

Ending West Virginia's Prevailing Wage Law Won't Reduce Costs

by Sean O'Leary

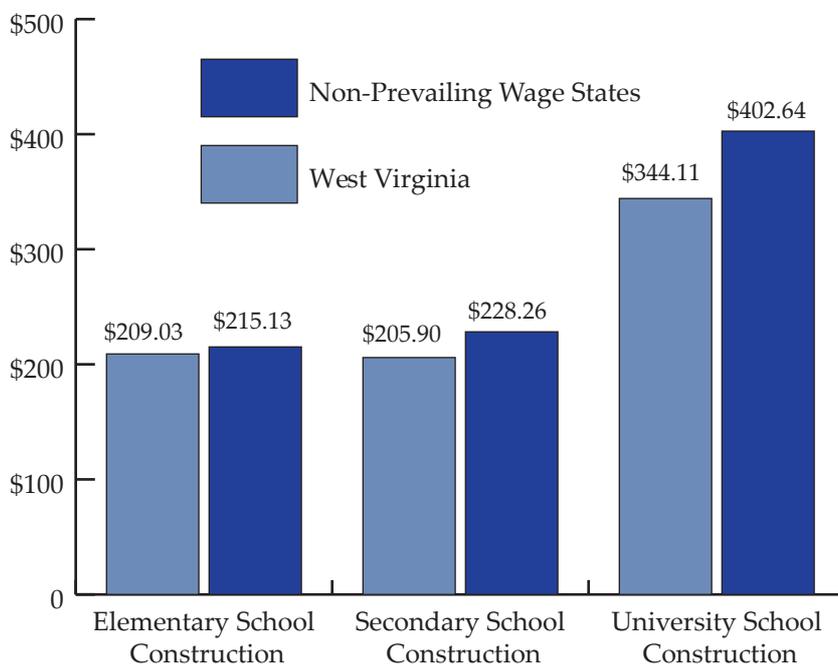
Some lawmakers are claiming West Virginia's prevailing wage overpays construction workers and inflates the costs of public construction projects, but the evidence does not support these claims. Ending the state's prevailing wage is likely to have no impact on public construction costs but could hurt the living standards of construction workers and the competitiveness of local construction firms.

Fact #1: Prevailing wage has not been shown to increase construction costs in West Virginia

No empirical study or evidence has shown that the state's prevailing wage law inflates its public construction costs. In fact, research consistently finds no statistical relationship between prevailing wage laws and public construction costs.[1]

Not only have studies confirmed that West Virginia's prevailing wage law does not increase construction costs, the state's construction costs are lower than those in neighboring Ohio and Virginia, as well as North Carolina, all states without prevailing wage laws.[2]

Average per Square Foot School Construction Costs, West Virginia and Neighboring Non-Prevailing Wage States



Note: Non-prevailing wage states include North Carolina, Ohio, and Virginia for elementary and secondary school construction, and include North Carolina and Virginia for university school construction.

Source: Michael P. Kelsay, "The Adverse Economic Impact from the Repeal of the Prevailing Wage Law in West Virginia."

Fact #2: Bureau of Labor Statistics data are unsuitable for determining prevailing wage rates.

West Virginia's prevailing wage law requires that the wages paid on state construction projects be no less than the "prevailing hourly rate of wages for work of a similar character in the locality in this state in which the construction is performed." [3] However, BLS surveys do not distinguish between different locations and types of construction projects.

BLS does not collect data separately for residential and non-residential construction. The skills and pay rates in these areas can vary significantly, with non-residential construction requiring greater skills and costs than residential construction. Since the BLS does not differentiate between these types of work, it cannot determine an accurate wage rate for public construction projects.

BLS also surveys establishments, not projects. For the building and construction industry, where the work is performed does not always correspond with the BLS definition of an establishment. For the BLS, an establishment refers primarily to the location for managerial activity, not necessarily where the construction work is being done. The wages of workers reported to the BLS from an establishment may not be reported from the localities where they were actually working, as required by state law.

Of the 32 states with prevailing wage laws, only one uses the BLS survey to determine prevailing wage rates.

