

The Adverse Economic Impact from Repeal of the Prevailing Wage Law in Missouri

Michael Kelsay

L. Randall Wray

Kelly Pinkham

Additional Contributors

Mathew Forstater

Fadhel Kaboub

Research Assistants

Shawn Gebhardt, Marcia Mayne, Shakuntala Das, Zdravka Todorova,
Mehdi Ben Guirat, Casey Turnbull, Corinne Pastoret, Eric Tymoigne

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What would be the economic impact to the State of Missouri if its Prevailing Wage Law was repealed?

This presentation will provide some of the research and findings contained in the first comprehensive study to examine the wide-ranging and profound economic impacts that would result from the proposed repeal of Missouri's Prevailing Wage Law. The study, "The Adverse Economic Impact from Repeal of the Prevailing Wage Law in Missouri," was conducted by faculty and researchers in the Department of Economics at the University of Missouri - Kansas City. Completed in January 2004, the study was funded by the Council for Promoting American Business. Please contact the organization sponsoring this presentation to obtain a copy of the full report.

Background on state-level Prevailing Wage Laws and the federal Davis-Bacon Act

Prevailing wage laws require that construction workers on public projects be paid the wages and benefits that are found by the Department of Labor to be “prevailing” for similar work in or near the locality in which the construction project is to be performed.

History of Prevailing Wage Laws

- Kansas passed the first prevailing wage law in 1891.
- Twenty-five states passed prevailing wage laws in the United States before Missouri passed its law in 1957
- The Missouri law has been amended three times, in 1986, 1987, and 1993.

Today: Where Does PWL Stand?

- 32 states and the District of Columbia still have prevailing wage statutes.
- 10 states have repealed their prevailing wage statutes.
- 8 states have never enacted a prevailing wage law.

Savings Through Repeal?

- During the 1970s many states began to suffer fiscal crisis. On the belief that they might save tax dollars, many state and local governments began to consider repeal of prevailing wage laws.



Arguments Against Prevailing Wage Regulations: Fact or Fiction?

- The primary contention of critics is that prevailing wage laws increase the costs of public construction due to the impact of higher wage rates on total construction costs.
- Critics have argued that prevailing wage statutes increase overall public construction costs by 10-30 percent.

Problems with Other Studies

- Critics of prevailing wage statutes couch their analysis of wage differentials in terms of a static environment.
- Furthermore, they ignore the “**indirect**” effects of wage reduction on spending and income generated in a state, hence, ignore the effects on tax revenue collection.

Other's Flawed Methodology

Methodology used in such studies is inadequate and in many cases flawed.

- Factors that go into determining construction costs are complex.
- Project types vary tremendously in terms of square foot construction
- Second, it is important to control for regional cost differences—construction costs can be much higher on the east or west coasts than in the Midwest (for example),
- Further, as we will show, construction costs vary considerably between private projects and public projects.

Empirically Rigorous Analysis

- It is necessary to conduct a more detailed and rigorous analysis to adjust for factors such as productivity, employment effects, and other economic effects (such as effects on incomes, spending, and tax revenue).

Empirical Examination

In this study, we will examine the impact of the prevailing wage law in Missouri in two different and fundamentally important ways.

- First, using data obtained from the F.W. Dodge Company on construction costs in the Great Plains Region, we empirically examine the argument of opponents of prevailing wage laws that large construction cost savings can be realized from repeal of the prevailing wage law in Missouri.
- Secondly, using RIMS II multipliers obtained from the Bureau of Economic Analysis that allow us to empirically analyze the direct and induced impacts of repeal.

