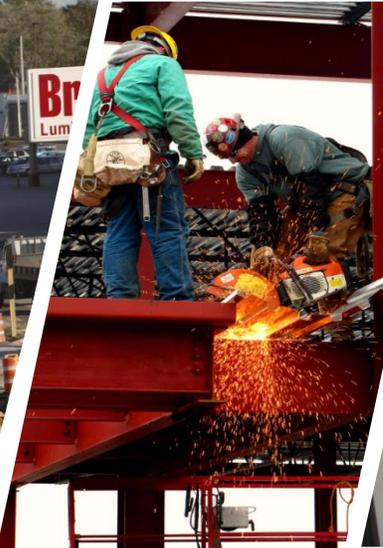


The Social Costs of Repealing Wisconsin's Prevailing Wage Law



June 19, 2017

A Higher Road for a Better Tomorrow

**MIDWEST ECONOMIC
POLICY INSTITUTE**

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Executive Summary¹

The social costs of repealing prevailing wage must be considered by elected officials. While critics of Wisconsin's prevailing wage law claim that the state would save money on public construction projects from repealing the policy, they do not take into account the negative tax and government assistance consequences of repeal. This report primarily uses the assumptions made by critics of Wisconsin's prevailing wage law to demonstrate, as a "thought experiment," the potential social costs of repeal.

Wisconsin State Senator Duey Stroebel (R-Saukville), for instance, has cited the Wisconsin Taxpayers Alliance and said that "there is on average 44 percent savings" from potentially repealing prevailing wage. While a 44 percent wage cut would be exorbitant and is not supported by the preponderance of peer-reviewed economic research on prevailing wage, this worst-case scenario for Wisconsin would result in the average construction worker earning \$28,896 annually. With a 44 percent wage cut, the state could potentially lose \$18.2 million in forgone income tax revenues, face \$6.3 million more in Earned Income Tax Credit (EITC) costs, and spend \$38.1 million more in FoodShare assistance for blue-collar construction workers.

The Wisconsin Department of Revenue (DOR) has estimated repeal of prevailing wage would reduce construction worker earnings by a more modest 14.1 percent on average. A 14.1 percent average wage cut in Wisconsin would result in the average construction worker earning \$44,324 annually and the state potentially losing \$5.8 million in forgone income tax revenues, providing \$1.7 million more in Earned Income Tax Credit (EITC) benefits, and spending tens of millions of dollars more in FoodShare assistance for blue-collar construction workers.

Repealing Wisconsin's prevailing wage law would substantially increase social costs. The worst-case potential social costs of repealing prevailing wage range from \$224 million to \$337 million every year. When worker wages are cut, they contribute less in state and federal income taxes. At the same time, more workers qualify for and rely on government assistance. This results in less money in the state economy and less money in the pockets of hardworking citizens.

The bottom 25 percent of construction workers in families of four are most at-risk of requiring government assistance. Between 4 percent and 12 percent of construction workers in Wisconsin would newly qualify for government assistance if prevailing wage were repealed, depending on the severity of the wage cut. This is *in addition to* the 14.5 percent who already qualify for government assistance in the state.

Furthermore, peer-reviewed economic research has found that repealing prevailing wage and lowering construction worker wages has no statistical impact on total construction costs. Instead, repeal results in less-productive individuals replacing skilled workers, an influx of out-of-state contractors flooding the local market, and higher materials, fuels, and equipment costs. Peer-reviewed studies conclude that these changes offset any initial labor cost savings associated with cutting worker wages and benefits.

Potential tax revenue losses and government assistance expenditure increases must be accounted for in any cost-benefit analysis in the prevailing wage debate. Scaled up to the macroeconomic level, the social costs of repealing prevailing wage are in the millions of dollars. Though precise estimates on the overall social cost are difficult to project, one takeaway is clear: Repeal of prevailing wage is a bad deal for taxpayers. Taxpayers do not save from repeal of prevailing wage, they subsidize.

¹ The authors wish to acknowledge and thank Professor Robert Bruno, Ph.D., for his review and edits of this report. Professor Bruno is the Director of the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign.

Introduction

Wisconsin's prevailing wage law requires that certain laborers, workers, mechanics, and truck drivers employed on state-funded public works projects be paid wage rates that reflect competitive local market standards. Prevailing wage is essentially a minimum wage for blue-collar workers employed on public construction projects. The policy levels the playing field for contractors, ensuring that all contractors pay the local market rate and compete over all other factors in the public bid process— including productivity, materials costs, and technological efficiencies.

On January 1, 2017, significant changes were made when Wisconsin repealed prevailing wage for local governmental units. The state prevailing wage law now only applies to state agency and state highway projects and applicable rates are those issued by the U.S. Department of Labor under the federal Davis-Bacon Act ([Department of Workforce Development, 2017](#)). However, the State Senate is currently considering a full repeal the state's prevailing wage law.

