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Prevailing Wage Research *Foundation for Fair Contracting of Connecticut*

Introduction:

Currently, in Connecticut, the prevailing wage law applies to all local and state new public construction projects that cost \$400,000 or more, and alteration and repair jobs that cost \$100,000 or more. The law was first adopted in 1933. Since then, the definition, coverage and enforcement procedures have been revised several times.

Connecticut Conference of Municipalities (CCM) has long spearheaded the efforts to weaken and/or repeal the state prevailing wage law. The Conference has called for a three-year moratorium of the law leading eventually to “permanent” changes. The Conference also calls attention to the fact that the thresholds have not been raised in eighteen years and recommends various amendments as short-run objectives. Proposed amendments include raising the threshold on all public projects to \$1 million, indexing thresholds to inflation, and creating exemptions for local renovation projects. Opponents of the law support raising the threshold amounts based on the assertion that prevailing wage laws drive up cost and property taxes.

Currently 32 states plus Washington DC have prevailing wage laws. Among these, the threshold amounts vary widely, and not all have separate amounts for new and remodeling construction. Connecticut, however, is one of the least stringent states in terms of thresholds: 27 out of 32 states, as well as the Federal Davis Bacon Act, have lower thresholds than Connecticut. Threshold amounts in Indiana, Kentucky and Wisconsin are higher than that of Connecticut only for remodeling work. Among all the states, only Maryland has a higher new construction threshold value than Connecticut-\$500,000.

In 2010, Peter Philips, Professor of Economics at University of Utah, came to Connecticut to give a presentation on the benefits of prevailing wage laws and the Davis-Bacon Act to our state.

Excerpts from his and Professor Cihan Bilingsoy’s January 2010 study entitled *Impact of Prevailing Wages on the Economy and Communities of Connecticut* are below.

- 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 costs decline 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%.

- 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.
- 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).
- 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.
- 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.
- Construction workers in prevailing wage 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.
- Connecticut residents more likely to be uninsured than other New Englanders. Between 2004 and 2006, 8.9% of New England residents were uninsured, but 10.7% of CT residents lacked insurance, according to point in time surveys by the National Health Interview Survey. Not surprisingly, low income CT residents (below 200% of the federal poverty level) were 2.4 times less likely to have coverage. 12.2% of CT residents, including one in four children were covered by Medicaid. This is lower than our neighbors in Maine (23.3%), Massachusetts (14.6%) or New York (18.7%). (Connecticut Health Policy Project Blog, June 27, 2008).

- Almost all union contractors provide health insurance, but many low-wage nonunion contractors do not. Only 4% of union construction workers have no health insurance at all. According to data from the 1996-2000 Panel of the Survey of Income Program Participants, one-third of nonunion construction workers have no form of health insurance, whatsoever. Hospital visits of the uninsured will be paid by the public either in the form of higher health care prices or higher taxes.
- Prevailing wage laws have a disproportionately large positive effect on benefits. In states with prevailing wage laws average income of workers is higher by 15%; Social Security, workers' compensation and unemployment insurance payments are higher by 25% and health insurance and pensions are higher by 63%. Thus, a moratorium on prevailing wage laws would imply a substantial loss in benefits.
- There are 15 local trades that are currently members of the Connecticut Coalition of Taft-Hartley Health Funds, Inc., which is a non-profit, state-wide organization representing labor management negotiated health funds in their quest to provide affordable health care to their participants at the most cost effective price. Since its inception in 1993, the "Coalition" has grown to represent more than 100,000 lives.
- According to a report from the Federal Bureau of Labor Statistics, union membership in Connecticut accounts for about 16.7 percent of employees in the state. Nationwide, 11.9 percent of employees belong to unions. Connecticut's union coverage is seventh highest in the country. Our neighbor, New York State, is first in unionization, at 24.2 percent.
- Over the 1997-2008 period construction accounted for close to 3% of the Connecticut GDP. It peaked in 2000, reaching roughly \$5.1 billion in a \$160.4 billion economy and started declining afterwards. These observations indicate that the Connecticut construction industry entered a recession far earlier than the rest of the economy in the first decade of the 2000s, and experienced a much stronger contraction than the rest of the economy. Construction is a "boom-and-bust" sector that is known to be more volatile than the rest of the economy and therefore these observations are in concordance with expectations.
- Construction employment was also more volatile. It increased from 3.8% in 1997 to 4.0% in 2007, before falling to 3.8% in the crisis year of 2008.
- For all construction in Connecticut, the wage cost of production workers, which excludes clerical and office workers, estimators, engineers and architects, was 20.2%, which is very close to the figure for the overall U.S. construction industry.
- Higher wage rates induce contractors to substitute relatively less expensive capital and more-skilled labor for less-skilled labor.
- According to the study conducted by Prus in 1999, the comparison of public and private school construction costs across Mid-Atlantic States and Maryland counties with and

