

# SELF-SUFFICIENT CONSTRUCTION WORKERS



## Why Prevailing Wage Laws are the Best Deal for Taxpayers

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## Executive Summary

This study explores the impact of prevailing wage laws (PWLs) on tax revenues and government assistance. The analysis has resulted in the following key findings:

### *Prevailing wage laws support the local economy.*

- Prevailing wage laws build local middle-class jobs by paying a living wage and protecting the use of in-state contractors.
- Prevailing wage laws drive economic development through increased consumer demand. Workers making a decent living spend locally, driving the need for additional employment in local businesses.
- Prevailing wage laws are the best deal for taxpayers. Prevailing wage projects are done right the first time, on time and within budget. Workers receiving the prevailing wage pay more in taxes (protecting the tax base) and are less dependent on government assistance subsidized by taxpayers.

### *Prevailing wage laws contribute to government budgets.*

- Construction workers earn an average income (from wages) of \$29,984 per year in non-PWL states and \$32,064 per year in PWL states.
- Better wages mean a stronger tax base, helping policymakers balance budgets without the need to raise taxes.
- While construction workers earn 8.0 percent more in PWL states than their counterparts in non-PWL states, they contribute 35.7 percent more in after-credit federal income taxes.
- Construction workers in PWL states account for 75.4 percent of all federal income tax revenues after credits and deductions, 71.8 percent of after-credit state income taxes, and 77.4 percent of property taxes contributed by blue-collar construction workers.

### *Taxpayers subsidize the low-wage, low-skill, low-quality system in non-PWL states.*

- Construction workers in non-PWL states account for just 24.6 percent of after-credit federal income tax revenues. By contrast, they receive disproportionately more government assistance: they get 33.0 percent

of all Earned Income Tax Credit (EITC) assistance and 31.8 percent of all food stamp benefits paid to blue-collar construction workers.

- Due to lower rates of health insurance and retirement coverage, the absence of a PWL also increases construction worker reliance on government programs during times of illness, injury, and old age. This can be, for example, emergency room care subsidized by the taxpayer.
- Construction workers in non-PWL states receive \$0.603 in non-health, non-retirement government assistance per dollar of federal income tax contributions compared to \$0.580 per dollar for PWL workers. The comparable figures are \$0.543 per dollar in Indiana and \$0.272 per dollar in Illinois.
- Higher percentages of construction workers in non-PWL states have no health insurance coverage (45.0 percent to 40.9 percent) and no pension plan at work (77.8 percent to 72.2 percent).
- Higher percentages of construction workers in non-PWL states live in public housing (2.2 percent to 1.8 percent) and receive food stamps (12.3 percent to 10.7 percent) at the expense of the taxpayer.

Prevailing wage laws are the best deal for taxpayers. A PWL keeps construction costs down by promoting a high-skilled, high-quality construction workforce that completes jobs on time, the first time. A PWL also supports in-state contractors and builds local middle-class jobs while driving economic development. Ultimately, prevailing wage laws protect worker incomes and raise tax revenues while reducing reliance on government assistance. Prevailing wage laws should be enacted or strengthened in states across America to protect the middle class and support strong budgets at no additional expense to the taxpayer.

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## Introduction

In the wake of the Great Recession, many states are still struggling to balance their budgets. Lawmakers across the country are rethinking policies to increase government revenues or cut government spending (or both). While the vast majority of policymakers agree that wage growth, job growth, and government investment boost the economy and increase the tax base, there is disagreement on how to achieve these ends. One proposed policy change in some states is to weaken or repeal prevailing wage laws. Proponents of prevailing wage laws assert that they support in-state contractors, increase worker productivity, improve infrastructure quality, and encourage local economic development. Proponents contend that these benefits thereby reduce government spending on public construction projects and bring savings for taxpayers. Conversely, opponents say that state prevailing wage laws increase labor costs, which increase public construction costs to taxpayers.

The vast majority of research tends to concur with the proponents of prevailing wage laws. However, if repealing a prevailing wage law remains in the policy discussion for another state, then contractors, construction workers, policymakers, and voters all deserve to know what effect repeal would likely have on tax revenues and government assistance. This Policy Brief, conducted by researchers at the Midwest Economic Policy Institute and Building Strong Communities, therefore investigates the impact of a prevailing wage law on the public budget.

## What is a Prevailing Wage Law?

A prevailing wage law (PWL) establishes the wage paid to construction workers on publicly financed projects. It is established based on wages paid to all construction workers within a geographic area. By aligning the wage rates paid on public construction projects with the typical income earned by workers doing similar work in the same general area, PWLs ensure that economic development is broadly shared—allowing businesses to earn a profit and workers to support a family in the community where the project is

built. In the absence of a PWL, given the low-bid model used in most states on public works projects, contractors have an incentive to game the system and cut corners, reducing income and quality of life in a community. The absence of a PWL also incentivizes big government to use its massive purchasing power to undercut the privately-established wages and benefits in a local community. Unfortunately, such incentives lead to poor project quality, resulting in higher maintenance and reconstruction costs to taxpayers over the long run.

Prevailing wage laws (also sometimes called “common construction wage laws” or “little Davis-Bacon Acts”) are one of the oldest and most effective policies in the United States to control fraud and abuse in labor markets. PWLs compel the state government to accept the wages and benefits packages in local labor markets which have been agreed upon by contractors and workers, effectively removing labor costs from the equation for contractors. Contractors subsequently must compete on the basis of productivity, quality, materials costs, technology, management practices and logistics, and profit margins.

Additionally, by ensuring a living wage, PWLs encourage skilled workers to enter the construction industry instead of other industries. This provides stability in the labor market and improves worker productivity, offsetting any increases in labor costs. In fact, construction worker payroll costs only account for 20 to 30 percent of total construction costs. This means that significantly lowering costs to taxpayers by lowering wages is mathematically impossible without illegally paying workers below the minimum wage. However, the increased productivity of skilled workers and the better-quality product (which incurs lower maintenance costs) have demonstrated that PWLs control costs for taxpayers. An overwhelming majority of research on prevailing wage laws has thus concluded that PWLs have no statistical impact on the overall cost of public construction projects (Philips et al., 1995; Prus, 1996; Wial, 1999; Bilginsoy & Philips, 2000; Philips, 2001; Azari-Rad et al., 2002; Duncan, 2011).

