

January 2015

West Virginia's Prevailing Wage: Good for Business, Good for Workers

Sean O'Leary

Construction workers hired for public projects in West Virginia must be paid a minimum “prevailing” wage and benefits level. This prevailing wage level must equal the market wage rates as determined by the West Virginia Division of Labor, and varies by geographical area within the state and by occupation.¹ West Virginia’s prevailing wage law was first enacted in 1933, two years after the federal Davis-Bacon Act, which established a prevailing wage for federal construction projects.

Thirty-two states, including West Virginia, have prevailing wage laws for state-funded construction projects, while there is also a federal prevailing wage law for federally funded construction projects.² These prevailing wage laws help ensure that government-funded construction projects are done with highly skilled workers from the community, increasing productivity and strengthening the economy with good-paying local jobs.

Recently, lawmakers indicated that they intend to weaken or fully repeal West Virginia’s prevailing wage law this legislative session.³ This issue brief examines the impact of prevailing wage laws on public construction costs and addresses claims made about the West Virginia law by its opponents. It also considers the impact of prevailing wage laws on other aspects of the construction industry beyond costs, such as training, safety, health and pension benefits, and impacts on the economy as a whole.

Key Findings:

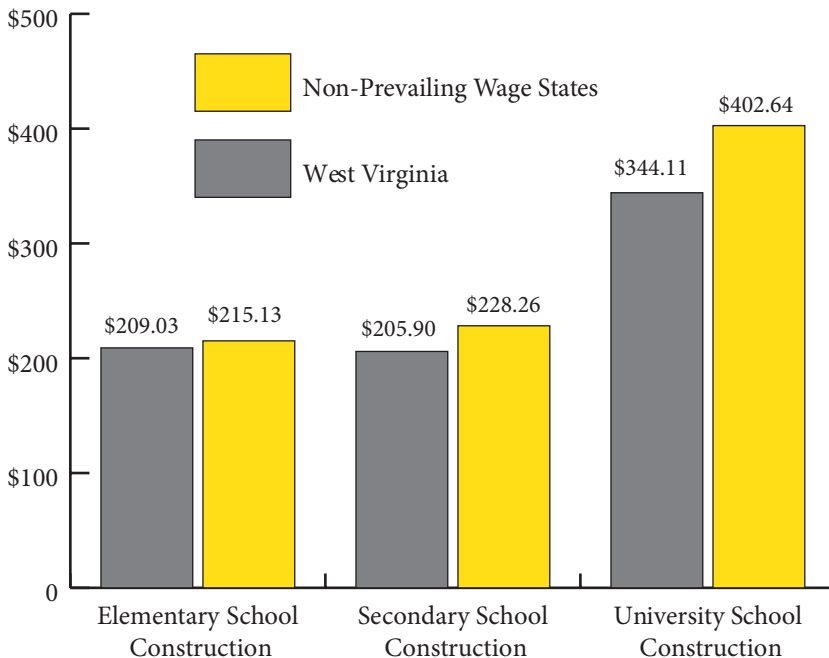
- Multiple academic studies have shown that prevailing wage laws do not raise public construction costs; instead the impact of higher wages on costs is compensated by the positive effect on productivity.
- West Virginia’s school construction costs are lower than its surrounding states, including Virginia, which does not have a prevailing wage law and Ohio, which exempts school construction from its prevailing wage law.
- Claims by opponents about the costs of West Virginia’s prevailing wage law are implausible and based on hypothetical assumptions, ignoring actual experience, evidence and data.
- Construction workers in West Virginia work an average of 1,760 hours per year. Using wage rates from the Occupational and Employment Statistics data rather than the current prevailing wage rates would result in poverty-level incomes for many construction occupations.
- The repeal of prevailing wage laws leads to less workforce training, less experience in the workforce, higher injury rates, lower health and pension coverage, and lower wages.