without prevailing wage laws found that public school construction costs are higher regardless of coverage, and controlling for new buildings and renovations, structure types, building materials and scale, the cost of construction in schools covered and not covered by the law are statistically the same.

- A moratorium on prevailing wage would reduce annual earnings per worker by \$2,288. The adverse impact of the moratorium on income is not limited to the construction industry. Since construction workers spend their incomes by purchasing goods and services produced in other industries, the decline in construction sector income spills over to other sectors of the state economy as well.
- The total state income loss of \$213 million would cost the state \$10.7 million in income tax revenue annually. If wages decline by 8% following the moratorium, the then income tax loss would be almost twice as much, \$21.6 million.
- Under the low-end estimate of 4% decline in construction earnings, the repeal of the prevailing wage law would reduce sales tax revenue by about \$4.4 million. Under the high-end estimate of 8%, sales tax revenue declines by \$9.0 million. These losses are often ignored by the opponents of prevailing wage laws who focus exclusively on the immediate construction cost savings.
- The analysis of Connecticut apprenticeship programs shows that 64% of the incoming apprentices between 2000 and 2008 were enrolled in union programs. This is a higher proportion than what is observed generally in the U.S. However, considering that about three-quarters of the Connecticut construction workforce is employed by open-shop contractors, in relative terms, the union sector organizes a larger portion of apprenticeship training. A moratorium on Connecticut's prevailing wage law would seriously threaten the ability of the state's construction industry to provide a well-trained workforce to meet the public and private needs for high-quality construction services. The open-shop sector is not likely to fill the void that would be created with the decline in union-management joint apprenticeship programs because in Connecticut unilateral programs have lower retention rates and offer training in a limited number of occupations. Construction apprenticeship programs jointly managed by contractors and unions are one of the best examples of the labor-management cooperation that circumvent market failure in training and mitigate the maintenance of a productive workforce in the future.

Conclusion:

In summary, the prevailing wage law in Connecticut creates a high-wage, high-productivity and high-quality development path that benefits construction workers and their families, other Connecticut workers and their families, as well as the state of Connecticut's coffers.

Claims of large public savings from a suspension of or weakening 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 or weakening of the prevailing wage law.

IMPACT OF PREVAILING WAGES ON THE ECONOMY AND COMMUNITIES OF CONNECTICUT

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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.

**Appendix 3B: Dollar Threshold Amount for Contract Coverage under State Prevailing Wage Laws
(February 23, 2009)**

State	Threshold Amount
Alaska	\$2,000
Arkansas	75,000
California	1,000
Connecticut	400,000 for new construction 100,000 for remodeling
Delaware	100,000 for new construction 15,000 for remodeling
Hawaii	2,000
Illinois	None
Indiana	150,000
Kentucky	250,000
Maine	50,000
Maryland	500,000
Massachusetts	None
Michigan	None
Minnesota	25,000 where more than one trade is involved 2,500 where a single trade is involved
Missouri	None
Montana	25,000
Nebraska	None
Nevada	100,000
New Jersey	2,000 11,892 if the work is done for municipality
New Mexico	60,000
New York	None
Ohio	73,891 for new construction ¹ 22,166 for remodeling ¹
Oregon	50,000
Pennsylvania	25,000
Rhode Island	1,000
Tennessee	50,000
Texas	None
Vermont	100,000
Washington	None ²