The preponderance of the economic research finds no evidence that prevailing wage increases costs to taxpayers and 75 percent of peer-reviewed economic studies indicate that project costs are not impacted by prevailing wages ([Manzo et al., 2016](#)). This is primarily because blue-collar labor costs (i.e., construction worker wages plus fringe benefits) account for a low and historically declining share of total project costs on public works. For example, data from the 2012 *Economic Census* report that labor costs account for just 21 percent of net construction value for the highway, street, and bridge construction sector in Wisconsin ([U.S. Census Bureau, 2015](#)). On the other hand, materials, fuels, and equipment costs account for an estimated 43 percent of total construction costs on average ([Manzo et al, 2016](#)).

A 2015 Wisconsin Legislative Fiscal Bureau analysis summarized the economic research on costs by stating that:

“the evidence on prevailing wage effects generally range from relatively small effects to no statistically significant effects.... These findings echo a 2007 report prepared by the nonpartisan Minnesota Office of the Legislative Auditor which, in a review of the literature that measured the relationship between prevailing wage laws and the cost of construction, concluded that while some studies found a small impact on costs, more comprehensive studies have found that the impact is not statistically significant. These findings are further corroborated in a comprehensive review of research related to prevailing wages and government contracting costs by Mahalia (2008) ([Horton, 2015](#)).”

Despite this conclusion, lawmakers are considering full repeal of prevailing wage in the state. Advocates of repealing prevailing wage often state that the law inflates construction worker wages. The primary study cited by advocates of repeal is a 2015 report by the Wisconsin Taxpayers Alliance, which claimed that prevailing wage “forces taxpayers” to pay 44 percent more than the market wage rate based on hypothetical comparisons using *Occupational Employment Statistics* (OES) data from the Bureau of Labor Statistics (BLS) at the U.S. Department of Labor ([Wisconsin Taxpayers Alliance, 2015](#)). For instance, State Senator Duey Stroebel (R-Saukville) has said that “there is on average 44 percent savings” from potentially repealing prevailing wage ([The Wheeler Report, 2016](#)).

If it is true that repealing prevailing wage would lower blue-collar wages by 44 percent an hour on public projects, then middle-class construction workers would suffer a significant wage cut. When construction worker wages are cut, they become more likely to rely on government assistance programs ([Duncan & Lantsberg, 2015](#)). In fact, a recent 2016 report estimates that repealing prevailing wage increases the likelihood that any given construction worker receives food stamps by 3 percentage points and receives Earned Income Tax Credits by 1 percentage point ([Manzo et al., 2016](#)). Additionally, under Wisconsin's

graduated income tax system, a large reduction in a construction worker's earnings would, by definition, reduce his or her state income tax liability.

There have been estimates that are more modest on the decrease in worker wages. The Wisconsin Department of Revenue (DOR) projected in 2015 that worker wages would be reduced by 14.1 percent with prevailing wage repeal. The DOR found that the state would not see any fiscal effect of repealing wages, although workers would experience a negative impact from the decrease in annual wages and an increased chance of qualifying for government assistance programs.

This Midwest Economic Policy Institute (MEPI) Economic Commentary addresses the Wisconsin Taxpayers Alliance's claims, the Wisconsin Department of Revenue's claims, and the social impacts of repealing prevailing wage in the state. First, the report focuses on the exorbitant 44 percent cost savings claim made by the Wisconsin Taxpayers Alliance. While these claims are not supported by peer-reviewed economists who study the impact of prevailing wage laws on construction worker incomes, the effect of a 44 percent wage cut on increasing reliance on government assistance is worth reviewing—particularly given the frequency with which the Wisconsin Taxpayers Alliance figure has been cited by elected officials in Wisconsin. Second, the report focuses on the more realistic Wisconsin Department of Revenue's 14.1 percent reduction in construction worker wages and the impact that it would have on government assistance needs. Third, the report addresses the potential social and economic cost for workers, taxpayers, and the state due to repealing the law, focusing on construction workers in families of four. Finally, the report concludes by recapping key findings. Repeal of prevailing wage would have significant public finance and budgeting implications on both the microeconomic level (i.e., to an individual craft worker employed on state-funded construction projects) and macroeconomic level (i.e., to state tax revenues and public assistance expenditures).

The Tax and Government Assistance Implications of Assuming a 44 Percent Reduction in Wages