## Review of Previous Studies: The Benefits of Prevailing Wage Laws

This section summarizes previous findings by economic researchers on the positive effects of prevailing wage laws on jobs, working families, and the economy.

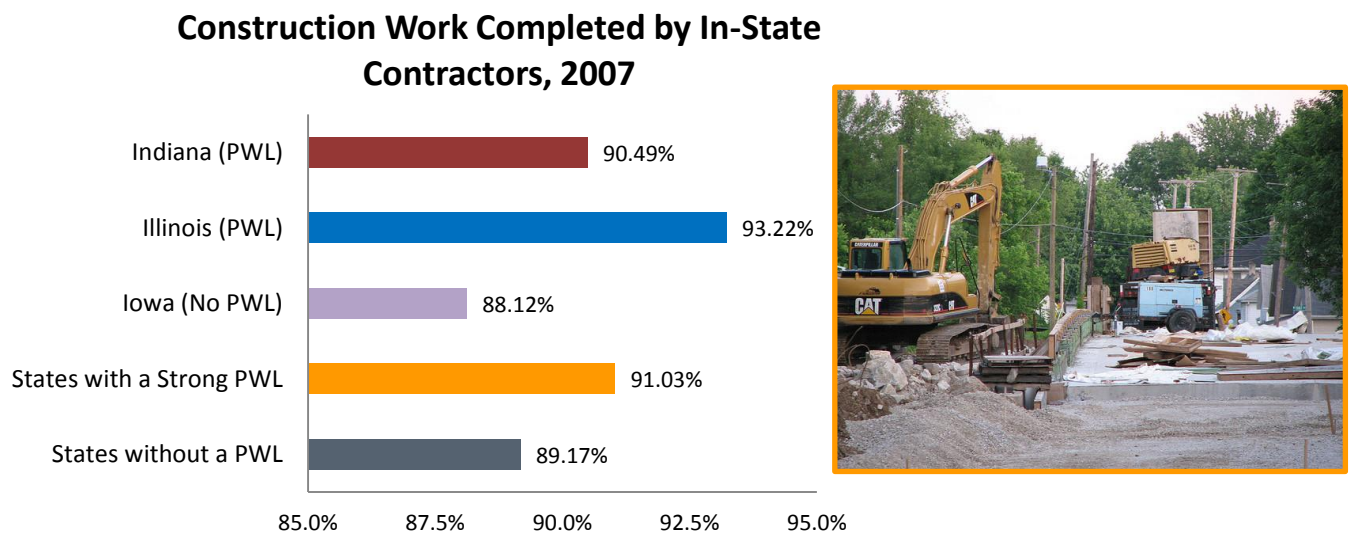
### Prevailing Wage Builds Local Middle-Class Jobs

Paying living wages that allow workers to support a family where the project is built helps to boost local employment. Indeed, studies show that a multitude of work in states with a PWL is performed by in-state contractors. A 1999 study found that out-of-state contractors are 5.15 percent less likely to win bids on public construction projects in PWL states and that less than 10 percent of all public school projects valued above \$750,000 were performed by out-of-state contractors (Prus, 1999). Researchers have also estimated that repeal of San Jose’s prevailing wage regulations would lead to 6 percent of project value leaking out of the local economy (Working Partnerships USA, 2011). Finally, the value of construction work completed by in-state contractors in 2007 was 91.0 percent for states with a strong PWL compared to just 89.2

percent for states without a PWL. In the Midwest, in-state businesses performed 90.5 percent of construction work done in Indiana and 93.2 percent of the work in Illinois– both PWL states– but just 88.1 percent of construction work in Iowa, a state without a PWL (Figure 1).

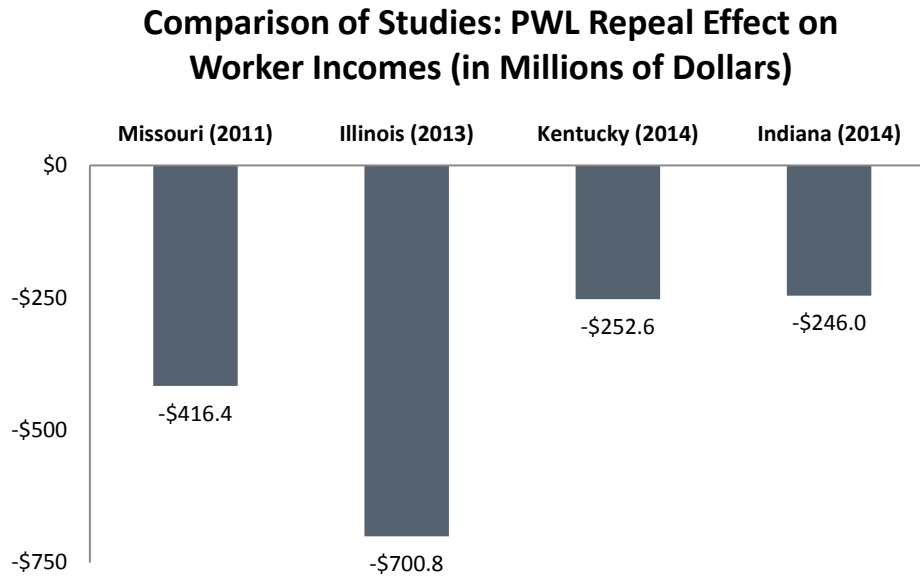
In addition to keeping jobs local, PWLs support an upwardly-mobile economy for working families. The preponderance of research finds that state prevailing wage laws increase worker incomes by between 2 and 8 percent and reduce income inequality (Philips et al., 1995; Kessler & Katz, 2001; Kelsay et al., 2004; Philips, 2014; Manzo & Bruno, 2014). PWLs also increase the rate of apprenticeship training by 40 percent (which improves worker skills), reduce workplace injuries by 15 percent, and raise health and pension benefits by up to 53 percent (Peterson, 2000). Accordingly, PWLs directly support in-state training programs and attract quality, local, experienced construction workers who deliver work on time and on budget. At a time when more and more Americans believe a middle-class lifestyle is out of reach, PWLs continue to be a proven path to keeping families and communities strong.

