

**Testimony of Frank Manzo IV  
Policy Director of the Illinois Economic Policy Institute  
Before the Labor & Commerce Committee  
Illinois House of Representatives  
Illinois General Assembly**

**At a Hearing Titled “Impacts of Repealing the Prevailing Wage”**

**February 27, 2018**

## **Introduction**

Good afternoon, Mr. Chairman and Members of the Committee. My name is Frank Manzo IV. I am the Policy Director of the Illinois Economic Policy Institute and the Midwest Economic Policy Institute, a nonprofit research organization that provides candid and dynamic analyses on major subjects affecting the economies of Illinois and the Midwest—specializing in the construction industry. ILEPI focuses on “high-road economic development” policies that promote quality jobs, productive investment, and economic growth.

My testimony today addresses two key points. First, I address the academic economic research on the effect of repealing state prevailing wage laws. Second, I present results from a January 2018 study I co-authored with Kevin Duncan, Ph.D., a professor of economics at Colorado State University—Pueblo, on the effects of Indiana repealing its prevailing wage law—called the Common Construction Wage. I have included the report with my testimony. I conclude by discussing the unintended consequences of repealing prevailing wage and the benefits of the Illinois Prevailing Wage Act.

### **Economic Research Finds that Repeal Decreases Construction Worker Incomes, Reduces Apprenticeship Training, and Does Not Lower Public Construction Costs**

State prevailing wage laws foster good, middle-class careers for construction workers. There is a significant disparity in wages paid to blue-collar construction workers between states with prevailing wage laws and states without the wage policy (Philips, 2014). A study published in February 2018 found that blue-collar construction income fell by 4.2 percent and total fringe benefits fell by 11.2 percent in states that repealed their prevailing wage laws since 1972 (Fenn et al., 2018). Another recent economic analysis estimated an even larger impact of having a state prevailing wage law, finding that the policy statistically increases blue-collar construction worker earnings by about 16 percent per year (Manzo et al., 2016). Effects are largest, however, for the lowest-income individuals. By stabilizing the wage floor, prevailing wage laws have been found to reduce the number of construction workers earning less than the official poverty line by 30 percent and reduce construction worker reliance on food stamps by 44 percent (Manzo et al., 2016).

In addition to creating a pathway into the middle class for blue-collar construction workers, state prevailing wage laws also ensure that the next generation of construction workers is trained by increasing apprenticeship training. Cihan Bilginsoy, a professor of economics at the University of Utah, has found that apprenticeship enrollments are 6 to 8 percent higher in states with prevailing wage and that apprentices complete their on-the-job and classroom training at a faster rate in these states (Bilginsoy, 2005). The result is that workers are more productive due to prevailing wage laws. Productivity per construction worker is 14 to 33 percent higher in states that have the wage

policy (Philips, 2014). Conversely, economic research conducted after the repeal of prevailing wage laws has shown a strong correlation with a decrease in worker training. For example, in an analysis of nine states that repealed their prevailing wage laws from 1979 to 1988, researchers found that repeal was associated with a decrease in training by 40 percent and caused workplace injuries to rise by 15 percent (Philips et al., 1995).

Because workers are better trained in states with prevailing wage laws, they complete public construction on time and on budget. The preponderance of economic research finds that prevailing wage laws do not increase construction costs. For example, since 2000, there have been 11 peer-reviewed studies that used regression analysis to examine the effect of prevailing wage laws on school construction costs. Regression analysis is a common but advanced statistical technique used to separate the unique impact of a variable or policy change after accounting for other factors. Ten of these studies (90.9 percent) find no statistically significant impact on the cost of school projects. Repealing a prevailing wage law does not reduce costs for taxpayers.