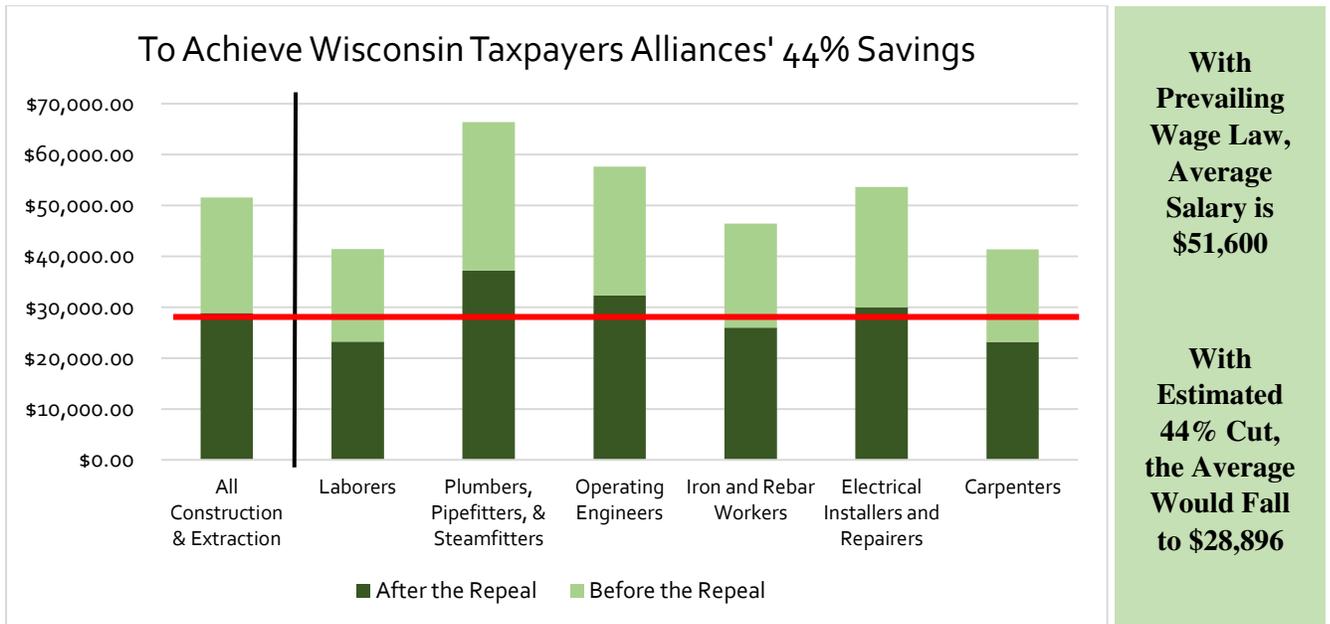
The Wisconsin Taxpayers Alliance claims that Wisconsin's prevailing wage law "forces taxpayers" to pay 44 percent more than the market wage rate on public construction projects ([Gleason, 2015](#)). The 2015 Wisconsin Taxpayers Alliance study assumes that the Occupational Employment Statistics (OES) dataset reported by Bureau of Labor Statistics (BLS) provides a better indicator of local construction market rates than prevailing wage rates. This assumption, which is the basis for the entire analysis, is incorrect. In fact, Erica Groshen, Commissioner of the Bureau of Labor Statistics, definitively concluded that the "BLS has no role in establishing prevailing wages or determining what data are appropriate for that purpose of prevailing wage determinations" ([House Hearing, 113 Congress, 2013](#)). Groshen states:

"The OES program does not gather information on all the attributes that might be of interest when examining occupational wages. For example, the OES does not have data on license requirements, skill level, or years of experience. ... And, the OES collects data from business establishments, not by worksites or construction project sites. A construction business may have multiple projects in same area or in different areas."

While the 44 percent wage inflation estimated by the Wisconsin Taxpayers Alliances is grossly overstated, the effect of a 44 percent wage cut on increasing reliance on government assistance is worth reviewing—particularly given the frequency with which the Wisconsin Taxpayers Alliance figure has been cited by elected officials in Wisconsin. This report thus asks the following question: Assuming the 44 percent estimate to be true, what would be the government revenue and government expenditure impacts of the projected wage cut?

According to the “May 2016 State Occupational Employment and Wage Estimates” for Wisconsin, the average construction and extraction worker in Wisconsin earns an annual mean wage of \$51,600 (BLS, 2017). If this annualized worker income was cut by 44 percent, total wages would fall to \$28,896 per worker, on average. Figure 1 illustrates a 44 percent wage cut to the average annual wages for workers in six construction trades and compares it to the new average earnings of all construction and extraction occupations.

Figure 1: Potential New Annual Wages Associated with 44 Percent Wage Cut, by Construction Trade



An annual income of \$28,896 (from the 44 percent wage cut) would result in a blue-collar construction worker from a family of four potentially qualifying for a number of government assistance programs in Wisconsin. Table 1 lists the programs based on maximum salary to qualify. These include, at the very least, the Affordable Care Act Health Insurance Marketplace (\$97,000) and the Earned Income Tax Credit (\$50,198) at the federal level and FoodShare Wisconsin (\$48,600), the State Earned Income Credit (\$50,198), and the Wisconsin Home Energy Assistance Program (\$50,336) at the state level (Kaiser Family Foundation, 2016; TaxAct, 2017; IRS, 2016; Benefits.gov, 2017 (a); University of Wisconsin-Extension, 2016; Benefits.gov, 2017 (b)).