**The Impact of Prevailing Laws on
Total Construction Costs:
North Central States Region**

**Summary of Findings Based on
Descriptive Statistics**

North Central States Region

- We examine eight states that have prevailing wage laws (Ohio, Michigan, Indiana, Illinois, Wisconsin, Minnesota, Missouri, and Nebraska) and four states that have never had a prevailing wage law or have repealed their law (Iowa, North Dakota, South Dakota, and Kansas).
- All states were drawn from the North Central States Region, states that are believed to have reasonably similar conditions to those of the state of Missouri

Summary of Data, Models Used, and Detailed Empirical Findings From Regression Analysis

F.W. Dodge database facilitates comparison of construction costs on similar projects in the private and public sectors for prevailing and non-prevailing states in Great Plains Region. Using regression analysis, we test for the significance of prevailing wage legislation on construction costs.

Labor Costs

vs.

Total Construction Costs

- According to the Census of Construction, labor costs, including benefits, on all construction were 26.2% of total costs in 1987 and decreased to 21.2% by 1997.
- In an analysis of wages, productivity, and highway construction costs, labor costs per mile were 20.7% of the total costs of highway construction for the period 1980-1993.

(National Alliance for Fair Contracting, 1995).

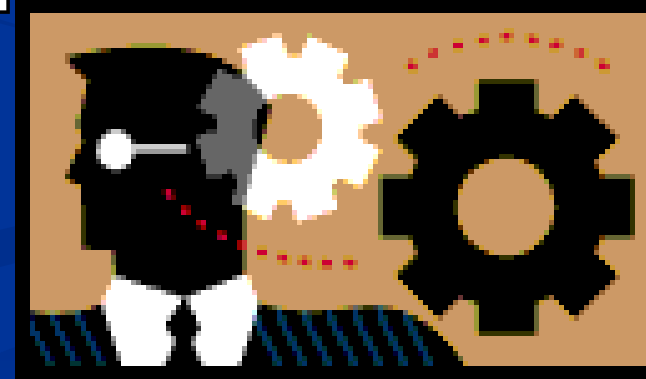
Conclusions

- Construction costs in public sector are statistically more expensive than construction costs in the private sector.
- But, there is no statistically significant difference in total construction costs between similar structures as a result of a state having a prevailing wage statute.
- Repeal and/or modification of prevailing wage laws will not result in substantial costs savings as claimed by prevailing wage law critics.

**The Economic Impact of the
Prevailing Wage Statute
on the State of Missouri**

Study Contributions

- A primary contribution of our present study is that, utilizing state and sub-state regional multipliers from the Bureau of Economic Analysis, this study presents both the **direct and induced effects (indirect)** on the citizens of Missouri as well as the **impact on state revenues in Missouri.**



Methodology

- There are a number of methodologies that have been developed for regional economic impact analysis. The three most common types are econometric models, economic base models, and input-output models.
- An input-output model is used in this study to estimate the economic impact of the prevailing wage statute and the construction sector on the State of Missouri. The three most accepted methodological approaches for using input-output analysis are the REMI, IMPLAN, and the RIMSII multipliers.

Repeal = Decreased Revenue

- Previous studies have shown that the repeal of prevailing wage laws has decreased tax revenues in other states.
- Given the decline in wages reported, construction workers and other workers in the state will buy fewer goods and services, decreasing sales taxes that are collected by the states. In addition, the reduction in wages paid to people in Missouri will result in lower taxable income; this will decrease the revenue derived by the state of Missouri from income taxes.

Our Approach

This chapter uses an input-output approach to estimate the economic impact of repeal of Missouri's prevailing wage laws.

- Direct and indirect losses to household income and to government revenues are calculated.
- Losses are estimated for the state as a whole, and for four regions, two urban and two rural.

Offsets and Multiplier Effects

- In order to adequately assess any cost savings in overall construction expenditures from repeal of a prevailing wage statute, the purported cost savings to be realized has to be offset against the loss of incomes and revenues by other residents in Missouri and by the public sector.
- The lower paid wages in the construction sector expected to follow from repeal of prevailing wage laws has a **multiplier effect**, not only impacting the construction sector, but other industries and their families as well as tax revenue bases for Missouri.

