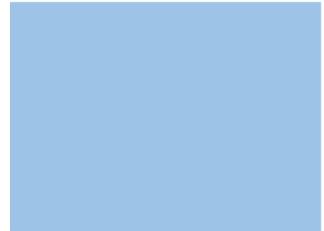


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# Failing Grade

Critiquing a December 2017 Report on  
Prevailing Wage by the Illinois Policy Institute



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## **The Illinois Policy Institute Wants to Cut Middle-Class Construction Worker Wages in Illinois**

The Illinois Prevailing Wage Act supports blue-collar construction workers employed on public construction projects. Prevailing wage is essentially a minimum wage for skilled construction workers on public works projects in Illinois, requiring that contractors pay workers no less than the local living wage and benefits package. By preventing public bodies from awarding bids to contractors that pay less than the privately-established local market rate, the Illinois Prevailing Wage Act ensures that workers can afford to live in the county where they are building a road, school, police station, or other public project.

Despite these benefits, a December 2017 study by the Illinois Policy Institute asserts that lawmakers should repeal the state's prevailing wage law ([Divounguy & Hill, 2017](#)). Lawmakers and the public should be skeptical of the Illinois Policy Institute study for five reasons.

1. Repeal of the Illinois Prevailing Wage Act would result in a less-skilled, less-trained Illinois construction workforce and a \$1.1 billion drop in economic output.
2. Peer-reviewed economic research finds that prevailing wage has no effect on public construction costs.
3. The Illinois Policy Institute advocates using Bureau of Labor Statistics (BLS) data for prevailing wage rates instead of the transparent survey process that is based on actual certified payrolls—a policy change that would result in a pay cut for middle-class construction workers.
4. While the Illinois Policy Institute makes unreliable claims about race and prevailing wage, prevailing wage actually reduces income disparities based on race by stabilizing the wage floor.
5. Public works construction employment is still below pre-recession levels, but has rebounded more in Illinois than in states that do not have prevailing wage laws.

## **Prevailing Wage Promotes Local Hiring, Boosts Productivity, and Strengthens the Economy**

The main purpose of the Illinois Prevailing Wage Act is to protect market-based local wages and benefits in the competitive public construction bid process. Public bodies in Illinois are required to select the lowest bidder. In the low-bid model, contractors aim to lower their bids however possible, including through cutthroat reductions in worker wages, benefits, and apprenticeship training or benefits. Thus, long-term investments in worker training, health, and well-being are often jettisoned by contractors to win bids on short-term projects. The Illinois Prevailing Wage Act takes labor costs out of the equation for contractors and incentivizes them to compete based on core competencies in construction.

In states without prevailing wage, non-local and low-wage contractors with less-trained workers come in, undercut the local market rate, and take taxpayer dollars back with them to their home states upon project completion. After Indiana weakened its prevailing wage law, for instance, public works construction employment in the 13 southernmost Indiana counties decreased by over 800 jobs (-21 percent) while it grew by nearly 800 jobs (+21 percent) in 14 border counties across the river in Kentucky. Weakening prevailing wage resulted in greater demand for low-wage, out-of-state workers ([Manzo, 2016](#)). Similarly, the probability of winning a bid on a public school project is 5 percent higher for in-state

contractors in states with prevailing wage laws— indicating that, by leveling the playing field, prevailing wage increases hiring of local contractors and local workers (Prus, 1999).

Additionally, economic research has shown that prevailing wage laws increase apprenticeship training in the construction industry. Economist Cihan Bilginsoy finds that apprenticeship enrollments are 6 to 8 percent higher in states with prevailing wage laws and that apprentices complete their on-the-job training at a faster rate in these states (Bilginsoy, 2005). Conversely, after nine states repealed their prevailing wage laws between 1979 and 1988, repeal was associated with a 40 percent decrease in worker training and a 15 percent rise in workplace injuries (Philips et al., 1995). The result is that workers are significantly more productive in states with prevailing wage laws (Philips, 2014).

By ensuring upfront investments in workforce skills and productivity, prevailing wage also translates into higher incomes. A recent analysis of all state prevailing wage laws found that prevailing wage increases blue-collar construction worker earnings by between 16 and 17 percent annually— and has even larger effects on low-income individuals. 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 (Manzo et al., 2016). By promoting apprenticeship training, supporting middle-class wages, and reducing reliance on government assistance programs, prevailing wage benefits all blue-collar construction workers.

Researchers from the University of Illinois, Michigan State University, and the Illinois Economic Policy Institute found that repeal of the Illinois Prevailing Wage Act would shrink Illinois' gross domestic product by \$1.1 billion per year and reduce state and local tax revenues by \$44 million annually. Repeal would also cause a drop in apprenticeship training, causing 70 more work-related deaths among construction workers over a decade. Repeal would result in job losses throughout the state economy (Dickson Quesada et al., 2013).