Table 1: Annual Salary Threshold to Qualify for Select Government Assistance Programs, Family of Four

Government Assistance Program	Annual Salary Threshold to Qualify (Family of Four)
Affordable Care Act Health Insurance Marketplace	\$97,000
Federal Earned Income Tax Credit (EITC)	\$50,198
FoodShare Wisconsin	\$48,600
State Earned Income Credit (EIC)	\$50,198
Wisconsin Home Energy Assistance Program (WHEAP)	\$50,336

Table 2 presents estimates of the potential annual government assistance that a construction worker earning \$28,896 could receive if he or she was the household head in a family of four. At \$28,896 in household income for a family of four, a construction worker qualifies for \$13,403 in estimated financial help to purchase health insurance through the Health Insurance Marketplace (if the wage cut is also associated with a loss in health insurance coverage), \$2,976 in FoodShare assistance, \$4,491 in federal EITC relief, and \$494 in state EIC relief (Kaiser Family Foundation, 2016; TaxAct, 2017; Wisconsin Connections, 2014; Bankrate, 2017; University of Wisconsin-Extension, 2016). Based on filing state and federal income taxes under the “married filing jointly” designation, the construction worker would pay \$1,424 less in state income taxes and contribute \$3,406 less in federal income taxes annually (Tax-Brackets.org, 2017; U.S. Tax Center, 2017).

The construction worker’s household would also newly qualify for Wisconsin Home Energy Assistance Program (WHEAP) funds. In 2014, nearly 225,000 households in Wisconsin received federally-funded heating assistance and a similar amount received state-funded non-heating electric assistance (Wisconsin Legislative Fiscal Bureau, 2015). This equates to approximately 20.9 percent of all Wisconsin households with household income under \$50,000 (U.S. Census Bureau, 2015). Similarly, an estimated 3.0 percent of households earning less than \$50,000 receive WHEAP crisis assistance benefits. Multiplying these likelihoods of receiving benefits by the average assistance provided by each program to the typical household reveals that the expected value of WHEAP benefits received by a construction worker in a family of four with an income of \$28,896 would be \$63 in heating assistance, \$23 in non-heating assistance, and \$13 in crisis assistance (Wisconsin Legislative Fiscal Bureau, 2015). Cumulatively, the total microeconomic social cost of a 44 percent wage cut could *potentially* be a \$26,293 increase in public assistance costs and decreased tax revenue for one blue-collar construction worker in a family of four.

Table 2: Potential Annual Benefits from Government Programs Due to 44 Percent Wage Cut, Family of Four

A Family of 4 Making Under \$28,896 Qualifies for These Programs	Government Program	Annual Benefits
	Affordable Care Act Health Insurance Marketplace*	\$13,403
	FoodShare Wisconsin	\$2,976
	Federal Earned Income Tax Credit	\$4,491
	State Earned Income Credit	\$494
	Estimated State Taxes Not Paid [†]	\$1,424
	Estimated Federal Taxes Not Paid [‡]	\$3,406
	Wisconsin Home Energy Assistance Program (WHEAP) [†]	
	Heating	\$63
	Non-heating	\$23
	Crisis Assistance	\$13
	Individual Social Cost to Public Budgets	\$26,293

*Individual costs for silver plan of Affordable Care Act Health Insurance Marketplace is \$589 per year.

[†]At \$51,600, estimated state income tax contributions would be \$2,935. At \$28,896, estimated state income tax contributions would fall to \$1,511, a difference of \$1,424 annually.

[‡]At \$51,600, estimated federal income tax contributions would be \$6,813. At \$28,896, estimated federal income tax contributions would fall to \$3,407, a difference of \$3,406 annually.

[†]WHEAP Benefits estimated from 20.9 percent of households that qualify for WHEAP benefits and receive the benefits; crisis assistance estimated from 3 percent of households that qualify and receive crisis assistance benefits.

Table 3 presents the total potential cost incurred to taxpayers based on the assumed 44 percent wage cut. Without prevailing wage repeal, the blue-collar construction worker earns a good middle-class income of \$51,600 on average, is contributing more in income taxes, and is not dependent upon government

assistance programs. After the policy change, under these assumptions, the average worker wage would fall to \$28,896. If he or she is the household head of a family of four, the construction worker may now cost taxpayers an additional \$26,293 in government assistance and lost tax revenue.

In the most recent Economic Census, which is conducted every five years, the U.S. Census Bureau reported \$4.3 billion in total state and local government construction in Wisconsin (U.S. Census Bureau, 2015). This represented 17.0 percent of total construction value (including private and federally-owned projects). Applying this share to the individual social cost and then multiplying that further by the total number of craft-based construction workers suggests that prevailing wage repeal could cost up to \$336.6 million in additional public assistance expenditures and forgone tax revenue every year. This worst-case potential additional cost, which is based on the 44 percent wage decrease assumed by the Wisconsin Taxpayers Alliance, reveals how costs that are formerly borne by employers become socialized at the expense of the taxpayers when prevailing wage is repealed.

Table 3: Total Government Assistance from 44 Percent Wage Cut, Family of Four

Total Cost Now Incurred to Wisconsin	
Individual Social Cost to Public Budget	\$26,293
State and Local Share of Public Construction	x 17.0%
Total Number of Craft Construction Workers	x 75,300
Potential Increase in Total Social Costs	\$336,576,693

The worst-case social costs to the State of Wisconsin (independent of federal costs) may also be of considerable interest. Multiplying the potential public benefits from the state in Table 2 by the state and local share of public construction and by the estimated number of workers on public projects reveals that:

- The state could lose \$18.2 million in forgone income tax revenue;
- The state could provide approximately \$6.3 million more in EITC benefits; and
- FoodShare spending could rise by \$38.1 million.