FIGURE 1: VALUE OF CONSTRUCTION WORK COMPLETED BY IN-STATE CONTRACTORS BY PWL, 2007



Source: 2007 Economic Census of the United States for the “Construction Industry.” The Economic Census is conducted jointly by the U.S. Census Bureau and the U.S. Department of Labor. In-state shares for “states with a strong PWL” and for “states without a PWL” are state-level averages. Photo credit: “Large machines” is © Creative Commons Flickr user Tonamel.

FIGURE 2: COMPARISON OF STUDIES REPORTING THE EFFECT OF PWL REPEAL ON WORKER INCOMES, 2011-2014



Source: Kelsay et al. (2011); Dickson Quesada et al. (2013); Philips (2014); Manzo et al. (2014).

### *Prevailing Wage Drives Economic Development*

The economy benefits substantially from well-paid, highly-skilled, and un-injured construction workers who complete jobs on time, the first time. Studies show that every dollar spent on a prevailing wage project generates at least \$1.50 in economic activity in the community (Zandi, 2010). The impact of infrastructure investment is also higher in some states than others. In Indiana, for example, the construction multiplier for new nonresidential structures and maintenance and repair of nonresidential structures is \$1.76 per dollar of expenditure (Manzo et al., 2014). This is money spent at local businesses such as shopping malls and grocery stores, restaurants and bars, and professional and management services—spurring job creation and maintaining strong communities (Manzo et al., 2014).

Recent research has demonstrated the considerable economic impacts of state PWLs (Figure 2). A 2011 study found that repeal of the prevailing wage statute in Missouri would reduce the annual incomes of all Missouri workers by \$416 million (Kelsay et al., 2011). Similarly, repeal of PWL would reduce worker incomes by \$701 million in Illinois, by up to \$252 million in Kentucky, and by \$246 million in Indiana (Dickson Quesada et al., 2013; Philips, 2014; Manzo et al., 2014). The policy increases worker wages and lifts consumer

demand in the economy. As a result, the state PWLs in Indiana and Illinois stimulate job creation and respectively contribute \$695.6 million and \$1.1 billion in economic output toward their states' GDPs (Dickson Quesada et al., 2013; Manzo et al., 2014).

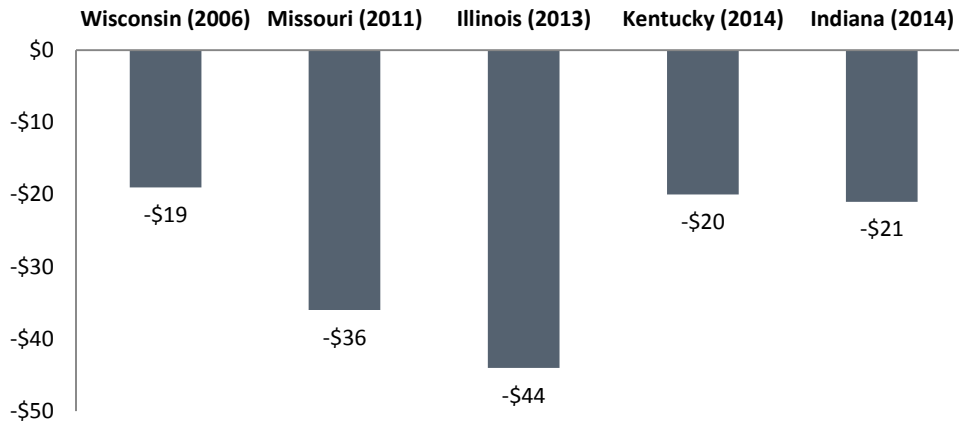
### *Prevailing Wage is the Best Deal for Taxpayers*

Prevailing wage laws are the best deal for taxpayers. In paying a living wage, prevailing wage promotes quality work that is done on time, the first time—keeping public costs down. Companies with low-wage contracts often hire low-skilled workers. This means more errors, slower productivity, and over-budget projects which end up footing taxpayers with the bill for poorer quality infrastructure that does not last. By promoting higher wages and workforce training, PWLs help to eliminate these increased costs to the taxpayer.

A stronger middle class and enhanced economic development also create improved revenue for federal, state, and local governments (Figure 3). Families supported by PWL incomes are often homeowners who contribute to the local, state, and federal tax base. In fact, PWLs are estimated to support annual state tax revenues by upwards of \$19 million in Wisconsin, \$36 million in Missouri, \$44 million in Illinois, \$20 million in Kentucky, and

FIGURE 3: COMPARISON OF STUDIES REPORTING THE EFFECT OF PWL REPEAL ON STATE TAX REVENUES, 2006-2014

### Comparison of Studies: PWL Repeal Effect on State Tax Revenues (in Millions of Dollars)



Source: Jordan et al. (2006); Kelsay et al. (2011); Dickson Quesada et al. (2013); Philips (2014); Manzo et al. (2014).

FIGURE 4: OBSERVATIONS AND EMPLOYMENT ESTIMATES OF CONSTRUCTION WORKERS, MARCH CPS, 2011-2013

March Current Population Survey, 2011-2013		
“Construction Occupation” Workers in the Construction Industry	Workers PWL States	Workers in Non-PWL States
Observations (N= )	7,454	3,287
Average Employment (Weighted N= )	3,763,089	1,670,180
Share of the Blue-Collar Construction Workforce	69.3%	30.7%

Source: Authors’ analysis of the March CPS (IPUMS-CPS), Minnesota Population Center, University of Minnesota (2010) for employed persons in “construction occupations” in the construction industry for 2011-2013. PWL States N= 7,454; Non-PWL N= 3,287. Observations are weighted to match the U.S. population.

\$21 million in Indiana (Jordan et al., 2006; Kelsay et al., 2011; Dickson Quesada et al., 2013; Philips, 2014; Manzo et al., 2014). PWLs also increase federal tax revenues by \$116 million in Illinois and by \$66 million in Indiana (Dickson Quesada et al., 2013; Manzo et al., 2014). Conversely, construction workers not paid a prevailing wage are eligible for thousands of dollars in public assistance. One 2011 study found that a typical non-union construction employee on a non-PWL project would be eligible for a subsidy of \$3,665 annually per worker affected (Working Partnerships USA, 2011). Increased reliance on cash assistance, food stamps, and health care means that taxpayers do not save by repealing prevailing wage laws, they *subsidize*.

