



Prevailing Wage

What are Prevailing Wages?

Prevailing wages are the average salary and benefits earned by workers in a particular area, as determined by federal, state, and local governments, typically through survey methods. Prevailing wage laws require governments to pay workers performing government construction projects the pre-determined wages regardless of what rates contractors would be willing to accept.

Davis-Bacon Act

While many state and local governments establish their own prevailing wages for state and locally funded construction projects, the Davis-Bacon Act is the main federal law that establishes prevailing wages for projects that utilize federal funding. The Davis-Bacon Act of 1931 requires “that contractors and subcontractors performing on covered contracts pay laborers and mechanics employed on the project jobsite not less than the prevailing wage rates (including fringe benefits) listed in the contract’s Davis-Bacon wage determination for corresponding classes of laborers and mechanics.”

Issues with Prevailing Wage Laws

It is often argued that prevailing wage laws are a means for the government to accurately and efficiently determine what wages should be paid for public construction projects, while ensuring local workers are favored over non-local competition. However, oftentimes prevailing wage laws lead to negative outcomes.

- **Distorting Market Signals:** Similar to minimum wage laws, pre-determined wage pricing interferes with market signals and impedes the ability of the government to receive competitive bids.
- **Inflated Prices:** Survey methods used under the Davis-Bacon Act inflate prices because they are burdensome for non-union firms to respond to, rely on flawed data, use restrictive occupational classifications, and employ small sample sizes that are too small and dominated by union responses, which do not accurately reflect true market rates.

The Unintended Impacts

- **Misrepresented Calculations Inflate Construction Costs:** A 2008 study by Sarah Glassman and Michael Head showed that the U.S. Department of Labor’s Wage and Hour Division calculations inflated labor costs by 22% on average, bringing up construction costs by 9.9% overall.
- **Local Prevailing Wage Laws Drive Up Costs:** In a 2002 report, “The Effects of the Exemption of School Construction Projects from Ohio’s Prevailing Wage Law,” Allan Lundell indicated that Ohio saved over 10.7% on school construction, or \$487 million, when removing prevailing wage requirements. A 2015 report from the Wisconsin Taxpayers Alliance found that Wisconsin prevailing wages and benefits are 45% above market rates and led to excess construction costs of \$199.7-\$299.5 million in 2014.

- **States Could Save Billions:** Jason Horwitz, former Director of Public Policy & Economic Analysis at the Anderson Economic Group, estimated that the state of Illinois could have saved about \$1.6 billion between 2002 and 2011 if it had repealed its prevailing wage law.
- **Disproportionate Benefits:** Some research suggests that prevailing wage laws provide advantages to unionized workers at the expense of non-unionized workers, of whom minorities and younger workers make up a greater portion.

State Solutions

Full Repeal: Removes the state requirement for contractors on public projects to pay a set prevailing wage. Allows for market wages on public projects to reduce costs and increase contractor participation. Federal standards, such as the Davis-Bacon Act, still apply to federally funded work.

- **Florida:** In 1979, Florida became the first state to repeal its "Little Davis-Bacon" prevailing wage law.
- **Indiana:** In 2015, House Enrolled Act No. 1019 repealed Indiana's prevailing wage law, the Common Construction Wage Act (CCWA).
- 14 U.S. states have fully repealed their prevailing wage laws, and 10 states have never had an active state-level prevailing wage law. The reforms have shown reduced administrative costs and burdens of conducting and regulating wage hearings, lower labor costs, increased competition, and more opportunities for entry-level and unionized workers.

Raise or Adjust Project Thresholds: Increase the minimum dollar amount at which prevailing wage requirements apply. By raising the threshold, fewer projects fall under the prevailing wage law requirements, limiting its scope without a full repeal.

- **Connecticut:** Prevailing wage required on state construction projects over \$1,000,000 for new construction and \$100,000 for remodeling.
- **Wyoming:** Prevailing wage required on all projects over \$100,000.

Targeted Exemptions: Exclude certain projects or workers, which changes the application of prevailing wage laws without a full repeal. Only applies prevailing wage to specific funded projects.

- **Tennessee:** \$50,000 for highway construction only. No prevailing wage on non-highway construction.
- **Ohio:** Prevailing wage required on state construction projects over \$250,000 for new construction and \$75,000 for remodeling. Certain types of construction, including school construction, are exempt.