

**TESTIMONY OF BRUCE LYDEM
CONNECTICUT DISTRICT MANAGER
NEW ENGLAND REGIONAL COUNCIL OF CARPENTERS
OPPOSING RAISED BILL 990
March 10, 2011**

Senator Prague, Representative Zalaski, and members of the Labor Committee, my name is Bruce Lydem. I am the District Business Manager in Connecticut for the New England Regional Council of Carpenters, and I am here today to testify against Raised Bill 990, An Act Concerning the Prevailing Rate of Wages.

This bill would raise the thresholds from four hundred thousand dollars to eight hundred thousand dollars on new construction projects and from one hundred to two hundred thousand dollars on remodeling projects.

Last month, the committee held an informational hearing on the prevailing rate issue. At that time, Professor Peter Philips, Chairman of the Department of Economics at the University of Utah, discussed the benefits of the prevailing rate and the negative impacts eliminating prevailing rate would have on Connecticut. I have attached a summary of his report to my testimony.

The intent of the prevailing wage law is to ensure that taxpayers get value for their public construction investment. Since most public awarding authorities are required to assign projects to the low bidder, an unregulated wage structure would simply reward those firms who paid the lowest wages as opposed to those who are the most qualified. The creation of a prevailing wage standard takes wages out of competition and rewards managerial competence and firms with the highest rates of productivity. These basic principles motivated Republican Senators Davis and Bacon to pass the law 80 years ago and remain just as valid today.

Many opponents of the prevailing rate claim that you can cut construction costs for a project by 30% by eliminating the prevailing rate. As Professor Philips pointed out, the cost savings that opponents claim are outlandish. The total cost of labor on a construction project is approximately 30% of the entire cost of a project in Connecticut. To cut the total cost of the project by 28.5%, you would have to slash labor costs by 90%. The math just doesn't add up. In Massachusetts when there was an attempt to repeal the prevailing rate law in the 1980's a study conducted by the respected economics think tank Data Resources Inc. concluded that the savings would be less than 1%. The Connecticut General Assembly's Program Review and Investigations Committee in 1996 concluded that the maximum cost savings to repeal prevailing rate would be between 4% and 7%, and they concluded it didn't make sense to repeal prevailing rate given its benefits. Professor Philips shows in his study that the cost savings are statistically almost zero.

Among the reasons Professor Philips cites for keeping the prevailing rate are:

- The absence of and weakening of prevailing rate laws contributes to both increased workplace fatalities and injuries;
- Workers who have health and pension benefits are less likely to become a burden to the state and taxpayers;
- It would hurt apprenticeship and training programs, which would have a negative impact on the future workforce of Connecticut's construction industry;
- It would cost the state \$15 million to \$31 million annually in lost tax and sales tax revenues due to the lower incomes of Connecticut construction workers and others in Connecticut who rely upon construction workers to purchase their goods and services.

As someone who has worked as a carpenter for more than twenty years out in the field before I became a business agent, I want to make several other points.

Connecticut has the second highest threshold already in America—significantly higher than our neighboring states. Only Maryland has a higher threshold than Connecticut.

Finally, my greatest concern is that raising the thresholds will increase the problems that we see in the private sector construction market. It has become like the “wild west” with a growing underground economy of workers misclassified as “independent contractors” or workers who are paid cash or not paid at all. The exploitation of undocumented immigrants is a significant problem that this bill could make much worse.

The legislature has enacted some laws that have helped address some of the lawlessness that plagues our industry. Several years ago, the Department of Labor started issuing stop-work orders on jobsites where workers didn't have workers' compensation insurance. In addition, you enacted the employee misclassification task force to address this problem on a continuous basis.

But weakening the prevailing rate, by raising the thresholds, would only worsen the problems of the underground economy and the exploitation of undocumented immigrants.

Thank you for the time. I would be happy to answer any questions you have.

