Michigan's case, they included union contractor groups, building trades councils, friendly school boards or universities and a few key legislators.

The "opponents list" included ABC, the Chamber of Commerce, Conservative "Think Tanks" and influential Republican legislators.

Had to deal with 'misinformation' about the wage law's impact

Next was the most critical step of all — crafting a solid, supportable message to defend prevailing wages.

"This was critical," relates NECA's Crawford, "because we found a tremendous misunderstanding about the impact of the wage law. Many of the perceived negatives were the result of misinformation fostered by the law's opponents."

"It was obvious that we had to counter such negative perceptions by unearthing factual data that would change opinions."

To do so, Michigan's signatory sector turned to Peter Philips, a nationally respected economist from the University of Utah.

Philips has authored numerous studies comparing construction costs in states with, and without, prevailing wage laws. (See Sept. 1997, May 1998 and March 1999 issues.)

His assignment was to research and compile a presentation that pro-wage law forces could use in selling their message to legislators, media and various publics.

Philips' prevailing wage "fact kit" included a study of costs for building 104 schools before, during and after Michigan's act was suspended.

Although the bottom line cost data from his study appear to reflect dollar savings

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built under the prevailing wage law, Philips concluded that the cost differences are "statistically insignificant."

(For complete details on the Michigan study, see March 1999 issue.)

But — and this is the key point — the cost data clearly refuted arguments of those who claim repeal will "save taxpayers money."

The fact kit Philips developed for Michigan contained statistics from other states as well — all of which threw cold water on "savings" claims.

The compilation also revealed the adverse aspects of wage repeal on training, safety and other issues.

Key product of research was brochure that told real story of wage laws

One result of Philips' research was a very tasteful and effective four-page brochure produced by Michigan's pro-law advocates.

Its title is "The Real Facts about Prevailing Wage Laws: New study finds no evidence that repeal of wage laws saves taxpayers money."

Armed with this wealth of information from Philips and other sources, Michigan's labor-management groups were "ready for action."

Their all-out anti-repeal campaign involved:

- ✓ Public hearings sponsored by friendly legislators;
- ✓ Intense personal lobbying of individual legislators by both employers and union members in each lawmaker's district;
- ✓ Mailings and phone calls to all legislators;
- ✓ Educational seminars.
- ✓ Handouts distributed at various locations

across the state.

In addition to the "Real Facts" brochure, a handout was printed that strongly motivated union members to call write and visit with their legislative representatives.

The handout's message was blunt and very much to the point. It read:

If You're a Construction Worker — there are some folks in Lansing (Michigan's capital) that want you to know they appreciate what you're doing.

- They're proud of the restoration work you did on their office building.
 - Grateful for the improvements on the roads they drive to get to work, and
 - Appalled at the number of you who are injured or killed doing your jobs.
- And, to show their appreciation, they've introduced legislation that's guaranteed
- To eliminate your benefits,
 - Cut your wages, and
 - Increase your risk of an accident on the job.

That legislation is the Repeal of Michigan's Prevailing Wage Act.

The above was printed on one side of the one sheet flyer with a note at bottom, which reads: "To meet these folks turn the page."

The other side listed the key sponsors of the repeal bill — along with their photos — in both House and Senate.

"The highlight of our anti-repeal efforts," opines NECA's Crawford, "was a day-long special Prevailing Wage Symposium. It pulled all our efforts together."

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Speakers at symposium opened eyes of both lawmakers and media

The symposium drew a standing-room-only house of union representatives and contractors from across the state.

"Most importantly," Crawford adds, "it received meaningful coverage by the media and was attended by many legislators who still were wavering on the repeal issue."

Participating in the symposium were national labor analyst Peter A. Cockshaw, Stan Kolbe, SMACNA's director of legislative affairs, and economist Philips.

"Kolbe was most helpful in assisting with our political action plan," advises Richard Northrup, manager of Michigan's SMACNA chapter.

But Northrup credits the symposium for "energizing both employers and unions and serving as the spearhead of the anti-repeal battle."

A video highlighting crucial anti-repeal arguments made by the speakers was produced and sent to every lawmaker.

"Captured in the video were the dynamite

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presentations made by Utah economist Peter Philips and others at the symposium," Crawford emphasized.

"The speakers really opened the eyes of a lot of legislators in this state. The solid, factual data presented dispelled many of the negatives about prevailing wages spread by repeal advocates."

Another key to the signatory sector's successful fight, adds Sandra Miller, manager of the Greater Michigan Plumbing & Mechanical Contractors Assn., was that "our coalition never let up.

"Even though we're gratified by the outcome, we continue to work to educate legislators on the benefits of keeping Michigan's prevailing wage law.

"This is critical because, although repeal is dead for now, we all realize this will be an ongoing battle."

There's an important lesson to be learned from Michigan prevailing wage struggle — a lesson for contractors and unions everywhere.

