



Viewpoint

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Prevailing Wage does not Have to be Union Wage Who determines the average?

Dr. John Stapleford and Edward J. Capodanno

Last year the Delaware General Assembly, in an attempt to close an historically large budget deficit, opted to raise revenue through the implementation of tax increases to the tune of over \$200 million. The majority of the increases came in the form of Personal Income and Corporate taxes. The effects of those actions have been dramatic. DEFAC has since lowered revenue expectations, owners of existing businesses have stopped expanding and reinvesting, and many who were contemplating starting a new business have delayed or changed their plans. Economically, the decision to tax has been detrimental.

Now, consider all of that in light of the fact that the cost to taxpayers for maintaining the prevailing wage law in Delaware for government construction contracts is well over half of that \$200 million which was raised in the form of stifling tax increases, and it becomes clear that our economy does not have to be hurting nearly to the extent that it currently does. If policymakers were to revisit the prevailing wage law, and amend it to reflect a more scientific and realistic wage average, it would have an incredibly large effect on the budget. In fact, it would allow for the reversal of a portion of those debilitating tax increases and put that money where it could best help the economy, back into the hands of the entrepreneur.

This article will shed some light on how counterproductive the current structure of prevailing wage is on our state's economy.

Shaun Fink
Executive Vice President, CRI

The Time is Right for Change by Edward J. Capodanno

Delaware has a tradition of demonstrating a unique ability to position itself at the cutting edge of innovative legislative approaches to stimulate economic growth and development to strengthen the state's financial position. On the leading edge, Delaware passed a constitutional amendment limiting state spending to 98 percent of its revenue and requiring a super-majority vote in both houses of the legislature for any tax increase. Delaware was in the forefront in establishing a Rainy Day Fund for emergency expenditures, and in setting up the Delaware Economic & Financial Advisory Council (DEFAC) – public/private partnership to oversee the state's financial health.

Unfortunately, however, in the area of financing state construction projects, Delaware lags behind with an antiquated law. Delaware is one of several states that still holds to the concept of "prevailing wage" to mandate wages paid to construction workers on construction projects. This law deprives especially our school system of much needed funds for programs and supplies due to extra, unnecessary spending for maintenance and construction projects.

A few years ago New Castle County hired R.S. Means, nationally renowned for its statistical gathering of construction wages, to conduct an independent, unbiased study assessing the economic impact of adopting prevailing wage laws on their construction projects. The study

revealed that construction costs would increase by 14% with the addition of prevailing wage rates. This study mirrors findings from Ohio, Kentucky, Pennsylvania, Florida and Michigan.

The time is right for straightening out a system that's costing Delaware taxpayers millions of dollars. A system that more accurately reflects the wages being paid to the construction workers in the First State will give Delaware more construction dollars to use and more jobs for our industry. The question is whether there is the political will to do it.

Not Nearly Prevailing
by Dr. John Stapleford

Delaware's current prevailing wage law was adopted in 1978. The prevailing wage law states that the specifications for every contract or aggregate of contracts relating to a public works project in excess of \$100,000 for new construction (including painting and decorating) or \$15,000 for alteration, repair, renovation, rehabilitation, demolition or reconstruction (including painting and decorating of building or works) to which the State or any government subdivision is a party and for which the State appropriated any part of the funds, the minimum wages to be paid various classes of laborers and mechanics shall be based upon the prevailing wages by county as determined by the Delaware Department of Labor, Division of Industrial Affairs.