Ultimately, this worst-case scenario demonstrates that repealing prevailing wage could have significant costs to taxpayers.

The Tax and Government Assistance Implications of Assuming a More Modest 14.1 Percent Reduction in Wages

The Wisconsin Department of Revenue (DOR) estimated that the State would not experience a change in fiscal outcomes from repealing prevailing wage, but that workers would see a decrease in wages. According to the 2015 Wisconsin Legislative Fiscal Bureau analysis:

“The Department of Revenue (DOR) identified no state fiscal effect of repealing prevailing wage in Wisconsin. DOR’s fiscal estimate for local governments is marked indeterminate, although the Department did include a description of potential savings on local government construction projects which would no longer be subject to prevailing wage requirements. DOR’s calculation assumed \$1.32 billion in local government construction expenditures in Wisconsin subject to state prevailing wage requirements, 18.9% of the net value of construction being attributable to labor costs, a potential decrease in wages of 14.1% due to the absence of prevailing wage laws (derived by comparing a statewide U.S. Bureau of Labor Statistics sample of construction occupations to a weighted average of a sample of DWD prevailing wage determinations), and 50% of labor savings

being passed through from contractors to local governments as reduced construction bids (Horton, 2015).”

The DOR’s estimate of 14.1 percent is more aligned with academic research on prevailing wage than the Wisconsin Taxpayers Alliance’s 44 percent claim. Estimates of reduction in wages and cost savings range are typically around 16 percent or 17 percent (Manzo et al., 2016). This section asks the following question: Assuming the 14.1 percent estimate by the Department of Revenue to be true, what would be the government revenue and government expenditure impacts of the projected wage cut?

Figure 2: Potential New Annual Wages Associated with 14.1 Percent Wage Cut, by Construction Trade

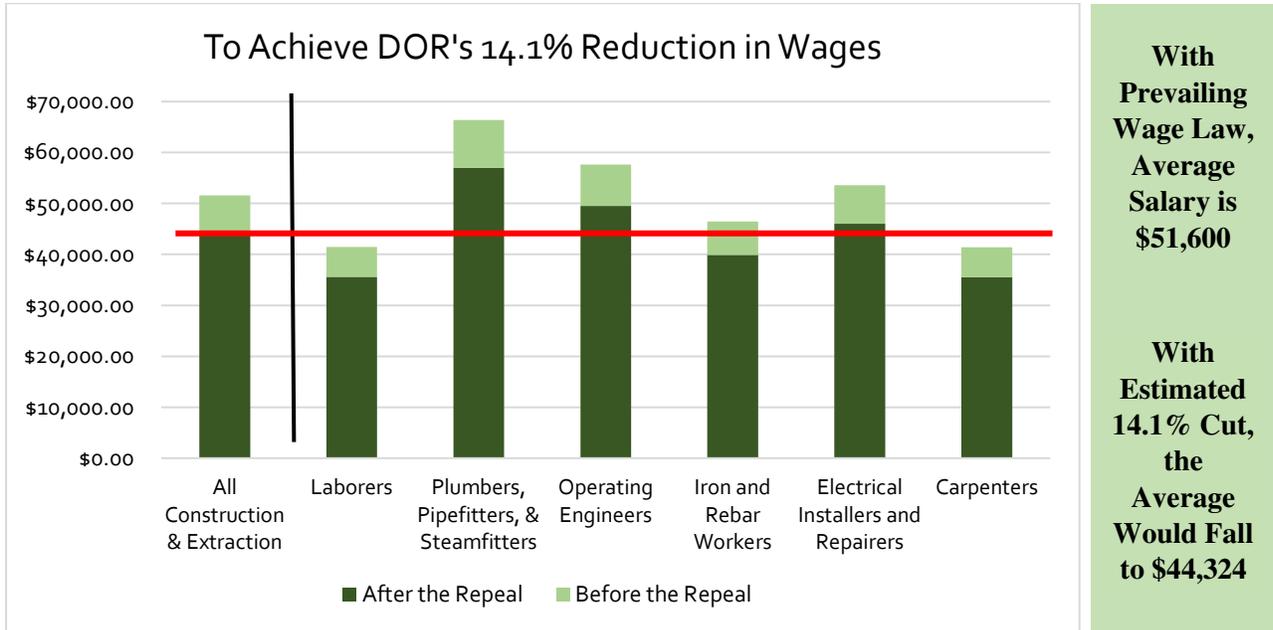


Figure 2 depicts a 14.1 percent average wage cut for workers in six construction trades and compares to the new earnings to the average for all construction and extraction occupations. Based on a \$51,600 average income, this wage cut would result in a new annual salary of \$44,324 per worker. An annual blue-collar salary of \$44,324 would result in a blue-collar construction worker from a family of four potentially qualifying for a number of government assistance programs, including all the previously-discussed programs. Note that Table 1 lists the programs and the maximum salary to qualify.