[What does the Illinois Policy Institute get wrong?](#) While conceding that prevailing wage could increase labor productivity and reduce turnover costs by acting as an “efficiency wage,” the study also says that it reduces overall employment in construction. However, repeal of prevailing wage only changes the *composition* of the construction workforce— with less-skilled, less-trained, and often out-of-state employees replacing skilled Illinois construction workers. Prevailing wage encourages contractors to complete projects using safe and productive workers, boosting the Illinois economy by over \$1 billion.

### **The Prevailing Wage Act Provides the Best Value for Taxpayers**

Peer-reviewed research has overwhelmingly concluded that prevailing wage laws have no impact on total construction costs (Duncan & Ormiston, 2017; Mahalia, 2008). This is because labor costs are a low and historically declining percentage of total costs in the construction industry— approximately 23 percent of total costs. Additionally, when wages are higher in the construction industry, contractors reduce expenditures on materials, fuels, and rental equipment and accept marginally lower profit margins (Duncan & Lantsberg, 2015). On the other hand, research also indicates that when wages are cut in construction, contractors respond by substituting lower-wage, less-skilled workers in place of their more-productive counterparts (Blankenau & Cassou, 2011; Philips, 2015).

Ed Soliday, a Republican State Representative from Valparaiso who serves as the Assistant Majority Floor Leader in the Indiana House of Representatives, acknowledged that the recent repeal of Indiana's prevailing wage law has had no impact on project costs (2017):

*“We got rid of prevailing wage and so far it hasn’t saved a penny. Probably the people most upset with us repealing common wage were the locals. Because the locals, quite frankly, like to pay local contractors and they like local contractors to go to the dentist in their own town. ... There’s not 22 percent savings out there when the total cost of labor is 22 percent. It’s rhetoric. So far, I haven’t seen a dime of savings out of it.”*

**What does the Illinois Policy Institute get wrong?** While the study says that “[t]he empirical literature is still divided on the impact of prevailing wage rates on construction costs,” an accompanying blog post inexplicably claims that repeal could save taxpayers 10 percent on public construction projects— despite the preponderance of peer-reviewed research which finds that prevailing wage has no impact on construction costs (Divounguy, 2017).

### **Prevailing Wages are Transparent and Reflect Actual Market Standards**

The prevailing wage is a living wage determined by private actors in local labor markets. Rates are determined based on actual certified payrolls submitted by both employers and workers— accurately reflecting market conditions in counties across Illinois. The survey results are published on an accessible state website and interested parties can petition the government to review the rates to ensure their validity. Prevailing wage rates also include the total value of wages, fringe benefits, and training contributions by job classification where the work is performed.

Instead of this transparent, reliable process, the Illinois Policy Institute says that Illinois should tie “prevailing wage to local averages reported by the Bureau of Labor Statistics” (BLS). This proposed change is based on the false assumption that BLS data is a better indicator of local construction market rates than prevailing wage surveys. However, BLS data does not distinguish between journey-workers and apprentices, excludes fringe benefits which are essential to retaining and attracting skilled workers, over-represents residential construction which is a low-skill sector of construction, and does not survey actual construction sites (Duncan, 2015). In fact, Erica Groshen, former BLS Commissioner, has said that “BLS has no role in establishing prevailing wages or determining what data are appropriate for that purpose” (Groshen, 2013).

**What does the Illinois Policy Institute get wrong?** The use of BLS data would erode the wages that are currently paid to blue-collar construction workers in Illinois, resulting in a significant pay cut for working-class Illinois families. By comparing Illinois prevailing wage rates to BLS data, the Illinois Policy Institute has demonstrated a clear misunderstanding of the actual construction market.

### **The Prevailing Wage Act Benefits All Workers Regardless of Race or Ethnicity**

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). Another recent working paper finds that any perceived discrimination attributable to state prevailing wage laws completely disappears once a state’s racial composition and economic conditions are accounted for (Duncan & Ormiston, 2017). Moreover, 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 because it stabilizes the wage floor and helps to lift the hourly pay of low-income workers, who for historical and structural reasons are more likely to be people of color (Manzo & Bruno, 2014).