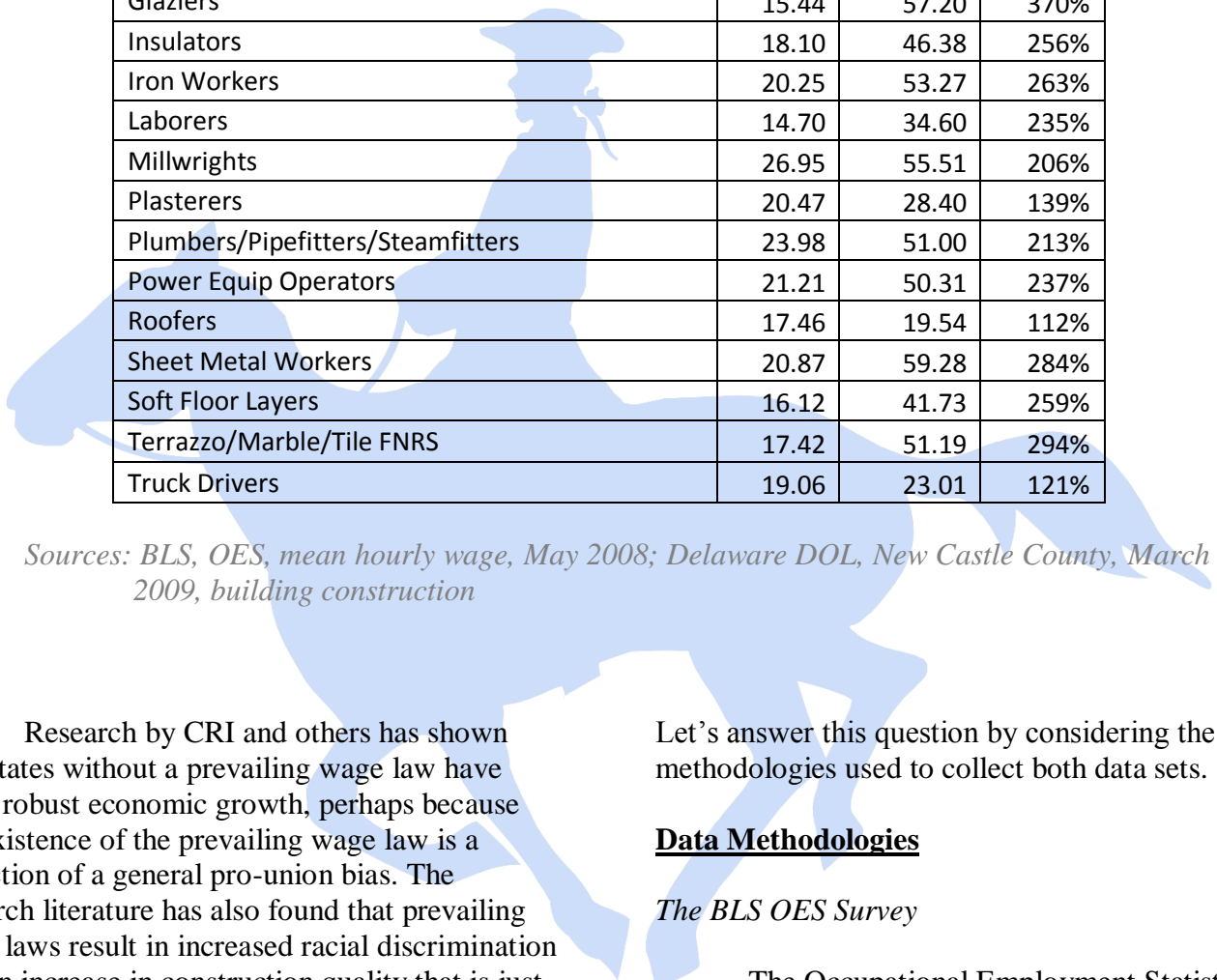
As shown in the table below, the difference between the hourly wage as determined under Delaware's prevailing wage law for building construction in New Castle County and the prevailing mean hour for Delaware as determined by the Occupational Employment Statistics survey of the U.S. Bureau of Labor Statistics ranges from 7% (cement masons) to 270% (glaziers) greater. Using a simple average of the differences among the occupations, the prevailing wage rate exceeds the BLS rate by 111%.

Where differences in the occupational classification existed between the prevailing wage law and the BLS, the prevailing wage rates were averaged or the BLS classification paying the higher mean hourly wage was used. A t-test shows that the means of the two wage distributions are significantly different at a 99% confidence level.

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Occupation	Hourly mean wage, BLS	Prevailing wage NCC, DDOL	PW/BLS
Brickmasons and Blockmasons	23.96	41.98	175%
Carpenters	21.35	45.91	215%
Cement Masons and Concrete Finishers	20.07	21.50	107%
Electric Line Workers	27.59	43.95	159%
Electricians	23.66	54.05	228%
Glaziers	15.44	57.20	370%
Insulators	18.10	46.38	256%
Iron Workers	20.25	53.27	263%
Laborers	14.70	34.60	235%
Millwrights	26.95	55.51	206%
Plasterers	20.47	28.40	139%
Plumbers/Pipefitters/Steamfitters	23.98	51.00	213%
Power Equip Operators	21.21	50.31	237%
Roofers	17.46	19.54	112%
Sheet Metal Workers	20.87	59.28	284%
Soft Floor Layers	16.12	41.73	259%
Terrazzo/Marble/Tile FNRS	17.42	51.19	294%
Truck Drivers	19.06	23.01	121%

Sources: BLS, OES, mean hourly wage, May 2008; Delaware DOL, New Castle County, March 2009, building construction

Research by CRI and others has shown that states without a prevailing wage law have more robust economic growth, perhaps because the existence of the prevailing wage law is a reflection of a general pro-union bias. The research literature has also found that prevailing wage laws result in increased racial discrimination and an increase in construction quality that is just in keeping with the increase in construction costs.

Regardless, it is obvious from the table that Delaware state and local governments are paying well above market for capital projects. If the concern behind the prevailing wage regulation is that competitive bidding may drive construction wages below market, couldn't the BLS data for Delaware simply be substituted for the DBA data?