When labor and management unite to pursue vital objectives in their common interest, it's possible to overcome even the greatest of odds. □

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New study finds

About Prevailing Wage Laws

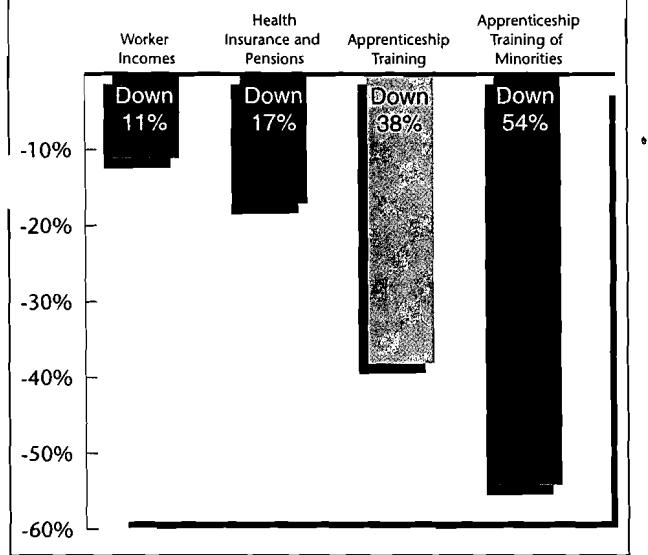
Real Facts

The



A statewide debate is brewing surrounding the prevailing wage laws. Many opponents of the laws feel that significant reductions would be realized if the government repealed these laws on a state level. But a breadth of research is appearing that is proving this theory false. A recent study by University of Utah Professor Peter Philips, the country's pre-eminent labor economist, reveals that repealing such laws will not produce labor cost savings, but will reduce worker salaries, benefits, and training and increase the number of worker injuries.

Results of Abolishing Prevailing Wages



The History

In 1965 Michigan enacted the Prevailing Wage Act I.P.A.166 to establish labor rates within construction projects contracted by state and local government. This act requires public-works contractors to pay trades people no less than the wages that prevail on similar projects within the same region. Included in these specifications are worker benefits, such as health insurance and pension contributions. Prevailing wage rate legislation is adopted by most states for bidding on state and local government projects.

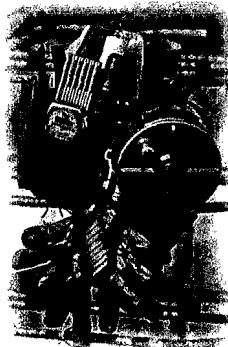
Prevailing wage laws are rooted in a philosophy of economic growth and were enacted to:

- Encourage contractors to compete for government work based on skill, safety, and efficiency rather than by cutting wages.
- Allow good contractors to pay fair wages and hire well-qualified workers.
- Promote the use of local labor force, over cheaper labor that can be found elsewhere.
- Keep labor costs low by employing skilled labor to avoid cost overruns and safety problems.
- Improve working conditions for all workers.
- Promote a strong local economy by allowing local contractors with local workers to compete with out-of-region firms.

What Does This Really Mean?

Use of prevailing wage rates actually saves taxpayers money by reducing public health costs and strengthening the local economy and tax base.

Prevailing wage laws provide significant benefits to workers, local economies and government efficiency. And now a 15-state study by Dr. Peter Philips of the University of Utah has found no significant differences in labor costs between states with or without prevailing wage legislation. His study, conducted on behalf of the state of Kansas, shows that prevailing wage laws promote construction industry productivity and reduce worker injuries. Use of prevailing wage rates actually saves tax-payers money by reducing public health costs and strengthening the local economy and tax base.



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A Kansas Case Study

D r. Peter Philips' 1998 study of rates in 15 Great Plains states was conducted to examine:

- 1) how the repeal of Kansas' prevailing wage law in 1987 impacted labor and construction costs, and
- 2) how public construction costs compare in states with and without prevailing wage laws.

It was prompted by claims that the state of Kansas would save anywhere between 6 and 20 percent by repealing the prevailing wage law. The meticulously documented study compares Kansas' construction costs to that of 14 surrounding Great Plains states, nine states with prevailing wage laws and five states without.

The study focuses on school construction costs, because:

- 1) they are a major part of state and local public construction expenditures,
- 2) elementary, middle and high school building types can be easily compared, and
- 3) more schools are built than any other type of government building, and therefore offer enough data to make statistical comparisons.

The study analyzes the building costs for all three levels of schools – elementary, middle and high schools. An analysis was done of 365 elementary schools, 238 middle schools, and 187 high schools. And 81 elementary schools, 30 middle schools, and 35 high schools constructed in states with no prevailing wage laws were examined.

Highlights of the Study:

- The average square foot construction cost on new elementary schools built in states with prevailing wage laws is \$76.86 – compared to \$76.23 in states with no prevailing wage laws, a difference of just \$.66 a square foot.
- The average square foot construction cost on middle schools built in prevailing wage law states is \$70.02 – compared to \$72.35 in states with no such law, a difference of \$2.33 a square foot.
- The average square foot cost of high schools built in prevailing wage law states is \$72.87 – compared to \$70.72 in states with no law, a difference of \$2.15 a square foot.
- According to Philips, the differences of \$.66, \$2.33, and \$2.15 per square foot are statistically insignificant.