West Virginia	None ³
Wisconsin State and Municipal contracts	234,000 where more than one trade is involved; 48,000 where a single trade is involved
State highway contracts	None
Wyoming	25,000

Notes:

Source: U.S. Department of Labor (<http://www.dol.gov/whd/state/dollar.htm> , accessed December 5, 2009)

¹Ohio. Beginning January 1, 1996, and every two years thereafter, threshold amounts will be adjusted according to the change in the U.S. Department of Commerce, Bureau of the Census Implicit Price Deflator for Construction, provided that no increase or decrease may exceed 6 percent for the two-year period.

²Washington. A separate law applicable only to State college/university construction provides for a \$25,000 threshold amount.

³West Virginia. A \$50,000 threshold is applicable for projects of the West Virginia Infrastructure and Jobs Development Council.

Table 6.1: Estimated Impact of Prevailing Wage Law Moratorium on State Income

	Wage decline following the repeal ¹	
	4%	8%
Baseline construction employment ²	66,778	66,778
Baseline annual income in construction ^{2,3}	\$57,212	\$57,212
Baseline construction income	\$3,820,502,936	\$3,820,502,936
<i>Effects of repeal on construction industry</i>		
Annual income in construction	\$54,923	\$52,635
Construction employment ⁴	67,312	67,847
Construction income	\$3,696,976,976	\$3,571,084,208
Net income loss	\$123,478,091	\$249,401,294
<i>Effects of moratorium on state income level</i>		
Earnings multiplier	1.7314	1.7314
Net state income loss	\$213,789,967	\$431,813,400

Notes:

¹Hypothetical declines in wage following findings of Kessler and Katz (2001) and Philips et al. (1995), respectively.

²Based on annual average over 2005-2008.

³All incomes are in 2008 dollars.

⁴The elasticity of employment with respect to wage is assumed to be 0.2.

The adverse impact of the moratorium on income is not limited to the construction industry. Since construction workers spend their incomes by purchasing goods and services produced in other industries, the decline in construction sector income spills over to other sectors of the state economy as well. The magnitude of this spillover effect is captured by the multiplier effect which measures the impact of a \$1 decline in one sector's income on the overall economy. For this purpose we use regional input-output multipliers (RIMS II) estimated by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce. These multipliers are estimated to evaluate the economic impact of any public or private sector project on a region by taking into account the inter-industry relationships within the region.²⁰ The region can be defined anywhere from a group of counties to the national level, and multipliers can be estimated for any industry or group of counties. For our purposes we defined the region as the state of Connecticut.

The BEA provides two types of multipliers. We use Type II multiplier which accounts for the induced impacts of the spending of earnings within the region. Based on the 2006 annual input-output table for the U.S and 2006 regional data, the BEA estimated the value of the earnings multiplier for the Connecticut construction industry as 1.7314,

²⁰For more information, see <http://www.bea.gov/scb/pdf/regional/perinc/meth/rims2.pdf> (accessed November 22, 2009)

which means that a \$1 decrease in construction earnings lowers total earnings in Connecticut by \$1.7314. This value implies that the \$123 million decline construction sector income, under the low-end estimate of 4%, reduces the total state income by \$214 million once the linkages from construction to the rest of the economy are taken into account. At the high-end estimate, the total decline in Connecticut income is \$432 million.

6.4 Impact on State Tax Revenues

As the state income level declines, so do state tax revenues. In this section we calculate the magnitude of the impact of policy change on state tax revenues. We will estimate the impact on both state income tax revenue and sales tax collections, under the low- and high-end estimates presented in the previous section.

