

## A Sample of Studies on Davis-Bacon Cost Impacts

These studies provide further evidence that the federal government cannot, and should not, attempt to determine “prevailing” wages for federal construction workers. The free market should be allowed to work for public contracts as it does in private construction.

### Recent Studies on Wage Impacts and Schools:

#### National School Boards Association Study Shows Davis-Bacon Increases Costs

A National School Boards Association study in 1999 found that “it is clear that at least 38 states would have school construction costs raised significantly through Davis-Bacon applicability to this tax-credit for State and local school construction bonds.” This is because approximately 25 states have no state prevailing wage laws or specifically exempt school construction, and another 15 states have thresholds higher than the federal law, which is \$2,000.

Another NSBA study in 1995 found that more than 60% of respondents said federal or state Davis-Bacon laws were responsible for increasing the cost of a recent construction project and over half said the increase was as much as 20%.

#### Michigan’s Prevailing Wage Law Increased Construction Costs, Reduced Employment, and Disadvantaged Minority Workers

A new study on the impact of Davis-Bacon has just been released by the Mackinac Center. It examines the Michigan economy during the 30 months that the state’s prevailing wage statute was suspended and compares it to the 30 months prior to the law’s nullification. It concludes that the state’s little Davis-Bacon law increased costs by at least \$275 million annually, reduced employment in construction, and particularly disadvantaged minority employment. Attached is the Executive Summary; the study can be downloaded from [www.mackinac.org](http://www.mackinac.org).

#### Washington Research Council Determines Schools Would Save Almost 13%

The Washington Research Council issued an extensive report in November 1999 on the impact of the Davis-Bacon Act on construction costs, which concludes that schools would benefit from the repeal of prevailing wage laws. It found schools would save 12.7% on construction costs if the law were repealed (the policy brief is titled, “Repeal of Prevailing Wage” and the special report is, “More and Better Schools with Repeal of Prevailing Wage”). All documents are posted on the web: [www.researchcouncil.org](http://www.researchcouncil.org).

#### Union Wages Prevail Under Davis-Bacon Mandate

Since four out of five workers choose not to join a union, free market rates should be the “prevailing” rates under the Davis-Bacon system. However a recent study found that the federal Davis-Bacon wage system is disproportionately influenced by union rates, which makes it subject to “structural fraud” that results in a “super minimum wage rate” based on union wages. *Union wage rates are less than 19% of the population. Yet union rates have over 50% of the wage representation under Davis-Bacon. This is “a near impossible statistical occurrence” and demonstrates structural fraud* (Thieblot, 1998).

## **Government Reports:**

### Congressional Budget Office

The CBO has consistently, year after year, concluded for budgetary purposes that Davis-Bacon requirements inflate construction costs. The March 2000 General Accounting Office report "Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2001" states "CBO has noted that repealing the Davis-Bacon Act or raising the threshold for projects it covers would allow appropriators to reduce funds spent on federal construction. In addition, either action would increase the opportunities for employment of less skilled workers."

### General Accounting Office

The GAO has issued numerous reports on the negative effects of Davis-Bacon and problems in the wage system. Their most comprehensive report "The Davis-Bacon Act Should be Repealed" (April 1979), states: "The Congress should repeal the act because: -- Significant changes in economic conditions, and the economic character of the construction industry since 1931, plus the passage of other wage laws, make the act unnecessary. -- After nearly 50 years, the Department of Labor has not developed an effective program to issue and maintain current and accurate wage determinations; it may be impractical to ever do so. The act results in unnecessary construction and administrative costs of several hundred million dollars annually...and has an inflationary effect on the areas covered by inaccurate wage rates and the economy as a whole."

The Department of Labor Inspector General issued a report in March 1997 that found 2/3 of the wage surveys were inaccurate. In January 1999, a General Accounting Office report found errors in 70% of the wage forms, frequent errors are undetected, and the high proportion of erroneous data "poses a threat to the reliability" of prevailing wage determinations.

## **State Examples for School Construction:**

### Ohio – Saved 10% on School Construction

The state of Ohio recognized the negative impact of prevailing wage laws on school construction and on May 20, 1997, Governor Voinovich signed into law legislation to exempt Ohio school construction and renovation from the state's prevailing wage law. Preliminary study results indicate schools with savings averaged 10% lower costs.

### Florida saved 15% on School Construction

Florida eliminated prevailing wage coverage for school construction in 1974. The Florida State School Board Association found that in 4 years free from prevailing rates (1974-1978), taxpayers saved \$37 million, approximately 15% of total school construction costs. This led Florida to repeal their entire "little Davis-Bacon" wage law.

### Maryland, Department of Legislative Service

The state's effort to expand prevailing wage requirements for schools was estimated to increase state costs for FY 2001 by \$3.0 million to \$14.8 million, and local expenditures could increase by \$1.4 million to \$7.1 million

### Kentucky School Construction Costs Impacted

The Kentucky state legislature excluded school construction from prevailing wage requirements in 1982. Savings were estimated to be an average of 11%. However, in 1996, the state reinstated school construction coverage under its reformed law, which is projected to increase taxpayers' cost of school construction by \$35 million per year.

### School Construction Costs Lower in States Without Prevailing Wage Mandates

One comprehensive study found that eliminating school construction from the artificial constraints of prevailing wage legislation would result in considerable savings with "amounts at least in the tens of million, if not in the hundreds of millions, each year." Statistical comparisons revealed the average per-classroom cost to be 13 percent lower for the twenty states free from prevailing wage restrictions than for the 28 others included in the survey, which translated to an annual potential savings of \$239 million, or more than \$8.5 million per state (*Prevailing Wage Laws and School Construction Costs*, Thieblot, 1977).