### Data Source

All data utilized in this study are from the March Current Population Survey (CPS) for 2011, 2012, and 2013. The March CPS is a survey of 60,000

randomly-selected households across America, sponsored jointly by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics. Data are collected through personal and telephone interviews of the civilian non-institutionalized population 16 years and older, and weights are provided to match the survey sample to the overall population in each state. Estimates from the U.S. Department of Labor on the unemployment rate and on a wide range of employment and earnings factors are all derived from the CPS. State and federal taxes, both before and after credits and deductions, are imputed by the Census Bureau using an improved technical model outlined in two 2006 papers (O’Hara, 2006; HHESD, 2006).

In total, the dataset comprises 10,741 observations of employed workers in “construction occupations” in the construction industry over the three years of analysis across America, including 7,454 respondent workers from PWL states. Using sampling weights, there were 3.76 million construction workers in states with a PWL (69.3



percent) from 2011 through 2013 compared to 1.67 million construction workers in states without a PWL (30.7 percent).<sup>1</sup> All information was extracted from the Integrated Public Use Microdata Series (IPUMS-CPS) project by the Minnesota Population Center at the University of Minnesota (King et al., 2010).

## Prevailing Wage Laws Positively Impact Public Budgets

The remainder of this policy brief further investigates government revenues and expenditures on construction workers in states with a PWL compared to states without a PWL.

### *Better Pay Means More Tax Revenue and Less Burden on Taxpayers*

Construction workers earn more in states with prevailing wage laws. From 2011 through 2013, the average blue-collar construction worker in a state without a PWL earned \$29,984 per year in wage income (in constant 2013 dollars). The average real income from wages for construction workers in PWL states was \$32,064 annually, or 8.0 percent more than for non-PWL workers. The story is similar when evaluating total income from all sources— which includes income from business ownership, from interest and dividends, from renters, from alimony, from survivor's benefits, and from government assistance. The inflation-adjusted total income of construction workers in non-PWL states averaged \$37,166 per year from 2011 through 2013 but was \$40,991 annually in PWL states (10.3 percent more). Total family income is also 12.5 percent higher among construction workers in PWL states (\$64,744 per year) than for those in non-PWL states (\$57,573 per year). Cumulatively, the annual income from wages of all blue-collar construction workers was

\$120.7 billion in PWL states compared to \$49.6 billion in non-PWL states (Figure 5).

Due to the progressivity of America's tax code, construction workers with higher incomes pay their share in taxes (Figure 6). Workers with higher incomes also own homes and spend more money in the economy, which translates into even greater contributions to the tax base through property and sales taxes. Given that the typical construction worker earns 8.0 percent more in income from wages in a PWL state, one would expect workers in non-PWL states to contribute less toward public budgets. Indeed, as Figure 6 reveals, that is precisely the case. Construction workers in states without PWLs faced an average federal income tax liability of \$2,127 per worker after credits and deductions from 2011 through 2013. By contrast, the average construction worker in a state with a PWL contributed \$2,887 in after-credit federal income taxes, or 35.7 percent more. After-credit state income tax liabilities for construction workers were \$816 on average in non-PWL states and \$925 on average in PWL states. In addition, the average construction worker in a non-PWL state paid \$1,291 in property taxes compared to \$1,963 for construction workers in PWL states (52.1 percent more). The larger property tax rates indicate either that homeownership is more prevalent in PWL states or that middle-class construction workers buy larger properties in PWL states, or both.

The findings are starker when pitting states without a prevailing wage law against data from Illinois and Indiana, two Midwestern states which have "strong" PWLs (Theiblot, 1995; Dickson Quesada et al., 2013). Compared to the \$29,698 average income from wages of construction workers in non-PWL states, blue-collar construction workers earned \$45,488 on average in Illinois and \$40,128 on average in Indiana. They also have greater total incomes and family incomes than workers in non-PWL states and workers in all PWL states.

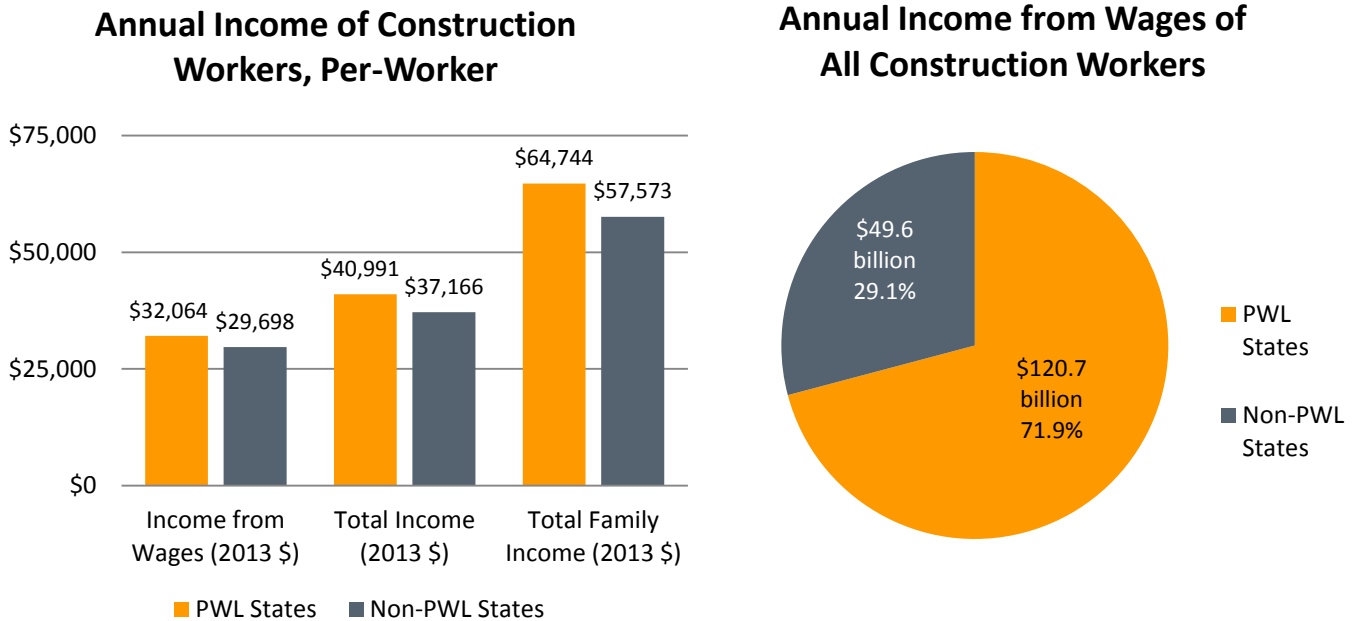
Higher earnings in Illinois and Indiana resulted in significantly larger tax contributions from blue-collar construction workers, helping keep local and state economies strong. Construction workers paid \$6,120 in after-credit federal income taxes in Illinois and \$3,533 in Indiana compared to the