Table 4 presents estimates of the potential annual benefits that a construction worker earning \$44,324 could receive if he or she was the household head in a family of four. Note that the estimates in Table 4 are all derived from the same sources as those in the previous section of this report. At \$44,324 in household income for a family of four, a construction worker qualifies for \$11,507 in estimated financial help to purchase health insurance through the Health Insurance Marketplace (if the wage cut is also associated with a loss in health insurance coverage). The new income level also qualifies the worker and his or her family for \$2,976 in FoodShare assistance, \$1,237 in federal EITC relief, and \$136 in state EIC relief. Based on filing state and federal income taxes under the “married filing jointly” designation, the construction worker would pay \$456 less in state income taxes and contribute \$1,091 less in federal income taxes annually. Finally, the construction worker’s household would newly qualify for Wisconsin Home Energy Assistance Program (WHEAP) funds. As previously stated, the average WHEAP benefits received by a construction worker in a family of four with an income under the threshold is \$63 in heating assistance, \$23 in non-heating assistance, and \$13 in crisis assistance. Cumulatively, the total microeconomic social

cost of a 14.1 percent wage cut could potentially be \$17,502 in increased state and federal assistance expenditures and decreased tax revenues for one construction worker in a family of four.

Table 4: Potential Annual Benefits from Government Programs Due to 14.1 Percent Wage Cut, Family of Four

A Family of 4 Making Under \$44,324 Qualifies for These Programs	Government Program		Annual Benefits
	Affordable Care Act Health Insurance Marketplace*		\$11,507
	FoodShare Wisconsin		\$2,976
	Federal Earned Income Tax Credit		\$1,237
	State Earned Income Credit		\$136
	Estimated State Taxes Not Paid [†]		\$456
	Estimated Federal Taxes Not Paid [‡]		\$1,091
	Wisconsin Home Energy Assistance Program (WHEAP)*		
		Heating	\$63
		Non-heating	\$23
		Crisis Assistance	\$13
	Total Social Cost to Public Budgets		\$17,502

*Individual costs for silver plan of Affordable Care Act Health Insurance Marketplace is \$2,485 per year.

[†]At \$51,600, estimated state income tax contributions would be \$2,935. At \$44,324, estimated state income tax contributions would fall to \$2,479, a difference of \$456 annually.

[‡]At \$51,600, estimated federal income tax contributions would be \$6,813. At \$44,324, estimated federal income tax contributions would fall to \$5,722, a difference of \$1,091 annually.

*WHEAP Benefits estimated from 20.9 percent of households that qualify for WHEAP benefits and receive the benefits; crisis assistance estimated from 3 percent of households that qualify and receive crisis assistance benefits.

Table 5 depicts the total potential cost incurred to taxpayers based on the assumed 14.1 percent wage cut. Without prevailing wage repeal, a craft construction worker earns \$51,600 on average, pays more in taxes, and is self-sufficient. After the policy change, under these assumptions, the average worker wage would fall to \$44,324. If he or she is the household head of a family of four, the construction worker may now cost taxpayers an additional \$17,502 in government assistance and lost tax revenue.

Multiplying the individual social cost by the state and local share of public construction and by the total number of construction workers in Wisconsin, as demonstrated previously, indicates that prevailing wage repeal could cost up to \$224.0 million in additional public assistance costs and forgone tax revenue every year. This potential additional cost, which is based on the 14.1 percent wage decrease assumed by the Department of Revenue, once again shows how benefits costs are socialized onto taxpayers.

Table 5: Total Government Assistance and Lost Revenue from 14.1 Percent Wage Cut, Family of Four

Total Cost Now Incurred to Wisconsin	
Individual Social Cost to Public Budget	\$17,502
State and Local Share of Public Construction	x 17.0%
Total Number of Craft Construction Workers	x 75,300
Potential Increase in Total Social Costs	\$224,043,102

The potential social costs to the State of Wisconsin (independent of federal costs) can be estimated by multiplying the potential public benefits from the state in Table 4 by the state and local share of public construction and by the estimated number of workers. This yields the following results:

- The state could lose \$5.8 million in forgone income tax revenue;
- The state could provide approximately \$1.7 million more in EITC benefits; and
- FoodShare spending could rise by \$38.1 million.

Taxpayers do not save from repeal of prevailing wage, they *subsidize*.

Wisconsin Families At-Risk of Qualifying for Public Assistance Due to Prevailing Wage Repeal

This section applies the previous exercises to the actual construction workforce to estimate the increase in the number of Wisconsin families that would newly qualify for public assistance due to prevailing wage repeal. Recall that Wisconsin families of four qualify for FoodShare Wisconsin assistance with incomes at or below \$48,600 and for WHEAP assistance at or below \$50,336 (Table 1).

Table 6 presents a breakdown of family sizes for all men ages 25 to 54 in the construction labor force, including the employed and the unemployed. The analysis is limited to men because they account for over 97 percent of all individuals in the blue-collar construction labor force and to those ages 25 to 54 in order to provide estimates for able-bodied, working-age individuals. According to data from the 2015 *American Community Survey*, there are an estimated 20,221 men in the construction labor force who belong to families of four. Approximately 88.9 percent of these men are married and, of those, 80.5 percent of their spouses are employed in at least one job.