**IMPACT OF PREVAILING WAGES ON
THE ECONOMY AND COMMUNITIES
OF CONNECTICUT**

**Peter Philips
Professor of Economics
University of Utah**

and

**Cihan Bilginsoy
Professor of Economics
University of Utah**

January 2010

Executive Summary

1. Construction output in Connecticut has been declining both in value and as a share of the state GDP during the past decade. Construction employment also started declining with the onset of the 2007 recession. This recession has been deeper than any observed during the post-World War II period. Its adverse effects are likely to be a drag on the economy long after it is over, influencing long-term development patterns of the state's construction industry. A large outflow of workers from the industry may lower the stock of experienced, skilled workers in the long-run. If they are not replaced with new cohorts of well-trained workers, long-run productivity would drop and quality of construction would suffer. The recession may also give impetus to the hiring of employees on a contractual basis in the unorganized sector, which currently accounts for three quarters of the blue-collar construction workforce. Growth of contractual employees lowers the labor cost to employers who skimp on training of workers and benefits.
2. The Connecticut prevailing wage law requires contractors to pay workers on government-funded construction projects a wage that is based on local standards. Opponents of the Connecticut law argue that prevailing wage rates are higher than local standards, and therefore inflate public construction costs, constituting a burden on the public purse. Critics claim that savings of "upwards to 30%" would be realized in the absence of the statute. They propose reducing the coverage of the law in the short-run and a moratorium on the law in the longer-run.
3. Against the background of challenges posed by the business cycle, weakening or suspension of the Connecticut wage law is expected to have long-term consequences for the state's construction industry. The objective of this report is to examine the impact of prevailing wage law on Connecticut's construction industry and communities. It will address both the narrower immediate construction cost implications of the law and its wider effects on state income level and tax revenues, apprenticeship training, job site safety, and benefits.

4. Critics who are predicting “upwards to 30%” savings in the absence of prevailing wage laws are essentially asking Connecticut construction workers to work on public jobs for free. In this study we address the cost implications of prevailing wage laws first under the assumption that the wage rate affects neither the contractors’ choice of input mix (more skilled labor, less skilled labor, and capital) nor labor productivity. The Census of Construction data for Connecticut show that the share of total labor costs in construction in Connecticut is around 30% (excluding the purchase of land). Under these conditions, we calculate that a 27% reduction in total construction costs requires the total labor costs to decline by 90%; a 28.5% reduction in total costs is possible if total labor cost declines by 95%. Thus, the hypothetical cost savings estimates of the opponents of Connecticut prevailing wage law are greatly exaggerated. A relatively more plausible 10% decline in wage rates plus benefits would hypothetically create cost savings of 3%.
5. Comparisons across states with and without prevailing wage laws show that, after controlling for other factors that influence costs, the effect of the law on the cost of construction is statistically zero. A hypothetical 3% savings in total public construction costs in response to a 10% reduction in labor costs is based on the assumption that there are no substitution and productivity effects. This assumption is not met in practice. First, if prevailing wages raise the cost of labor, then cost minimizing contractors would substitute relatively cheaper more skilled labor and capital inputs for relatively more expensive less skilled labor. Second, according to economic theory, a better paid labor force has lower turnover, higher morale, and a favorable perception of fairness. These factors raise productivity and lower the average cost. Jointly, the substitution and productivity effects would offset any immediate inflationary effect of prevailing wage laws. A preponderance of econometric evidence examining actual prevailing wage law repeals, suspensions, or adoptions from other states and Canada shows that there is no difference in the cost of public construction before and after these regulations are changed.

6. A moratorium on the prevailing wage law in Connecticut would cost the state \$214 million to \$432 million annually in lost income through lower construction sector earnings and reduced demand for local products and services in workers' communities. In fact, earnings by construction workers alone would be reduced by \$123 million to \$249 million annually (in 2008 dollars).
7. A moratorium on the Connecticut's prevailing wage law would also cost the state \$15 million to \$31 million annually (in 2008 dollars) in lost income tax and sales tax revenues due to the lower incomes of Connecticut construction workers and others in Connecticut who rely upon construction workers to purchase their goods and services.
8. A moratorium that would weaken collective bargaining would discourage apprenticeship training and compromise Connecticut's skilled and safe construction workforce. Between 2000 and 2008, 64% of the incoming construction sector apprentices in Connecticut enrolled in unilateral programs organized in the open-shop sector. In Connecticut, open-shop sector employed about three-quarters of the construction workforce. Thus, the organized sector, relative to its size, trained more apprentices in apprenticeship programs organized jointly by unions and contractors signatory to a collective bargaining agreement. Joint union-management programs also offered apprenticeship training in a wider variety of occupations, while unilateral programs were exclusively organized in electrical and mechanical trades. More importantly, the rate of attrition was substantially higher in unilateral programs (61%) than in joint programs (42%). This finding underscores the disproportionately higher contribution of the unionized sector to the maintenance of a skilled construction workforce in Connecticut.
9. Prevailing wage laws are vital to the creation and maintenance of a diverse, qualified workforce, with ethnic and racial minorities being better represented in joint apprenticeship programs. Minority share in incoming apprentices was 16% in unilateral and 36% in joint programs made possible by prevailing wage. Minority

retention rate was also higher joint programs: 66% of the minorities enrolled in unilateral programs dropped out, while this figure was 47% in joint programs. Joint union-management sponsored programs are strategically critical if the diverse construction workforce of the future is going to be safe, qualified and capable of building the technically advanced infrastructure which will allow Connecticut's other industries to be world-class competitive.