Labor Elasticity Estimate

- According to the Bureau of Labor Statistics, the average annual wage in 2002 for the construction sector in Missouri was \$33,358.^[1]
- Since wages will fall with repeal of PW, we chose a labor elasticity estimate of .2 to project the number of new jobs that would be created.
- Based on the 10 states that repealed their PW laws after 1979, we project a low and high estimate of from 1061 to 1280 jobs that would be added in Missouri following repeal.

^[1] U.S. Department of Labor. Bureau of Labor Statistics. EC202 and Consumer Price Index – All Urban Consumers. CUUR0000SAH.

Repeal Would Add Jobs

- Economic theory predicts that the reduction in wages due to repeal of PW would generate as many as 1,280 additional construction jobs (although there is no reason to believe that these new jobs would be as productive as those that preceded repeal due to the experiences of other states). This additional income would partially offset other direct and indirect losses and must be factored into the net calculation of the impact of repeal of PW.

Summary of Costs to MO Families & State

1. **Lost Income**: Repeal of the PW law would cost the residents of Missouri and their families between \$294.4 million and \$356.0 million annually in **lost income**.
2. **Lost Sales Taxes**: Repeal of the PW law would cost the State of Missouri between \$5.7 million and \$6.9 million in **lost sales tax collections** annually at the state level.

Summary of Costs to MO Families and State

3. **Lost Income Taxes**: Repeal of the PW law would cost the State of Missouri between \$17.7 million and \$21.4 million annually in **lost income tax revenue**. This does not include lost earnings taxes on incomes in other parts of the state.
4. **Total Impact**: The total economic impact of repeal of the PW law in Missouri in 2004 would be a **loss of income and revenue** between \$317.8 million and \$384.2 million annually.

Five Year Economic Loss

Five-year negative economic impact of repeal of the prevailing wage law in Missouri would be between \$1.6 billion and \$1.9 billion for the workers, families, and the public sector in Missouri.



Impacts of Prevailing Wage Laws: Upon Benefits, Training, Safety, Productivity and In-State Contractors



Compensation Preservation

For the period 1982-1992

- States that kept their PW law = no change in real average total compensation.
- States that repealed their PW law = a 16.6 percent decline in real average total compensation.

Real Average Total Benefits

- Real average total benefits per construction worker increased **32.4** percent from 1982-83 to 1991-92 in prevailing wage states; for states that repealed their prevailing wage law, real average total benefits decreased **53.5** percent over the same period.
- Real average total benefits per worker in prevailing wage states was **373.1 percent higher** than in those states that repealed their PWL.

Real Average Health Care

- Real average health care benefits **increased** 49.4 percent between 1982-83 and 1991-92 **in prevailing wage states**;
- for states that **repealed** their prevailing wage law, real average health care benefits **decreased** 38.2 percent.
- Real average health care benefits per worker in prevailing wage states was **345.0 percent higher** than in those states that repealed their PWL.

Real Average Pension Benefits

- Real average pension benefits **increased** 5.0 percent from 1982-83 to 1991-92 in **prevailing wage states**;
- for states that **repealed** their prevailing wage law, real average pension benefits **decreased** 66.6 percent over the period.
- Real average pension benefits per worker in prevailing wage states was 417.9 percent higher than in those states that repealed their PWL.

Taxpayers Cost

- The taxpayers also bear an economic cost of the uninsured and under-insured. Federal, state and local governments support care of the uninsured through public health clinics, and payments to certain care facilities that care for the poor and uninsured.
- The Commonwealth Fund reports that these intergovernmental expenditures were approximately \$30.6 billion annually.



Skills Training and Apprenticeship

- **92 percent** of national construction firms reported shortages of skilled labor and over **85 percent** said their workforce is not as skilled as it should be in today's market.
- A primary cause of skilled worker shortages is the decline in non prevailing wage states of privately funded, jointly administered apprenticeship training programs certified by the U.S. Department of Labor or state training agencies.

PWL and Apprenticeship Training

- The total number of new apprenticeships registered between 1989-2001 is 467,980 -- joint and non-joint
- For the period 1989-2001, union apprenticeship programs were 335,288, or **71.6% of all apprenticeship registrations** during this time period.