<sup>1</sup> Note that "construction occupations" include typical blue-collar construction jobs that are affected by PWLs such as boilermakers, carpenters, pipefitters, operating engineers, highway maintenance workers, laborers, electricians, plumbers, and related occupations. These workers are analyzed instead of the entire construction industry because the industry comprises occupations such as lawyers, architects, contractor CEOs, and office assistants which are not directly impacted by PWLs.

\$2,127 non-PWL average per worker. Furthermore, construction workers paid \$2,000 on average in after-credit state income taxes and \$2,921 in property taxes in Illinois. Their high-wage counterparts in Indiana paid \$1,554 in state taxes

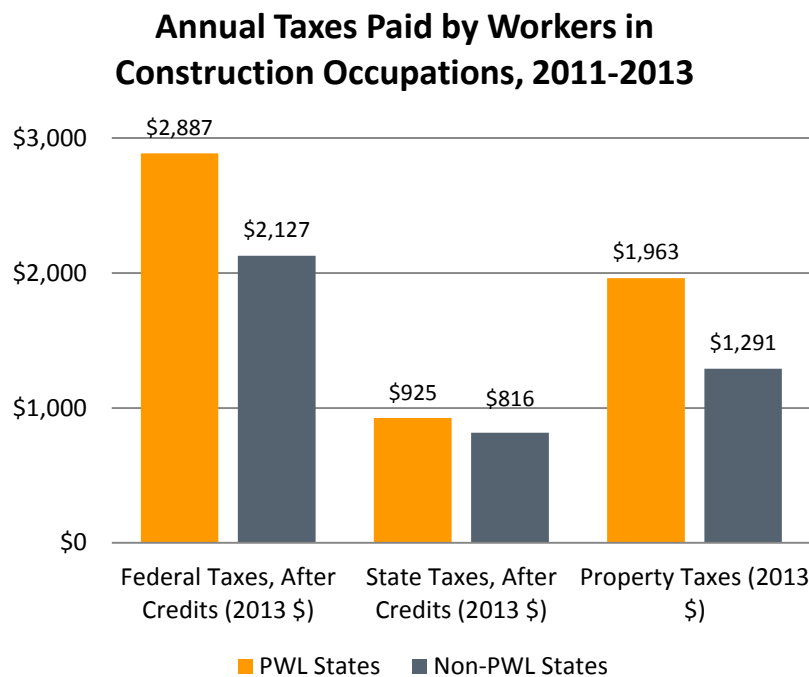
and \$2,103 in property taxes. In comparison, the respective contributions of workers in non-PWL states were just \$816 and \$1,291 on average (Figure 7).

FIGURE 5: EARNINGS INDICATORS OF CONSTRUCTION WORKERS, PWL STATES VS. NON-PWL STATES, 2011-2013



Source: Authors' analysis of the March CPS (IPUMS-CPS), Minnesota Population Center, University of Minnesota (2010) for employed persons in "construction occupations" in the construction industry for 2011-2013. PWL States N= 7,454; Non-PWL N= 3,287. Observations are weighted to match the U.S. population.

FIGURE 6: TAX CONTRIBUTIONS OF CONSTRUCTION WORKERS, PWL STATES VS. NON-PWL STATES, 2011-2013



Source: Authors' analysis of the March CPS (IPUMS-CPS), Minnesota Population Center, University of Minnesota (2010) for employed persons in "construction occupations" in the construction industry for 2011-2013. PWL States N= 7,454; Non-PWL N= 3,287. Observations are weighted to match the U.S. population.

FIGURE 7: EARNINGS INDICATORS, HOURS WORKED, AND TAXES PAID BY CONSTRUCTION WORKERS, 2011-2013

Variable of Interest	PWL States	Non-PWL States	Illinois	Indiana
Income from Wages (2013 \$)	\$32,064	\$29,698	\$45,488	\$40,128
Total Income (2013 \$)	\$40,991	\$37,166	\$53,019	\$47,696
Total Family Income (2013 \$)	\$64,744	\$57,573	\$79,311	\$66,059
Federal Taxes, After Credits (2013 \$)	\$2,887	\$2,127	\$6,120	\$3,533
State Taxes, After Credits (2013 \$)	\$925	\$816	\$2,000	\$1,554
Property Taxes (2013 \$)	\$1,963	\$1,291	\$2,921	\$2,103

Source: Authors' analysis of the March CPS (IPUMS-CPS), Minnesota Population Center, University of Minnesota (2010) for employed persons in "construction occupations" in the construction industry for 2011-2013. PWL States N= 7,454; Non-PWL N= 3,287; Illinois N= 254; Indiana N= 149. Observations are weighted to match the U.S. population.

Clearly, construction workers in PWL states provide considerably more tax revenue to the public budget than construction workers in states without prevailing wages (Figure 7). This means the tax burden is spread across more residents and reduces the need for policymakers to increase taxes to make budget ends meet.

#### *Taxpayers Subsidize the Low-Wage, Low-Skill, Low-Quality System in Non-PWL States*

In addition to construction workers contributing fewer tax dollars in states without a PWL, a greater share of the workforce pays no federal income taxes in non-PWL states. Fully 47.2 percent of construction workers in states without a PWL paid no federal income taxes from 2011 through 2013. Instead, these low-income employees received an average tax credit of \$1,255 from the federal government. By contrast, 46.8 percent of the PWL construction workforce paid no federal income taxes but were awarded a smaller \$1,137 in federal credits. Once again, more construction workers in Illinois and Indiana had positive impacts on government revenues: Just 43.6 percent of Illinois construction workers paid no federal income taxes and 45.8 percent of Indiana construction workers paid no federal income taxes. The average tax credit amount received by construction workers in each state was \$1,214 in Illinois and \$1,081 in Indiana, both lower than their counterparts in non-PWL states.