Let's answer this question by considering the methodologies used to collect both data sets.

Data Methodologies

The BLS OES Survey

The Occupational Employment Statistics (OES) survey is a mail survey measuring occupational employment and wage rates for wage and salary workers in nonfarm establishments in the 50 States and the District of Columbia. Guam, Puerto Rico, and the Virgin Islands are also surveyed, but their data are not included in national estimates. About 6.8 million in-scope establishments are stratified within their respective states by substate area and industry. Substate areas include all officially defined metropolitan areas

and one or more nonmetropolitan areas. The North American Industry Classification System (NAICS) is used to stratify establishments by industry.

Probability sample panels of about 200,000 establishments are selected semiannually. Most responses are obtained through mail, telephone contact, and e-mail or other electronic means. Respondents report their number of employees by occupation across 12 wage bands. The Standard Occupational Classification (SOC) system is used to define occupations. Estimates of occupational employment and occupational wage rates are based on a rolling 6-panel (or 3-year) cycle. The final in-scope post-collection sample size when six panels are combined is approximately 1.1 million establishments. Total 6-panel unweighted employment covers approximately 81 million of the total employment of 136 million. Sampling errors are calculated for all wage estimates.

Employment refers to the number of workers who can be classified as full- or part-time employees, including workers on paid vacations or other types of paid leave; salaried officers, executives, and staff members of incorporated firms; employees temporarily assigned to other units; and non-contract employees for whom the reporting unit is their permanent duty station regardless of whether that unit prepares their paychecks. The OES survey includes all full- and part-time wage and salary workers in nonfarm industries. Self-employed workers, owners and partners in unincorporated firms, household workers, and unpaid family workers are excluded.

The Delaware DOL Prevailing Wage Survey

The Delaware Department of Labor conducts an annual survey for obtaining and compiling wage rate information consisting of the voluntary submission of wage data by contractors, contractors' associations, labor organizations, public officials and other interested parties, reflecting wage rates paid to laborers and mechanics on various types of construction in the area. The data is stratified by county.

Each January, the survey is mailed to all construction employers listed in the State's Unemployment Insurance system as having active employees during the previous calendar year. The Department also notifies the Delaware Contractor's Association, the Building Trades Council of Delaware, the Associated Builders and Contractors, the Delaware State AFL-CIO, the Secretary of the Department of Administrative Services, the Secretary of the Department of Transportation and the Roofing Contractors Association that the annual survey is being conducted. The notification contain the list of employers to whom survey forms were mailed and invites these organizations to submit the names and addresses of any employers not on the list.

At the conclusion of the survey period, the Department reviewss the survey ledger to determine the adequacy of data in each classification in each type of construction in each county. Data will be considered adequate if the worker classification contains the wages of ten or more employees. The Department will enter usable data (from the summary ledgers) in the computer. If a majority (i.e., more than 50%) of the workers reported in a particular category are paid at the same rate, that rate shall be the prevailing wage rate for the classification.

Conclusion

Despite good intentions, the Delaware Department of Labor's prevailing wage law is unscientific and upward biased. For a number of reasons the average wages obtained are weighted toward union contractors. Union contractors are far more likely to be in the unemployment insurance system, to have the systematic records required for completing the prevailing wage survey and to file electronically than the majority of Delaware independent contractors. Almost 90% of Delaware construction establishments have less than 20 employees and 54% have less than 5 employees. Many of these employees are hired as independent contractors.

During 2007 over one-eighth of Delaware construction was under government contracts. Conservatively, paying the prevailing wage rather than the market wage for construction labor on government contracts cost taxpayers \$175 million in that year. These higher wages more than likely also had an inflationary effect on construction wages for non-governmental work.

The simple solution would be to maintain the prevailing wage legislation but use the BLS hourly wage data for Delaware as the contractual minimum. This would increase the statistical quality of the wage data with no reduction in timeliness and eliminate need for the Delaware Department of Labor to conduct a separate wage survey. In addition, the Legislature should exempt government capital projects of less than \$150,000 from the prevailing wage regulations and consider exempting any government educational capital projects from the regulations.

Edward J. Capodanno has served as President of Associated Builders and Contractors, Delaware Chapter since 1993. It is a non-profit trade association that represents commercial and industrial merit shop contractors in Delaware. Before coming to ABC Delaware, he was the Vice President of Marketing and Rehabilitation for Goodwill Industries of Delaware from 1988-1993. Ed has also served on a number of governmental task forces, including the Governor's Workers' Compensation Core Group in 2006, the Governor's Procurement Council in 2001-2008, the Governor's Prevailing Wage task force in 2004-2008, the Department of Education School Construction Committee in 2007. Ed is a Caesar Rodney Fellow at the Center for Labor and Industry.

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