The Congressional Black Caucus resoundingly endorsed the federal prevailing wage law, the Davis-Bacon Act, over two decades ago (CBC, 1995):

*“Davis-Bacon has been instrumental in bridging the wage gap for historically disadvantaged sectors of our society. In the face of decaying social and economic opportunities, this measure provides women and minorities with an important tool to achieving greater parity with their mainstream counterparts.”*

Moreover, economic data refute the Illinois Policy Institute’s claim that “black construction workers are less likely to be union members than white construction workers” (Divounguy & Hill, 2017). Figure 1 presents data from the *Current Population Survey Outgoing Rotation Groups* (CPS-ORG) from 2007 through 2016 (CEPR, 2017). Over the past 10 years, the union membership rate was 54.4 percent for African-American workers employed in construction and extraction occupations in Illinois’ construction industry. The comparable union membership rate for white workers in blue-collar construction and extraction jobs was 53.7 percent, or 0.7 percentage points lower. Latino and Latina construction workers were 29.1 percent unionized. The notion that African-American workers are less likely to be union members is patently false in Illinois.

**FIGURE 1: UNION MEMBERSHIP RATES OF WORKERS EMPLOYED IN CONSTRUCTION AND EXTRACTION OCCUPATIONS IN THE CONSTRUCTION INDUSTRY BY RACIAL BACKGROUND IN ILLINOIS, 2007-2016**

<b>Union Membership Rates of Construction and Extraction Workers in Illinois</b>	
Total Construction and Extraction Workers	47.5%
White non-Latino workers	53.7%
African-American workers	54.4%
Latino and Latina workers	29.1%

Source: *Current Population Survey Outgoing Rotation Groups, 2007-2016* (CEPR, 2017).

Moreover, Figure 2 shows that the low African-American share of employment in construction and extraction occupations is an industrywide problem, not just a union issue. In the overall Illinois labor market, African-Americans comprise 11.7 percent of total employment. By contrast, the African-American share of the blue-collar construction and extraction workforce is 6.3 percent in union construction and just 4.8 percent in the nonunionized sector. Illinois’ union contractors actually do a better job of hiring African-American workers than nonunion contractors in the state.

**FIGURE 2: SHARE OF AFRICAN AMERICANS IN THE OVERALL ECONOMY VS. IN CONSTRUCTION AND EXTRACTION OCCUPATIONS BY UNION MEMBERSHIP STATUS IN ILLINOIS, 2007-2016**

<b>African-American Share of the Workforce in Illinois</b>	
Total Employment in All Illinois Occupations	11.7%
Union Construction and Extraction Occupations	6.3%
Nonunion Construction and Extraction Occupations	4.8%

Source: *Current Population Survey Outgoing Rotation Groups, 2007-2016* (CEPR, 2017).

What does the Illinois Policy Institute get wrong? African-American workers employed in blue-collar construction careers are *more* likely to be union members in Illinois, not less likely. In any case, the Illinois Prevailing Wage Act reduces pay discrimination in construction. This is because 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 as long as they can do the work— regardless of race or gender or any other characteristic unique to the individual.

### **Public Works Construction Growth is Lower in States without Prevailing Wage**

Finally, the Illinois Policy Institute notes that construction employment is down 28.8 percent since the start of the Great Recession, which is the 8<sup>th</sup>-largest drop in construction employment across the nation. The authors claim that the Illinois Prevailing Wage Act is responsible for the weak recovery in construction jobs. However, the law only pertains to public projects funded using tax dollars. Prevailing wage rates do not apply to private residential, business, and industrial projects. By evaluating total construction employment, the Illinois Policy Institute *includes* workers employed on private construction projects in their state-level analysis of prevailing wage laws.

This is problematic because, since 2007, public works construction employment has grown slower in states that do not currently have prevailing wage laws. Figure 3 provides payroll data from the Quarterly Workforce Indicators (QWI) of the *Longitudinal Employer-Household Dynamics* survey (LEHD, 2017). Instead of studying total construction employment, QWI includes information on the “heavy and civil engineering construction” sector, the vast majority of which involves public works— such as the construction and maintenance of highways, streets, bridges, utility lines, dams, parks, and trails (Census, 2017).

Employment in Illinois’ heavy and civil engineering construction sector fell from about 35,500 in the third quarter of 2007, right before the Great Recession, to about 34,000 jobs in the third quarter of 2016. This 4.4 percent drop (-1,550 jobs) places Illinois in the middle of the pack. Among states that currently have a prevailing wage law, heavy and civil engineering construction employment is 1.0 percent lower today than it was just before the Great Recession. By contrast, employment in this public works sector of construction is 11.2 percent lower today in states without prevailing wage laws than it was in 2007. Clearly, the lack of prevailing wage standards in these states has not stimulated employment growth in public works construction.

What does the Illinois Policy Institute get wrong? The Illinois Prevailing Wage Act has not been the cause of a weak construction recovery in the state. The primary source of lost construction jobs has been in Illinois’ private housing construction sector, which is unaffected by prevailing wage rates. Regarding public works construction, the lack of a statewide infrastructure bill has contributed to employment that is below pre-recession levels in Illinois. However, while public works construction employment in Illinois is still lower than it was in 2007, it has rebounded more than in states that do not have prevailing wage laws.