The first column of Table 6.2 reports state tax revenue losses if a moratorium lowers workers' earnings by 4%. The marginal state income tax rate in Connecticut is 5%. Following the findings reported on Table 6.1, the total state income loss of \$213 million would cost the state \$10.7 million in income tax revenue annually. If wages decline by 8% following the moratorium, then the income tax loss would be almost twice as much, \$21.6 million.

Table 6.2: Estimated Impact of Prevailing Wage Law Moratorium on State Tax Revenue

	4%	8%
Net state income loss	\$213,779,967	\$431,813,400
<i>Impact on state income tax revenue</i>		
Income tax rate	5.0%	5.0%
State income tax revenue loss	\$10,689,498	\$21,590,670
<i>Impact on sales tax revenue</i>		
Sales tax rate	6.0%	6.0%
State sales tax base ¹	34.6%	34.6%
State sales tax loss	\$4,438,280	\$8,964,446
Net state income loss	\$15,127,778	\$30,555,116

Notes:

¹As percentage of income.

See also Table 6.1.

Connecticut's sales tax rate is 6%. In order to calculate sales tax loss due to declining income we need to know the state sales tax base for Connecticut. Bruce and

Fox (2000) estimated the 2003 Connecticut state sales tax base as 34.6% of personal income. In the absence of other estimates for sales tax base, we used this figure in estimating state sales tax losses. Under these assumptions, the repeal of the prevailing wage law would reduce sales tax revenue by about \$4.4 million under the low-end estimate of 4% decline in construction earnings. The total decline in state tax revenue, the sum of income and sales tax losses, adds up to \$15.1 million. Under the high-end estimate of 8%, sales tax revenue declines by \$9.0 million and the total state tax revenue declines by \$30.6 million.

6.5 Conclusion

In this Chapter we calculated the impact of the prevailing wage law on Connecticut income levels and tax revenues. It should be kept in mind that the income losses are defined narrowly in this Chapter. Specifically latent effects of prevailing wage laws on building and workforce quality are ignored and only the wage and employment effects are considered. Using Connecticut's annual average construction employment and earnings over the 2005-2008 period as the baseline, we find that in the absence of prevailing wage laws:

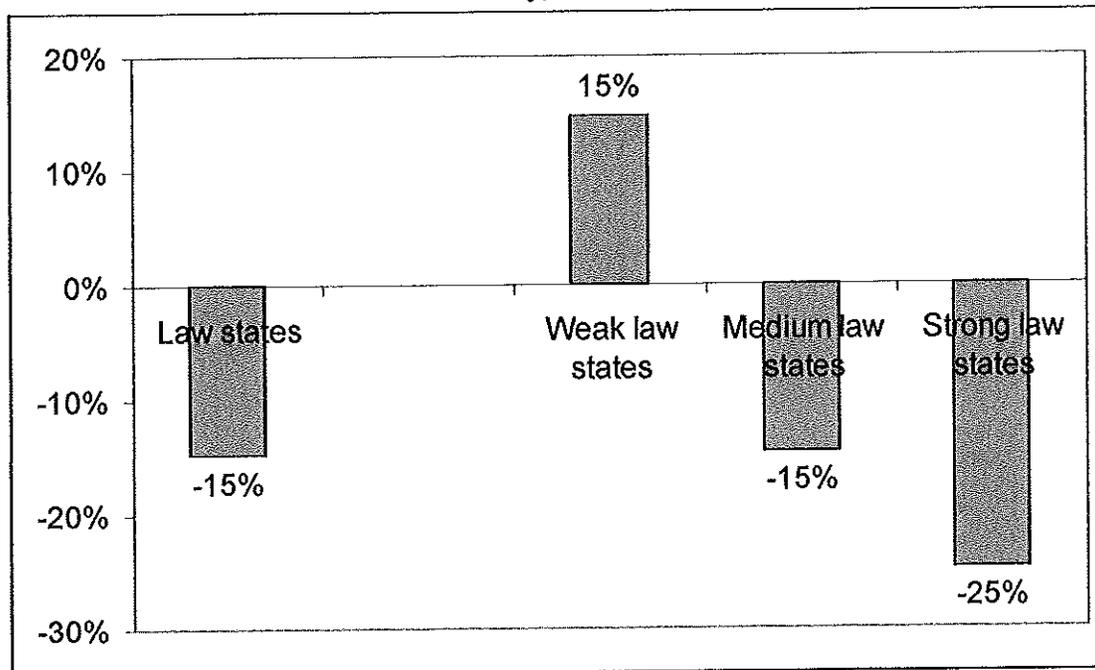
- Construction sector earnings will be lower in Connecticut by \$123 to \$249 million (in 2008 dollars), or 3.2% to 6.5% of the construction sector payroll. This is an annually recurring loss which depends on the low- and high-end estimates of wage response to the prevailing wage;
- The above estimate is only the loss of income to Connecticut construction workers. The total income effect for the state is higher because construction workers, in turn, spend much of their income in Connecticut and thus create a demand for the work of others. Taking this induced effect into account, the total lost income to Connecticut workers inside and outside of construction ranges from \$214 to \$432 million annually, again based on the low-and-high-end estimates of wage response to the prevailing wage;
- The state would lose \$10.7 to \$21.6 million in income tax revenue annually;
- The state would lose \$4.4 to \$9.0 million in sales tax revenue annually.