When workers pay less in tax revenues due to low wages, taxpayers are subsidizing the low-wage, low-skill, low-quality system in states without a prevailing wage law (Figure 9). Compared to their counterparts in PWL states, higher percentages of construction workers in states without a PWL live

in public housing (2.2 percent to 1.8 percent) and receive food stamps (12.3 percent to 10.7 percent). However, due to strong PWL laws, the rate of dependence on these public services is even smaller in Illinois and Indiana (Figure 9). Moreover, from 2011 through 2013, 45.0 percent of construction workers in non-PWL states had no health insurance coverage and 77.8 percent had no pension plan at work, compared to respective figures of 40.9 percent and 72.2 percent in PWL states. In Illinois and Indiana, even fewer blue-collar construction workers have no health coverage and no pension coverage: Less than three-tenths of the workforce has no health insurance (25.1 percent in Illinois and 29.4 percent in Indiana) and about six-in-ten workers have no pension plan at work (62.8 percent in Illinois and 54.8 percent in Indiana). Workers in states without a prevailing wage law therefore rely more heavily on government programs for security when they suffer an illness or injury and when they exit the labor force into retirement. Government programs such as public housing, food stamps, and emergency room care are all paid for by the taxpayer. Reducing labor costs doesn't save taxpayers money, it increases the rate at which they subsidize workers reliant on government services.

Finally, the unionization rate of workers in construction occupations is lower in non-PWL states (8.5 percent) than in PWL states (22.3 percent) but especially lower than in Illinois (58.9 percent). Thus, in non-PWL states, workers who have fallen into misfortune cannot count on the solidarity or representation of fellow union members to help out but instead must instead rely on the goodwill of the government (Figure 9).

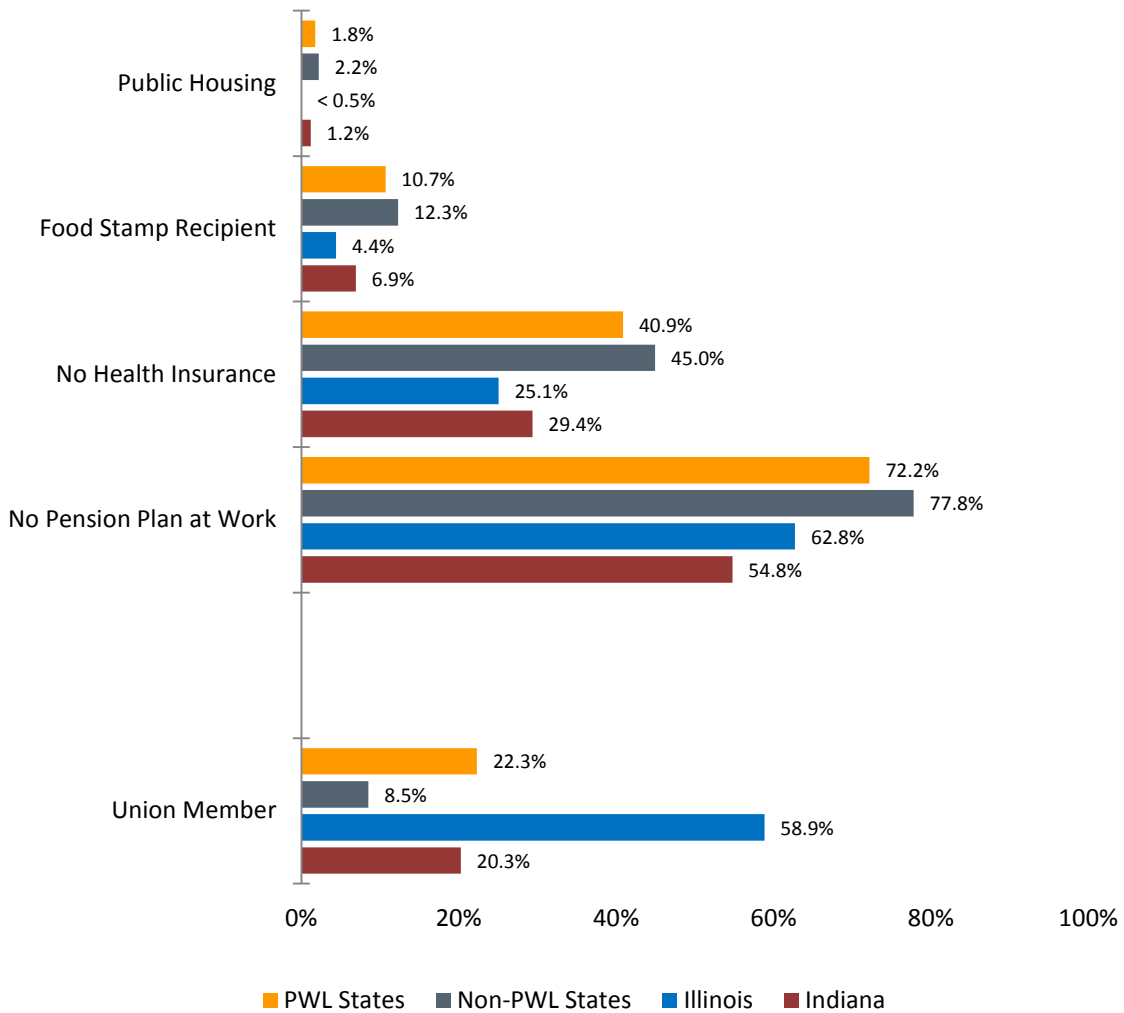
FIGURE 8: CONSTRUCTION WORKERS WITH NO FEDERAL TAX LIABILITY AND AVERAGE TAX CREDIT, 2011-2013

Variable of Interest	PWL States	Non-PWL States	Illinois	Indiana
Share of Workforce Paying No Federal Income Taxes	46.81%	47.24%	43.55%	45.80%
Average Tax Credit to Low-Income Workers	-\$1,137	-\$1,255	-\$1,214	-\$1,081

Source: Authors' analysis of the March CPS (IPUMS-CPS), Minnesota Population Center, University of Minnesota (2010) for employed persons in "construction occupations" in the construction industry for 2011-2013. PWL States N= 7,454; Non-PWL N= 3,287; Illinois N= 254; Indiana N= 149. Observations are weighted to match the U.S. population.