### **The Effect of Repealing Prevailing Wage in Indiana**

On July 1, 2015, Indiana lawmakers completely repealed their prevailing wage law, called Common Construction Wage. Three economic studies were published in the year prior to repeal that, to varying degrees, projected impacts of repealing the policy in Indiana (Manzo et al., 2014; Philips, 2015; Sherk, 2015). Two and a half years later, in January 2018, the Midwest Economic Policy Institute and Colorado State University–Pueblo economics professor Kevin Duncan, Ph.D. released *The Effects of Repealing Common Construction Wage in Indiana* (Manzo & Duncan, 2018). Our analysis used actual economic data from the Bureau of Labor Statistics at the U.S. Department of Labor, the Bureau of Economic Analysis at the U.S. Department of Commerce, and two project bid subscription services to assess claims made both in these studies and by elected officials in the lead up to repeal.

We found that repeal has led to a host of negative impacts on workers and the construction industry while failing to deliver any meaningful cost savings promised by those in favor of repeal. After accounting for other factors, repeal of Common Construction Wage statistically decreased the wages of blue-collar construction workers by 8.5 percent, on average. However, repeal hurt the lowest-paid workers most, statistically reducing the hourly earnings of the poorest 25 percentile of Indiana construction workers by 15.1 percent. By removing the wage floor, repeal thus worsened income inequality in Indiana.

As blue-collar construction occupations became lower-paying, they also became less-skilled after repeal. Repeal was statistically associated with a 4.5 percentage-point increase in the share of construction workers without a high school degree in Indiana. This aligns with previous peer-reviewed economic research which found that, when wages go down in construction, contractors respond substituting less-skilled workers in place of their more-productive counterparts (Blankenau & Cassou, 2011). The data indicate that worker turnover in the heavy and civil engineering construction sector— which includes the construction of roads, bridges, sewer lines, and public parks— increased in Indiana. Meanwhile, turnover decreased in Illinois, Michigan, and Ohio – three bordering states that had, and continue to have, prevailing wage laws. Due to lower skill levels and higher turnover rates, construction worker productivity grew 5.3 percentage-points slower in Indiana than in the three bordering states that have prevailing wage laws following repeal.

One claim asserted by those who opposed Indiana’s Common Construction Wage Act was that the law only benefited labor unions and that repeal would increase competitive bidding on public projects (Sherk, 2015). However, after using bid data from two private subscription services—

Lead Manager+ and iSqFt— to analyze 2,062 projects awarded in 14 northern Indiana counties between January 2013 and September 2017, we found that repeal did not increase competition. Prior to repeal, an average of 3.0 contractors submitted bids on each public project. After repeal, an average of 2.9 contractors submitted bids. Moreover, the share of projects awarded to contractors that are signatory to collective-bargaining agreements and their share of total market value did not decrease following repeal.

Accordingly, repeal of Common Construction Wage in Indiana did not reduce the costs of public school construction projects. And after reviewing more than 900 bids on more than 300 school construction projects between 2013 and 2017, we found that the average cost per public school project built with Common Construction Wage was not statistically different than the average cost per public school project built without Common Construction Wage. This finding validates a 2017 statement by Ed Soliday, a Republican from Valparaiso who serves as Assistant Majority Floor Leader in the Indiana House of Representatives, who attested (Soliday, 2017):

*“We got rid of prevailing wage and so far it hasn’t saved us a penny.... There’s not 22 percent savings out there when the total cost of labor is 22 percent. It’s rhetoric. So far, I haven’t seen a dime of savings out of it.”*

## **The Illinois Prevailing Wage Act Promotes a Strong Economy at the Best Value for Taxpayers**

Lawmakers and taxpayers in Illinois should consider both the testimony of Indiana Representative Ed Soliday and the findings of our January 2018 study and look to Indiana as a cautionary tale, rather than an example. Repeal of prevailing wage has negative consequences for Indiana. Wages have been slashed, inequality has increased, the skills shortage has worsened, and productivity has fallen behind— all without increasing competition or saving a penny (Manzo & Duncan, 2018).

The Illinois Prevailing Wage Act is good for workers, businesses, and families in Illinois. Our prevailing wage law stabilizes wages and benefits for construction workers, creates a level playing field for local contractors, and boosts the Illinois economy by more than \$1 billion annually (Dickson Quesada et al, 2013). The Illinois Prevailing Wage Act encourages high standards of safety and productivity, provides ladders of access into the middle class, and provides the top value for taxpayers.

I thank you for allowing me the opportunity to submit my testimony.

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