Any hypothetical savings to the taxpayer associated with weakening or eliminating prevailing wage mandates have to be offset by counterbalancing hypothetical losses in state tax revenues as well as hypothetical losses to Connecticut citizens due to lower income. These losses are often ignored by the opponents of prevailing wage laws who focus exclusively on the immediate construction cost savings. In this Chapter we found that those losses in state tax revenue and income are substantial.

found in strong-law states. In these states, on average, fatalities are lower than the no-law states by 15%.

The case of weak-law states, however, breaks the pattern established by other types of law states. Weak-law states on average experienced higher number of fatalities than the no-law states, by as much as 15%. This finding is statistically significant at the 7% level, which indicates that although it has a lower level of statistical significance than other results, cannot be attributed to totally to chance.

Figure 8.1: Impact of Prevailing Wage Laws on Fatalities in the Construction Industry, 2004-2007



Notes: Base is no-law states.

Source: BLS, Occupational Employment Statistics, State Cross-Industry Estimates.

These results strongly indicate that prevailing wage regulations improve job site safety and reduce fatalities provided that they have wide coverage.

Chapter 10

Summary and Conclusion

In this report, we examined the argument that large cost savings can be realized from a moratorium placed on the Connecticut prevailing wage law. Our discussion focused on the direct cost implications of the statute, its impact on state income and tax revenues, and its larger societal benefits. First, we assessed potential savings from a moratorium on the basis of hypothetical reductions in total labor costs. We also presented evidence from research on other states and Canada, where the law was adopted or repealed, to assess the cost impact. Second, we estimated empirically the direct and indirect effects of a moratorium on the Connecticut prevailing wage on state income and tax revenues. Finally, we discussed the societal benefits of prevailing wage laws concerning training, safety, and benefits.

The main findings of this study are as follows:

- The hypothetical cost savings estimates of the opponents of the Connecticut prevailing wage law are greatly exaggerated. Information from the 2002 Census of Construction for Connecticut indicates that total labor costs constitute 30% of the total cost of construction (excluding the purchase of land). Even when substitution (among less skilled labor, more skilled labor, and capital) and productivity effects are not taken into account, a 27% reduction in total construction costs would require the labor costs to decline by 90%; a 28.5% reduction in total costs is possible if labor costs decline by 95%. So reformers 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. A relatively more plausible 10% decline in wage rates plus benefits would hypothetically create cost savings of 3%.
- This hypothetical 3% savings in total public construction costs is based on the assumption that prevailing wage laws do not have any substitution and productivity effects that promote the use of more efficient inputs, enhance labor productivity, and thereby offset any fiscal burden prevailing wage laws may create. The substitution effect refers to contractors’ preference for more skill- and

