

# Prevailing Wage Policies: Preventing Workplace Abuses Before They Happen

## What are prevailing wage laws?

- For nearly 100 years, the federal Davis-Bacon Act has helped to ensure that local contractors can compete on a level playing field for federally funded projects. The law was co-sponsored by two Republican senators (James Davis - PA and Robert Bacon - NY) based on concerns about contractors from low-wage markets undercutting contractors from their respective states.
- Prevailing wage laws set the wage and benefit floor based on local survey data of the going rate for particular crafts. This ensures that work on government-financed projects does not undercut area standards. It levels the playing field for local workers and local contractors.
- Publicly funded projects generally award bids to contractors who have the lowest-cost bid to do the work by the government's standards. Without prevailing wage requirements, a simple way to cut bid costs is by cutting worker pay and benefits, creating a race-to-the-bottom which can encourage practices like wage theft and other payroll fraud.

## Worker exploitation and tax fraud are common in the construction industry; prevailing wage policies prevent it.

- Prevailing wage policies protect construction workers from wage theft and exploitation, and ensure that responsible contractors are not put out of business by unfair competition.
  - Our *Subsidizing Abuse* report found 33 publicly subsidized housing projects that have employed contractors tied to proven or alleged exploitation of workers. In total, these 33 projects have received over \$84 million in taxpayer subsidies.
  - These cases are just the tip of the iceberg. Midwest Economic Policy Institute estimates that 30,100 Minnesota construction workers are misclassified or are paid off the books, accounting for 23 percent of the workforce. These illegally employed construction workers earn 36 percent less (\$29,700 annually) in combined wages and fringe benefits [1], while Minnesota loses \$136 million in state tax revenues due to payroll fraud.
  - Prevailing wage policies increase payroll transparency reducing the risk of misclassification on a project. Certified payroll collection is a mechanism to minimize the reliance on informal employment relationships and off-the-books payments on a construction site. It encourages accurate data and sufficient employer monitoring of a jobsite, which prevents the types of crimes found in *Subsidizing Abuse*.

## Research overwhelmingly shows that prevailing wage requirements do not increase construction costs.

- 18-of-24 peer-reviewed studies conducted between 2000-2022 found that prevailing wage laws have no effect on the cost of public construction projects. [2]
- A 2018 analysis by the Midwest Economic Policy Institute of 640 contractor bids on school construction projects in Minnesota found that winning bids based on the payment of prevailing wages are no more costly than bids that do not require prevailing wages. [3]
- Recent rigorous peer-reviewed research has found, at most, slight project cost impacts from prevailing wage policies on housing projects. [4] A 2021 study in the *International Journal of Employment Relations* found modest impacts of prevailing wage on overall project cost, and that any cost impacts are likely explained by the widespread prevalence of "illegal and undesirable practices" in the construction industry. [5]
- Economic research finds that prevailing wage laws increase apprenticeship training, boost worker productivity, and reduce injury rates – helping to address the skilled labor shortage in construction. [6] This may help explain why the cost of prevailing wage construction is comparable to non-prevailing wage construction: increased reliance on highly trained workers leads to fewer costly mistakes and greater efficiencies.

**QUESTIONS? CONTACT EXECUTIVE  
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## NOTES

[1] Nathaniel Goodell and Frank Manzo IV, "The Costs of and Wage Theft Payroll Fraud in the Construction Industries of Wisconsin, Minnesota, and Illinois Impacts on Workers and Taxpayers," *Midwest Economic Policy Institute*, 2021, available here: <https://midwestepi.files.wordpress.com/2020/10/mepi-ilepi-costs-of-payroll-fraud-in-wi-mn-il-final.pdf>

[2] Manzo, Frank and Kevin Duncan. "An Examination of Minnesota's Prevailing Wage Law Effects on Costs, Training, and Economic Development." Midwest Economic Policy Institute. July 2018.

<https://midwestepi.files.wordpress.com/2018/07/mepi-csu-examination-of-minnesotas-prevailing-wage-law-final.pdf> (Accessed February 5, 2023). i.

[3] Manzo and Duncan 2018, i.

[4] See attached table of peer-reviewed studies. The 7.94% cost impact figure is the average of the five studies which found cost impacts, excluding the Palm & Niemeier results of 16.0%; averaging the results of all six studies finds an average impact of 9.28%

[5] Hinkel, Matthew, and Dale Belman. "Should prevailing wages prevail? Re-examining the effect of prevailing wage laws on affordable housing construction costs." *British Journal of Industrial Relations* 60, no. 4 (2022): 761-783.

[6] Ibid.