Apprenticeship Incentive Through PWL

- 1987-1990 show that apprenticeship in the four states that were non-prevailing wage states (Iowa, Kansas, South Dakota, and North Dakota) **declined 51.0%** over the two time periods.
- For the **State of Missouri**, **apprenticeship programs increased 26.90 %** during the two time periods.

Productivity Critical Component

- **Labor productivity is a critical component to the long run economic health of the United States. Given the size of the construction industry in the United States, productivity changes within the construction sector have large direct impacts on the national productivity and economic well being of the United States.**

Study Evidence Demonstrates

- The payment of higher wages attracts a more highly skilled labor force that is more productive.
- The increase in productivity can offset the higher wage rates being paid. In fact, some studies show the payment of higher wages will reduce overall costs of construction.

Example: Productivity by Wage

The results of the MESMA study showed that for 10 states where highway and bridgework is done:

Workers in high-wage states were paid wages double that of workers in low-wage states, yet they built 74.4 more miles of roadbed and 32.8 more miles of bridges for \$557 million less.

Example of Cost Per Mile

Looking to our region, the average wage rate in Missouri (a prevailing wage rate state) over this time period was **\$17.16** and the average cost per mile was \$807,021; in Kansas (a non prevailing wage state after 1987) the average wage rate was **\$13.57**, while the average cost per mile was \$1,131,243.

PWL and On the Job Safety: Injuries and Fatalities

- **Jobsite accidents have a costly impact on the construction industry in the United States.**
- **Work related injuries and illnesses, including fatalities, in the construction sector occur at a rate that is 54 percent higher than the rate for all industries, making the construction sector one of the most hazardous sectors in the United States.**

Injury and Illness Factors

- **194,000 annual injury and illnesses cases with days away from work in the construction industry.**
- **These costs of injury are borne not only by the construction workers and their families, but also by their employers and society in general.**

Cost of Non-Fatal Injuries

- **Published estimates of the total cost of nonfatal injuries in all industries in the United States range from \$131.2 billion to \$145.0 billion.**



A Superior Safety Record

In 2001, Missouri had the lowest number of injuries per worker of all reporting states in our region; Missouri also has the strongest commitment to job training and apprenticeship programs.

Missouri reported the lowest number of severe injuries (e.g. workdays lost) of all reporting states in the region.

Repeal would probably endanger Missouri's superior safety record.

MO - Lowest reported Injuries and Illnesses in Region

- For the nation as a whole, the total cases reported were 7.9 per 100 workers.
- Missouri, a prevailing wage state with a strong commitment to job training and apprenticeship programs in the region, is below the national average by 0.9 per 100 workers,
- 2 reporting non-prevailing wage states is 9.9 per 100 workers, or 2.0 per 100 workers above the national average.

Repeal and Injuries

- Phillips (1998) determined in his analysis on the repeal of the prevailing wage in the State of Kansas that injuries increased by 19 percent after repeal, and serious injuries increased by 21.5 percent after Kansas repealed its prevailing wage law.



Analysis of Firm Location – PWL and Non-PWL States

- Argument is frequently made that repealing a state's prevailing wage law will benefit not only the economy but also the construction firms of that state.
- However, an analysis of the value of construction work done in the states, by in-state as opposed to out-of-state firms, shows that out-of-state contractors perform a significantly greater amount of construction work in the non-prevailing wage states.

Study Conclusions

- The claim made by critics of prevailing wage legislation that substantial cost savings can be achieved by repeal of the legislation appears to be incorrect.
- The critics seem to reach such conclusions only because they conduct static analyses, and overstate the contribution made by labor costs to overall construction costs.

Repeal of PW = Cost to State

- The elimination of the prevailing wage in Missouri would cost the State of Missouri substantially more in lost income and lost tax revenues than it would save in reduced, if any, construction costs in the State.