Table 6: Family Size and Incomes of Employed and Unemployed Male Construction Workers Ages 25-54, 2015

Family Size	Number of Men in Construction Labor Force	Married Men In Construction Labor Force	Share of Spouses Employed (If Married)	Average Construction Worker Income	Average Total Family Income*
1	29,521	2.8%	77.2%	\$37,942	\$41,049
2	21,935	69.2%	84.6%	\$44,804	\$77,218
3	19,208	69.8%	81.3%	\$46,443	\$89,073
4	20,221	88.9%	80.5%	\$48,811	\$90,664
5	9,294	88.5%	72.7%	\$48,408	\$86,958
6	2,904	83.0%	64.8%	\$49,076	\$81,746
7+	1,650	89.2%	51.2%	\$38,534	\$87,628

Source: 2015 *American Community Survey*, 5-Year Estimates (Ruggles et al., 2015).

*Total family income is pre-tax income or losses from all sources for the previous year and includes wage and salary income, business income, Social Security income, welfare and supplemental income, investment income, retirement income, and other forms of income.

**Female workers comprise just 2.3 percent of all construction workers ages 25 to 54 in Wisconsin. The estimated number of female construction workers between the ages of 25 and 54 is 2,457. Approximately 44.8 percent of these female workers are married and 91.3 percent of their spouses are employed. Their average household income is \$49,165 annually.

Table 7 further investigates these families of four, focusing only on employed male construction workers ages 25 to 54. Unemployed construction workers are not included in the Table 7 estimates. The data reveals that the average annual income for employed male construction workers is \$51,300 and their average total family income is \$90,867. Male construction workers in families of four on average account

for 56.5 percent of their total family incomes– which can include business and investment income, government assistance income, and other sources of income.

Table 7: Distribution of Incomes of Employed Male Construction Workers Ages 25-54 in Families of Four

Employed Construction Workers in Families of Four (Male Workers)	Total Family Income*	Construction Worker Income	Construction Worker Share of Family Income, Average
Bottom 5%	\$32,986	\$12,210	37.0%
Bottom 10%	\$39,684	\$21,077	53.1%
Bottom 25%	\$63,338	\$35,040	55.3%
Median Worker	\$84,000	\$50,000	59.5%
Top 25%	\$110,000	\$63,232	57.5%
Top 10%	\$139,402	\$80,000	57.4%
Top 5%	\$164,469	\$90,844	55.2%
Average	\$90,867	\$51,300	56.5%

Source: 2015 *American Community Survey*, 5-Year Estimates (Ruggles et al., 2015).

*Total family income is pre-tax income or losses from all sources for the previous year and includes wage and salary income, business income, Social Security income, welfare and supplemental income, investment income, retirement income, and other forms of income.

The bottom 25 percent of construction workers in families of four are most at-risk of requiring government assistance (Table 7). The bottom 25 percent by total family income take home \$63,338 annually or less, with the male construction worker earning \$35,040 per year or less (55.3 percent of the total family income). Currently, the bottom 10 percent of families of four with a construction worker earn \$39,684 per year or less and already qualify for government assistance programs.

If prevailing wage were repealed in Wisconsin, between 4.5 percent and 11.9 percent of all construction workers in families of four would newly qualify for public assistance (Table 8). This is *in addition to* the families who already qualify. Based on the modest 14.1 percent projected reduction in wages, families with incomes between \$48,600 and \$54,500 would be most at-risk of falling below the government assistance threshold levels. For example, if – consistent with Table 7 – a male construction worker accounts for 55 percent of his family income of \$54,500, then that means the construction worker annually earns \$29,975 while spousal earnings and other forms of income account for the remaining \$24,525. A 14.1 percent average reduction in the construction worker’s earnings would equate to a \$4,226 drop in income. As a result, total family income would fall to \$50,274 annually, low enough to qualify for WHEAP public assistance.

The wage cut would mean that hundreds of families currently earning \$48,600 to \$54,500 would qualify for WHEAP, the EIC, and FoodShare assistance. In fact, the data indicates that an estimated 787 Wisconsin families of four with a construction worker aged 25 to 54 would qualify for some form of government assistance, or 4.5 percent of all families of this type. The estimate is even larger if the 44 percent reduction by the Wisconsin Taxpayers Alliance is considered. Approximately 2,083 Wisconsin families of four would fall below thresholds necessary to receive public assistance, or 11.9 percent of all families in this category with an employed construction worker aged 25 to 54 (Table 8). Note that an estimated 14.5 percent of families of four with employed blue-collar construction workers earn less than \$48,600 and already qualify for the majority of public assistance programs.