Fact #3: West Virginia's Prevailing Wage Survey Is More Robust and Accurate than BLS Survey

In addition to the shortfalls of the BLS data mentioned above, a local survey better represents the wage rates of West Virginia's construction workers due to the nature of the construction industry. Unlike most jobs, work for construction workers is very seasonal, with irregular periods of employment. Construction workers usually work around 1,500 hours per year, compared to 2,080 for a typical full-time employee. [4] And when they aren't working, they aren't getting paid, as construction workers most often lack vacation and paid sick time.

While a local survey can accurately reflect construction workers' actual hourly rates by determining what they are paid while they are working, federal statistics often don't adjust for the industry's irregular nature. Instead, they assume construction workers work year round, making the estimated hourly wage rates inaccurate.

Finally, the local survey used to determine West Virginia's prevailing wage rates is more robust than the national BLS survey. The BLS survey samples only about 16 percent of establishments and is done over a three-year cycle, meaning that three-year-old data are included in determining the current year's wages. [5] In contrast, the local survey used to determine West Virginia's prevailing wage rates is completed annually, and covers over half of the non-residential construction market. [6]

Fact #4: Ending Prevailing Wage Could Weaken Our Economy

Prevailing wage laws help attract and retain workers with more skills and experience. Workers who earn the prevailing wage are more productive and valuable to their employers. As a result, companies are more willing to invest in apprenticeship programs for their workers in states with prevailing wage laws, creating a more skilled workforce. [7] And more skilled workers means fewer accidents. Workers in prevailing wage states are less likely to be injured at work, resulting in lower workers' compensation costs. [8] A recent analysis by

economist Michael Kelsay finds that repealing the state prevailing wage law would cost West Virginia families between \$51 and \$77 million annually in lost income and between \$4.5 and \$6.7 million in lost annual tax collections.[9]

Prevailing wage laws strengthen the economy, by helping ensure public construction projects are done by local workers at a fair wage. This helps grow the economy, as local workers spend their wages in their community, as well as helping grow the local tax base. Local labor and construction firms also benefit by making it easier for them to bid on public construction projects, knowing that they are competing on the quality and skill of their workers, not just who is the cheapest. Studies have also shown that prevailing wage laws increase the wages and benefits of all construction workers, not just those working on a prevailing wage project.[10]

Fact #5: Public procurement does not operate in “free market”

Government is the single largest purchaser of construction services, comprising 20 to 30 percent of all construction expenditures. Therefore, the only way for government not to influence the private construction industry would be to stop building schools, roads, bridges and other government buildings. Since no one expects the government to get out of the procurement business, the real question becomes how government procurement policies should influence the construction industry in order to create a level playing field.

Endnotes

- 1 J Nooshin Mahalia, “Prevailing Wages and Government Contracting Costs - A review of the research,” (Economic Policy Institute, Briefing Paper 215, July 8, 2008).
- 2 Michael P. Kelsay, “The Adverse Economic Impact from Repeal of the Prevailing Wage Law in West Virginia,” (Prepared for the West Virginia Affiliated Construction Trades Foundation, January 22, 2015).
- 3 WV Code §21-5A-2.
- 4 U.S. Department of Labor.
- 5 http://www.bls.gov/oes/current/methods_statement.pdf
- 6 Mark Price, “Maintaining Quality Work and Middle-Class Jobs in Construction An Analysis of The Public Policy Foundation’s Report: ‘An Economic Examination of West Virginia’s Prevailing Wage Law,’” (Keystone Research Center, March 2009).
- 7 Mark Price and Stephen Herzenberg, “The Benefits of State Prevailing Wage Laws,” (Keystone Research Center October 2011).
- 8 Hamid Azari-Rad, “Prevailing Wage Laws and Injury Rates in Construction,” in Azari-Rad et al., *The Economics of Prevailing Wage Laws*.
- 9 Michael Kelsay, “The Adverse Economic Impact from Repeal of the Prevailing Wage Law in West Virginia,” (Prepared for the Affiliation Construction Trades Foundation, January, 2015).
- 10 <http://www.auditor.leg.state.mn.us/ped/pedrep/prevailingwagessum.pdf>.