FIGURE 9: GOVERNMENT SPENDING ON CONSTRUCTION WORKERS, 2011-2013

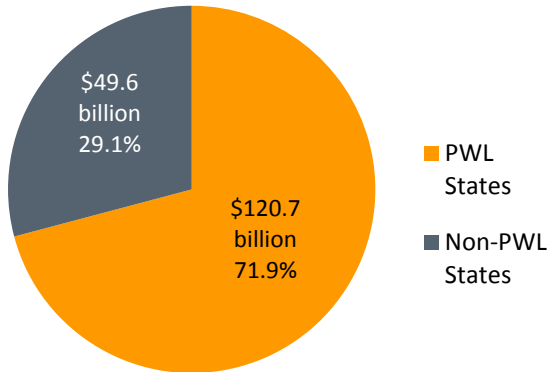
**Government Assistance to Construction Workers: PWL States vs. Non-PWL States vs. Illinois vs. Indiana**



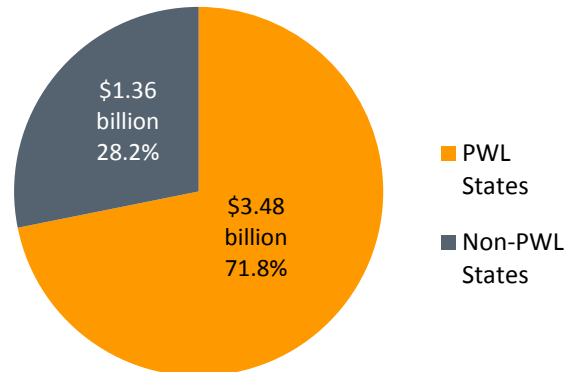
Source: Authors' analysis of the March CPS (IPUMS-CPS), Minnesota Population Center, University of Minnesota (2010) for employed persons in "construction occupations" in the construction industry for 2011-2013. PWL States N= 7,454; Non-PWL N= 3,287; Illinois N= 254; Indiana N= 149. Observations are weighted to match the U.S. population.

FIGURE 10: WORKER INCOME, TAXES, AND GOVERNMENT ASSISTANCE, PWL STATES VS. NON-PWL STATES, 2011-2013

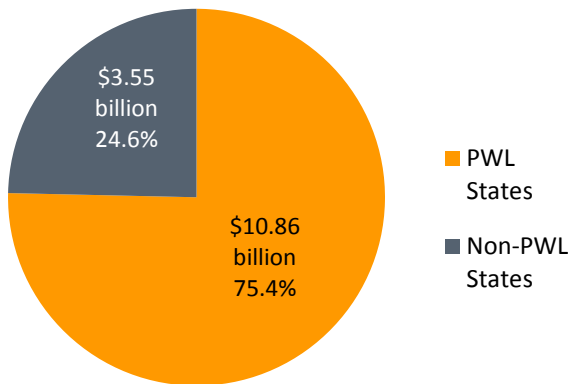
**Annual Income from Wages of All Construction Workers**



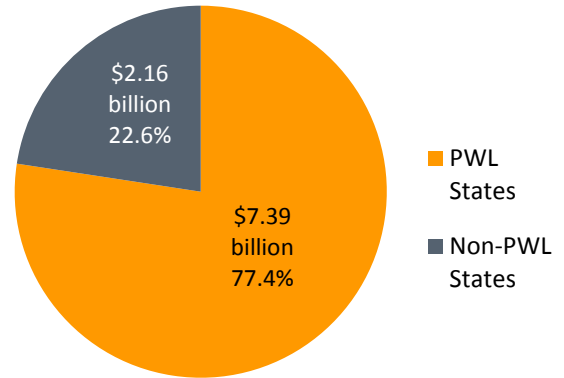
**After-Credit State Income Taxes by Construction Workers**



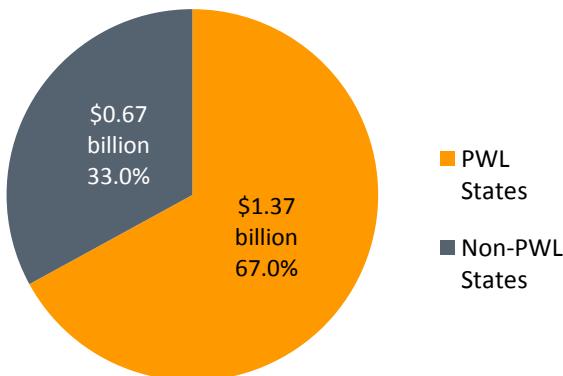
**After-Credit Federal Income Taxes by Construction Workers**



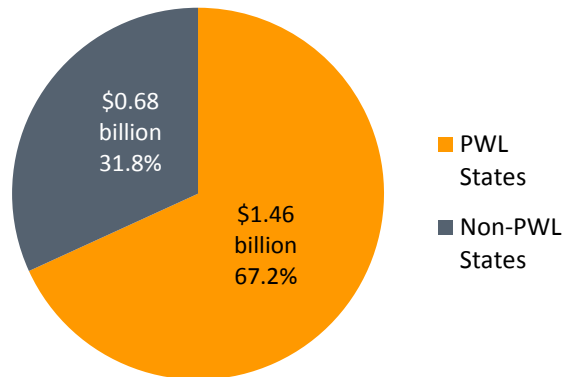
**Property Taxes Paid by Construction Workers**