capital-intensive methods of construction as less-skilled labor becomes relatively more expensive after implementation of the prevailing wage law. The productivity effect refers to favorable effects of a better paid workforce on labor productivity through reductions in labor turnover, maintenance of experienced workers, and improved morale and perception of fairness. Jointly, substitution and productivity effects reduce average cost. A preponderance of evidence examining actual prevailing wage law repeals, suspensions, or adoptions shows that there is no difference in the cost of public construction before and after these regulations are changed. Across-state comparisons also indicate that, after controlling for other factors that influence costs, the effect of prevailing wage laws on the cost of construction is statistically zero.

- A moratorium on the prevailing wage law in Connecticut would reduce construction sector income by \$123 million to \$249 million annually (in 2008 dollars). Total cost to the state would be \$214 million to \$432 million annually in lost income, including lower incomes of Connecticut construction workers and the corresponding reduction in the demand for local products and services in their communities.
- A moratorium on the prevailing wage law in Connecticut 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 their purchases.
- Prevailing wage statutes promote apprenticeship training, which is critical to mitigate the long-anticipated skills shortage crisis over the coming decades. Between 2000 and 2008, 64% of the apprentices in Connecticut started training in unilateral programs organized in the open-shop sector. Open-shop sector accounts for three-quarters of the Connecticut construction sector employment. Thus, the organized sector, relative to its size, trained more workers 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 whereas unilateral programs were organized exclusively in electrical and mechanical trades. More

importantly, the rate of attrition was substantially higher in unilateral programs, by almost 20 percentage points, which underscores the disproportionately higher contribution of the unionized sector to the maintenance of a skilled construction workforce in Connecticut. A moratorium that would weaken collective bargaining would discourage apprenticeship training and set hurdles to the maintenance of a skilled and safe workforce.

- Relative to their peers in unilateral programs, ethnic and racial minorities were also better represented in joint apprenticeship programs – their share was higher by 20 percentage points. Their attrition rate in joint programs was also lower by 19 percentage points. Thus, apprenticeship programs organized jointly by unions and contractors signatory to a collective bargaining agreement are strategically critical if the diverse construction workforce of the future is going to be a safe workforce that is qualified and capable of building the technically advanced infrastructure which, in turn, will allow Connecticut's other industries to be world-class competitive.
- Prevailing wage laws promote safety in the construction industry. The absence of incentives to train workers and build skill sets results in serious injuries. It also leads 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 residents of Connecticut. Over the 2004-2007 period, in comparison with no-law states, fatalities were lower in prevailing wage law states by 15%. In states where the laws were more rigorous, fatalities were 25% lower than no-law states. In states with laws with medium effectiveness, fatalities were lower by 15%. In states where laws are weak, however, there was no reduction in 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 values of the projects covered by the law, could be sufficient for fatalities to increase.
- Workers in prevailing wage law states receive substantially higher total benefits (including health insurance, pension, payroll) than their peers in no-law states, by as much as 60%. These higher benefits reduce current and long-term costs to the taxpayers. Workers who have health and pension benefits are less likely to

become a burden the State and taxpayers. In effect, prevailing wage laws help to internalize the full costs of construction into the construction industry itself. With prevailing wage laws on public works, and spilling over into the private sector, each bid price includes the cost of training of the next generation of construction workers, the family friendly benefits needed to retain experienced and skilled workers within the industry for this generation of construction workers, and the retirement costs of the last generation of construction workers. 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.

In summary, the prevailing wage law in Connecticut creates a high-wage, high-productivity and high-quality development path that benefits construction workers and their families, other Connecticut workers and their families, as well as the state of Connecticut's coffers. Without regulation, competitive pressures force the industry to adopt an inferior equilibrium along a low-wage, low-productivity, and low-quality path. 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 of the prevailing wage law.

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