Hidden Costs to Local Taxpayers

While Dr. Philips' study indicates no cost savings from abolishing prevailing wage rate legislation, it does point out hidden costs borne by local taxpayer and communities. States without prevailing wage rates experience reductions in local sales and income tax revenues, forcing increases in taxes or loss of essential services. Non-prevailing wage states also typically suffer increases in public health costs due to a drastic reduction in health insurance coverage by contractor employers coupled with an increase in on-the-job injuries. These public health costs also become the burden of local taxpayers.

Average (Mean) Square Foot Construction Costs of Schools in 15 States with and without Prevailing Wage Laws

School	Legal Status	Number of Schools	Mean	Standard Error Mean
Elementary Schools				
Square Foot Cost in 1997	No PW Law States	81	\$76.2309	\$2.3725
Dollars Using CPI-Housing Deflator	PW Law States	365	\$76.8644	\$2.8550
Middle Schools				
Square Foot Cost in 1997	No PW Law States	30	\$72.3547	\$3.6116
Dollars Using CPI-Housing Deflator	PW Law States	238	\$70.0225	\$1.5373
High Schools				
Square Foot Cost in 1997	No PW Law States	35	\$70.7255	\$3.5076
Dollars Using CPI-Housing Deflator	PW Law States	187	\$72.8742	\$2.7636

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Additional Hidden Cost Implications ...

While cost savings to taxpayers in Kansas did not pan out, the loss in income by craft workers did. Kansas craft workers' wage incomes fell 11 percent from 1987 (the year of the repeal) to 1991. This amounts to a decline in average wages from \$25,573 to \$22,807.

- In the nine Great Plains states surrounding Kansas that retained their prevailing wage laws, wage income fell by only 2 percent.
- Apprenticeship training in Kansas fell 38 percent. Minority apprenticeship training fell 54 percent.
- Total employer contributions to pension and health funds declined 17 percent - from an average of \$20 million per year to \$16.6 million.
- While almost all construction workers covered by collective bargaining in Kansas receive health insurance and employer pension contributions, only 10 percent of workers in the open sector receive pension coverage and only 4 percent receive health insurance from their employer.
- Worker injuries rose 19 percent after the repeal, and cases of serious injuries rose 21.5 percent after Kansas repealed its prevailing wage law.

Labor Costs

The savings did not pan out because they were based upon hypothetical calculations. These figures were based on the assumption of very high estimated labor costs (50 percent of total construction costs) to the total project costs. Lawmakers assumed less labor costs without prevailing wage laws, but did not take into account any reduction in productivity. Increases in injuries and decreases in training, led to cost increases due to poor workmanship.

Further, labor costs are not 50 percent of total costs, labor cost are typically on 25 to 30 percent of total building construction and even less on street and highway construction. In fact, in the case of the states compared in the Kansas study the mean labor cost is 18.96 percent of total construction costs for prevailing wage states - less than the 19.44 percent mean labor cost for states without a prevailing wage law.

What Happens to Training

One interesting finding is the reduction of training programs. In organized construction all union contractors must fund training, but in a cut-throat bidding environment, there is an incentive to avoid long-term costs to get a contract. Therefore, a worker who wants training must pay out-of-pocket, whereas in the union sector, workers do not pay for training. Thus in the open shop sector there are two incentives not to train. One being on the part of the employer who could end up absorbing the cost of training an apprentice that later goes to work for a competitor; and second, workers are less likely to seek training if they have to pay for it themselves.

For example, a study of apprenticeship training in Northeastern Ohio reveals that 574 people registered for union construction apprenticeship program while only 32 people registered for nonunion construction apprenticeships in 1995. Additionally, of those who entered the classes of 1989, 1990 and 1991, 48 percent of the union apprentices graduated by 1995 with another 23 percent still actively enrolled in classes, and 29 percent canceling, while among nonunion apprentices, only 29 percent had completed classes, 5 percent were still actively enrolled, and 61 percent had canceled.

Other Similar Findings

The findings of the Kansas study are consistent with other similar surveys: According to another study conducted by Professor Philips comparing five "prevailing wage" states (New Mexico, Texas, Oklahoma, Wyoming, and Nevada) to four "no law" states (Arizona, Utah, Idaho, and Colorado), costs are significantly less in prevailing wage states.

- Elementary schools cost \$6 less per square foot (psf) in the five-state group with prevailing wage laws.
- Middle schools and high schools cost \$11 psf less in "have-law" states.
- Warehouses cost \$35 psf less in "have-law" states while office buildings cost \$2 more in the same states.

The findings indicate prevailing wage laws confer an 8 percent advantage to states on average.

Another University of Utah study that examined nine states that repealed prevailing wage laws concluded:

- Construction worker earnings declined by at least \$1,477 per year on average.
- State income and sales tax revenues declined.
- Construction training fell by 40 percent and even more among minority workers.
- Occupational injuries rose by 15 percent.
- Cost overruns escalated.