10. The absence of and even the weakening of prevailing wage laws contribute to both increased workplace fatalities and injuries. These in turn lead to increases in workers' compensation costs, increased costs of publicly financed health care, and ultimately a greater burden on the workers themselves, their families, and the taxpayers of Connecticut. Over the 2004-2007 period, in comparison with no-law states, construction sector fatalities were lower in prevailing wage law states by 15%. In states where the laws are more rigorous, the difference was as high as 25%. In states with laws of medium strength (including Connecticut), fatalities were on average 15% lower than no-law states. In states where laws are weak, however, prevailing wage laws did not reduce fatalities. Thus, the repeal of the law is not necessary for the job site safety to decline. Weakening of the law, say by raising the threshold value of the projects covered by the law, could be sufficient for construction fatalities to increase. Prevailing wage laws promote safety in the construction industry; the absence of incentives to train workers and build skill sets results in fatalities and serious injuries.

11. Workers who have health and pension benefits are less likely to become a burden to the State and taxpayers. Construction workers in prevailing wage law states receive substantially higher total benefits, by as much as 60% (including health insurance, pension, payroll), than their peers in no-law states. Nationwide data also show that one-third of nonunion construction workers have no form of health insurance whatsoever, while practically all union workers have health insurance. In effect, prevailing wage laws help to internalize the full costs of construction into the construction industry itself. Without prevailing wage laws, these full costs of

producing and maintaining a world class construction labor force spill over to society at large. At best, this is inefficient and unfair. At worst, this leads to a decline in the local construction industry's ability to provide the infrastructure the rest of the Connecticut economy needs to retain its competitive standing in a global economy.

12. Claims of large public savings from a suspension of Connecticut's prevailing wage law are not supported by the evidence. In contrast, the State of Connecticut will face substantial short- and long-term public costs if there is a moratorium on the prevailing wage law. Connecticut's prevailing wage law contributes to creating and maintaining high-wage, highly-productive and high-quality jobs that benefit workers, the construction industry, and the state. It is beneficial to construction workers and their families, other workers and their families, and taxpayers. Without regulation, competitive pressures force the industry to adopt an inferior equilibrium along a low-wage, low-productivity, and low-quality path.



General Assembly
January Session, 2011

Raised Bill No. 990

LCO No. 3571

03571 _____ LAB

Referred to Committee on Labor and Public Employees

Introduced by:

(LAB)

AN ACT CONCERNING THE PREVAILING RATE OF WAGES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subsection (h) of section 31-53 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2011*):

(h) The provisions of this section do not apply where the total cost of all work to be performed by all contractors and subcontractors in connection with new construction of any public works project is less than [four] eight hundred thousand dollars or where the total cost of all work to be performed by all contractors and subcontractors in connection with any remodeling, refinishing, refurbishing, rehabilitation, alteration or repair of any public works project is less than [one] two hundred thousand dollars.

This act shall take effect as follows and shall amend the following sections:

Section 1	October 1, 2011	31-53(h)
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Statement of Purpose:

To increase the prevailing wage threshold for new construction and remodeling, refinishing, refurbishing, rehabilitation, alteration or repair of any public works project.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]



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**Raised S.B. No. 990
Session Year 2011**

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AN ACT CONCERNING THE PREVAILING RATE OF WAGES.

To increase the prevailing wage threshold for new construction and remodeling, refinishing, refurbishing, rehabilitation, alteration or repair of any public works project.

Introduced by: Labor and Public Employees Committee

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Bill History (in reverse chronological order)

Date	Action Taken
3/4/2011	Public Hearing 03/10
2/17/2011	Referred to Joint Committee on Labor and Public Employees

Co-sponsors of SB-990

- Rep. Linda Schofield, 16th Dist.
 - Sen. Kevin D. Witkos, 8th Dist.
 - Sen. Andrew W. Roraback, 30th Dist.
 - Rep. Elaine C. O'Brien, 61st Dist.
 - Rep. Bill Simanski, 62nd Dist.
 - Rep. John Shaban, 135th Dist.
 - Rep. Richard A. Smith, 108th Dist.
 - Rep. Sean J. Williams, 68th Dist.
 - Rep. Dan Carter, 2nd Dist.
 - Rep. Clark J. Chapin, 67th Dist.
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