**FIGURE 3: HEAVY AND CIVIL ENGINEERING CONSTRUCTION EMPLOYMENT BY PREVAILING WAGE STATUS, 2007Q3-2016Q3\***

State	2007 Q3 (July-September)	2016 Q3 (July-September)	Employment Change	Percent Change	Law Status (Current)
North Dakota	5,111	10,222	+5,111	+100.0%	No Law
New York	29,978	38,750	+8,772	+29.3%	Prevailing Wage
South Dakota	4,950	6,079	+1,129	+22.8%	No Law
Oklahoma	16,684	19,603	+2,919	+17.5%	No Law
Delaware	3,526	4,064	+538	+15.3%	Prevailing Wage
Iowa	13,304	15,278	+1,974	+14.8%	No Law
Minnesota	26,887	29,638	+2,751	+10.2%	Prevailing Wage
Ohio	33,843	37,245	+3,402	+10.1%	Prevailing Wage
Texas	162,854	178,022	+15,168	+9.3%	Prevailing Wage
Maryland	17,651	19,267	+1,616	+9.2%	Prevailing Wage
Louisiana	49,335	53,668	+4,333	+8.8%	No Law
New Jersey	21,506	22,497	+991	+4.6%	Prevailing Wage
Indiana	18,432	18,844	+412	+2.2%	No Law
Connecticut	11,207	11,430	+223	+2.0%	Prevailing Wage
Pennsylvania	44,337	44,415	+78	+0.2%	Prevailing Wage
West Virginia	11,913	11,862	-51	-0.4%	No Law
New Hampshire	4,283	4,232	-51	-1.2%	No Law
Hawaii	5,799	5,619	-180	-3.1%	Prevailing Wage
Rhode Island	3,054	2,923	-131	-4.3%	Prevailing Wage
<b>Illinois</b>	<b>35,529</b>	<b>33,979</b>	<b>-1,550</b>	<b>-4.4%</b>	<b>Prevailing Wage</b>
Michigan	24,763	23,471	-1,292	-5.2%	Prevailing Wage
Nebraska	8,637	8,010	-627	-7.3%	Prevailing Wage
Maine	6,617	6,079	-538	-8.1%	Prevailing Wage
North Carolina	35,096	31,548	-3,548	-10.1%	No Law
Oregon	18,267	16,305	-1,962	-10.7%	Prevailing Wage
Virginia	43,790	38,970	-4,820	-11.0%	No Law
California	104,396	92,825	-11,571	-11.1%	Prevailing Wage
Missouri	27,006	23,989	-3,017	-11.2%	Prevailing Wage
Alabama	17,176	15,255	-1,921	-11.2%	No Law
Montana	8,893	7,897	-996	-11.2%	Prevailing Wage
Colorado	26,547	23,534	-3,013	-11.3%	No Law
Tennessee	22,364	19,599	-2,765	-12.4%	Prevailing Wage
Mississippi	15,834	13,857	-1,977	-12.5%	No Law
Kentucky	15,502	13,275	-2,227	-14.4%	No Law
New Mexico	14,029	11,958	-2,071	-14.8%	Prevailing Wage
Wisconsin	21,882	18,016	-3,866	-17.7%	No Law
Kansas	12,575	10,309	-2,266	-18.0%	No Law
Washington	26,008	21,294	-4,714	-18.1%	Prevailing Wage
South Carolina	18,747	15,096	-3,651	-19.5%	No Law
Arkansas	17,079	13,732	-3,347	-19.6%	No Law
Utah	13,056	10,487	-2,569	-19.7%	No Law
Florida	78,524	62,167	-16,357	-20.8%	No Law
Georgia	33,989	26,615	-7,374	-21.7%	No Law
Vermont	3,156	2,346	-810	-25.7%	Prevailing Wage
Idaho	7,839	5,571	-2,268	-28.9%	No Law
Wyoming	9,451	5,713	-3,738	-39.6%	Prevailing Wage
Nevada	13,879	8,369	-5,510	-39.7%	Prevailing Wage
Arizona	32,844	18,648	-14,196	-43.2%	No Law
<b>Prevailing Wage*</b>	<b>685,632</b>	<b>678,835</b>	<b>-6,797</b>	<b>-1.0%</b>	<b>Prevailing Wage</b>
<b>No Law</b>	<b>514,492</b>	<b>456,868</b>	<b>-57,624</b>	<b>-11.2%</b>	<b>No Law</b>

Source: "Quarterly Workforce Indicators," 2007Q3-2016Q3 (LEHD, 2017). \*NOTE: Census data was unavailable for Alaska and Connecticut, states with prevailing wage laws.

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