**EITC Relief Received by Construction Workers**

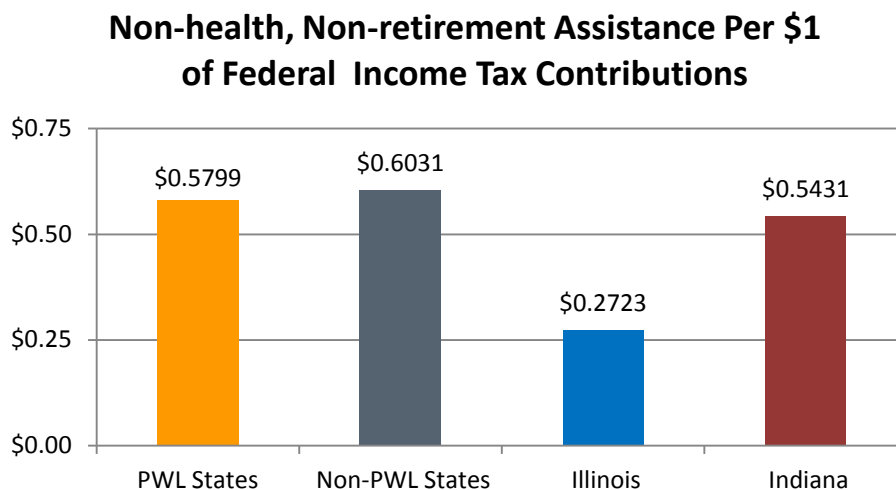


**Food Stamp Value Received by Construction Workers**



Source: Authors' analysis of the March CPS (IPUMS-CPS), Minnesota Population Center, University of Minnesota (2010) for employed persons in "construction occupations" in the construction industry for 2011-2013. PWL States N= 7,454; Non-PWL N= 3,287. Observations are weighted to match the U.S. population. Note that the "Non-PWL States" share is larger in the government assistance pie charts than it is in the government contributions charts.

FIGURE 11: NON-HEALTH, NON-RETIREMENT GOVERNMENT ASSISTANCE PER \$1 OF TAX CONTRIBUTIONS, 2011-2013



Source: Authors' analysis of the March CPS (IPUMS-CPS), Minnesota Population Center, University of Minnesota (2010) for employed persons in "construction occupations" in the construction industry for 2011-2013. PWL States N= 7,454; Non-PWL N= 3,287; Illinois N= 254; Indiana N= 149. Observations are weighted to match the U.S. population.

Figure 10 summarizes how repeal of a state's PWL would have adverse impacts on the public budget by comparing the total income from wages to the taxes paid and benefits received by construction workers in PWL states and non-PWL states. From 2011 through 2013, construction workers in non-PWL states accounted for 29.1 percent of all labor income earned by construction workers across the country. These non-PWL workers, however, contributed just 24.6 percent of all federal taxes, 28.2 percent of all state taxes, and 22.6 percent of property taxes paid by construction workers in America, all lower than their labor income share. By contrast, construction workers in states without a PWL received 33.0 percent of all Earned Income Tax Credit (EITC) assistance and 31.8 percent of the food stamp benefits paid to construction workers, both greater than their labor income share (Figure 10).

All in all, blue-collar construction workers in states without a prevailing wage law receive disproportionately more money in public assistance while workers in states with a prevailing wage law contribute disproportionately more money in tax revenues. Due to lower rates of employer-provided health insurance and retirement coverage, the absence of a PWL also increases construction worker reliance on government programs in times of illness, injury, and old age.

However, even if health and retirement benefits are excluded, it is apparent that workers in states without a prevailing wage law benefit disproportionately from government assistance.<sup>2</sup> The average blue-collar construction worker in state without a PWL receives \$0.603 in non-health, non-retirement assistance per dollar of federal income tax contributions compared to a lower \$0.580 received per dollar contributed for the average worker in a PWL state. Non-health, non-retirement government assistance to construction workers is also \$0.543 per dollar of federal income tax contributions in Indiana and a mere \$0.272 per dollar for construction workers in Illinois. Once again, reduced tax revenues and disproportionate subsidies to construction workers in non-PWL states mean that taxpayers are bankrolling the low-wage, low-skill, low-quality system for public construction projects in states without a prevailing wage law (Figure 11).

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**Blue-collar construction workers in states without a PWL receive disproportionately more money in public assistance while workers in PWL states contribute disproportionately more money in tax revenues.**

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<sup>2</sup> The March CPS provides information on at least eight categories of non-health, non-retirement benefits. These include: Tax relief through the Earned Income Tax Credit (EITC), welfare benefits, unemployment insurance, workers compensation, educational assistance, veteran's income, disability income, and Supplemental Nutrition Assistance Program (SNAP or "food stamp") income.

## Conclusion and Policy Implications

Prevailing wage laws are the best deal for taxpayers. First, a PWL keeps construction costs down by promoting a high-skilled, high-quality construction workforce that completes jobs on time, the first time. Prevailing wages also support in-state contractors and build local middle-class jobs which pay living wages for working families. Through increased consumer demand and the protection of local jobs, PWLs drive economic development.

Together, these positive impacts of state PWLs increase the local tax base and reduce worker reliance on government assistance. Although blue-collar construction workers in PWL states only earn 8.0 percent more on average in annual wage income than their non-PWL state counterparts, they contribute 35.7 percent more in after-credit federal income taxes. Conversely, a greater share of construction workers in non-PWL states pays no federal income taxes. Construction workers in states without a PWL are also more likely to live in public housing (2.2 percent to 1.8 percent), to receive food stamps (12.3 percent to 10.7 percent), to have no health insurance (45.0 percent to 40.9 percent), and to have no pension plan at work (77.8 percent to 72.2 percent). The absence of a PWL increases public expenditures on low-income government assistance programs paid for by taxpayers.

Taxpayers are subsidizing the low-wage, low-skill, low-quality system employing construction workers in states without a PWL. While construction workers in non-PWL states accounted for 29.1 percent of labor income earned by construction workers across the country, they contributed just 24.6 percent of all federal taxes. By contrast, they received 33.0 percent of Earned Income Tax Credit (EITC) assistance and 31.8 percent of food stamp benefits paid to construction workers. In sum, the average blue-collar construction worker in states without a PWL receives \$0.603 in non-health, non-retirement government assistance per dollar of federal income taxes contributed. This compares to \$0.580 per dollar for the average worker in a PWL state, including \$0.543 received per dollar contributed in

Indiana and just \$0.272 received per dollar contributed in Illinois.

To promote a productive construction workforce and high-quality infrastructure, prevailing wage laws should be enacted or strengthened in states across America. To promote wage growth and economic development, prevailing wage laws should be enacted or strengthened in states across America. To promote worker self-sufficiency and middle-class jobs, prevailing wage laws should be enacted or strengthened in states across America. To promote fiscal responsibility and increased tax revenues, prevailing wage laws should be enacted or strengthened in states across America.

Ultimately, the positive benefits of prevailing wage legislation are convincing: Prevailing wage laws increase worker incomes and raise tax revenues while reducing reliance on government assistance. Prevailing wage laws are the best deal for taxpayers.

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