This analysis focused on construction workers in families of four due to the complexity of the government assistance thresholds based on different family sizes. However, despite being limited to families of four, this example has broad implications because it provides government assistance estimates

that effectively control for other factors, such as gender, age, and family size (by analyzing male workers aged 25 to 54 in families of four). Using actual economic data on construction workers in Wisconsin, Table 8 suggests that between 4 percent and 12 percent of construction workers in Wisconsin would newly qualify for government assistance, depending on the severity of the wage cut associated with repealing prevailing wage. This is on top of the 14.5 percent of construction workers that already qualify for government assistance.

Table 8: Families of Four with Employed Male Construction Workers Ages 25-54 Qualifying for Public Assistance and those at Risk of Qualifying for Public Assistance due to Prevailing Wage Repeal

Families of Four with a Construction Worker that Qualify for or Will Qualify for Public Assistance	Number of Families	Share of Families
<i>14.1 Percent Wage Cut</i>		
Currently Qualify: Family Income Less than \$48,600	2,520	14.5%
At-Risk: Family Income of \$48,600 to \$54,500	787	4.5%
<i>44 Percent Wage Cut</i>		
Currently Qualify: Family Income Less than \$48,600	2,520	14.5%
At-Risk: Family Income of \$48,600 to \$66,000	2,083	11.9%

Source: 2015 *American Community Survey*, 5-Year Estimates (Ruggles et al., 2015).

The estimates generally align with previous peer-reviewed research on the impact of state prevailing wage laws (Manzo et al., 2016). Table 8 indicates that a 14.1 percent wage cut would increase the number of families *qualifying* for public assistance by 4.5 percent. Given that many people who qualify for public assistance do not actually receive it for a number of reasons, the share receiving assistance would be lower. In an advanced regression analysis using economic data on construction workers across the United States, researchers found that repeal of prevailing wage increases the number of construction workers below the official poverty line by 3 percentage points, reduces the share covered by a health insurance plan at work by 10 percentage points, increases the share actually receiving food stamps by 3 percentage points, and increases the share of construction workers actually getting EITC assistance by 1 percentage point.

Though precise estimates on the total social cost of repealing prevailing wage in Wisconsin are difficult to project, one takeaway is clear from the worst-case scenarios and from the case study of families of four: repeal of prevailing wage will cost taxpayers money.

Repeal of prevailing wage would result in a wage cut for working-class Wisconsin residents. That wage cut would reduce income tax revenue and—through decreased consumer spending—sales tax revenue contributed by blue-collar construction workers in the state. A significant share of construction workers, potentially between 4 percent and 12 percent, would newly qualify for government assistance programs. Some portion of new qualifiers will apply for and receive public assistance, raising costs to taxpayers while revenues to pay for those new expenditures simultaneously declines. Repealing prevailing wage would have substantial social costs.

Discussion and Conclusion

Much of this thought experiment is intuitive: When a worker’s wages are cut, he or she tends to contribute less in state and federal income taxes. If his or her overall consumption declines as well, he or she will also pay less in sales taxes. At the same time, a worker becomes more likely to qualify for and rely on government assistance when wages are cut. The larger the income loss, the more likely the individual or family will be to receive public support. This explains why previous research finds that repealing prevailing

wage increases the likelihood that any given construction worker receives food stamps by 3 percentage points and receives Earned Income Tax Credits by 1 percentage point (Manzo et al., 2016).

If construction workers were to see their wages decrease by 14.1 percent to 44 percent, as assumed by critics of prevailing wage in Wisconsin, some would decide to leave their positions in the industry for better-paying jobs. Research indicates that when wages decrease in construction, less-skilled workers replace skilled workers. This helps explain why public construction workers are 21 to 33 percent more productive in states that have prevailing wage laws (Philips, 2014). In addition, when wages are higher, contractors reduce materials costs, rental equipment costs, and profit margins to keep bids competitive in the market. These changes help explain why economic research finds no evidence that prevailing wage increases construction costs (Manzo et al., 2016). If Wisconsin repeals its prevailing wage law, its public construction industry could be flooded with unskilled labor and out-of-state contractors at the same time the highly skilled Wisconsin workers leave the construction workforce or the state.

Potential tax revenue losses and government assistance expenditure increases must be accounted for in any cost-benefit analysis in the prevailing wage debate. If repeal of prevailing wage would result in an average wage cut of 14.1 percent to 44 percent for blue-collar construction workers employed on public projects, then more working-class Wisconsin residents will qualify for and receive public assistance. Results from this analysis indicate that a construction worker who is the household head of a family of four would cost public sector budgets thousands of dollars in new public assistance expenditures and forgone income tax revenues. Additionally, economic data suggests that, depending on the severity of the wage cut, between 4 percent and 12 percent of construction workers in Wisconsin would newly qualify for government assistance. Scaled up to the macroeconomic level, the social costs of repealing prevailing wage are undeniably in the millions of dollars.

With critics of Wisconsin's prevailing wage law emphasizing speculative taxpayer savings in their efforts to repeal the policy, the social cost of repealing prevailing wage must be considered by elected officials. Though precise estimates on the overall social cost are difficult to project, one takeaway is clear: Repeal of prevailing wage is a bad deal for taxpayers. Taxpayers do not save from repeal of prevailing wage, they subsidize.

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