Prevailing Wage and Construction Costs

According to a recent report from the Economic Policy Institute, a growing number of academic studies have found that prevailing wage laws do not increase government costs. These studies compare both the costs of public construction projects subject to prevailing wage laws to costs of projects that are not, as well as comparing the costs of projects before and after the repeal of a prevailing wage requirement. These studies have consistently found no statistical relationship between prevailing wage laws and public construction costs.⁴

Other studies have also shown prevailing wage laws do not increase public construction costs. For example, a recent study examining construction costs in West Virginia and five neighboring states, both with and without prevailing wage laws, found no statistically significant difference in construction costs for elementary schools, secondary schools, and universities between jurisdictions with and without prevailing wage laws.⁵ Further, the study found that school construction costs in West Virginia were lower per square foot than in the non-prevailing wage states of North Carolina, Ohio, and Virginia. Construction costs per square foot were \$6.10 cheaper for elementary schools, \$22.37 cheaper for secondary schools, and \$58.52 cheaper for universities in West Virginia than in non-prevailing wage states (**Figure 1**).

Figure 1
Average per Square Foot School Construction Costs,
West Virginia and Neighboring Non-Prevailing Wage States



Source: Michael P. Kelsay, “The Adverse Economic Impact from the Repeal of the Prevailing Wage Law in West Virginia.”

Note: Non-prevailing wage states include North Carolina, Ohio, and Virginia for elementary and secondary school construction, and include North Carolina and Virginia for university school construction.

Those findings mirrored an earlier study analyzing school construction costs in Maryland and five other mid-Atlantic states, including West Virginia. Again, the study found no statistically significant increase in construction costs associated with prevailing wage regulations. In fact, of the states analyzed, West Virginia had the second-lowest median per square foot school construction costs.⁶ Similar studies examining school construction costs in the southwest,⁷ Great Plains,⁸ and across all 50 states⁹ also found prevailing wage regulations do not increase school construction costs.

Studies have also shown that states that have weakened or repealed their prevailing wage laws have not experienced significant savings or job growth. In Michigan, construction costs did not change significantly when prevailing wage

regulations were suspended, while the repeal of Ohio’s prevailing wage also did not affect its construction costs. In Kentucky, the adoption of a prevailing wage law for school construction did not increase construction costs.¹⁰ And, while the inflation-adjusted wages for Kansas’s construction workers fell by 11 percent after the repeal of the state’s prevailing wage law, Kansas did not build schools any cheaper than its surrounding states that still had prevailing wage laws.¹¹

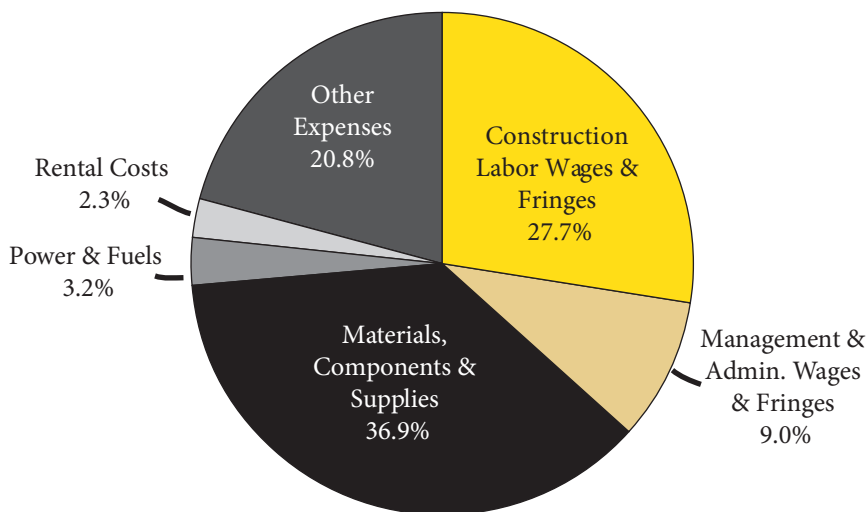
In 1997, the Pennsylvania Department of Labor and Industry changed its method of determining prevailing wage and benefit rates, which resulted in a reduction in the prevailing rates in many of the state’s construction occupations. This reduction in wage rates did not have a measurable impact on the state’s construction costs.¹²

Despite the abundance of evidence finding that prevailing wage laws do not significantly affect construction costs, opponents of West Virginia’s prevailing wage law contend that the law is costing the state hundreds of millions of dollars.¹³ These claims, however, are greatly exaggerated.

For example, the West Virginia Chamber of Commerce claims that West Virginia’s prevailing wage laws, “cost the public a minimum of 25 percent more on public works paid for with public funds.”¹⁴ It contends that West Virginia’s prevailing wage rates are too high, increasing the costs of public construction projects by at least 25 percent. However, this claim is unrealistic.

According to the 2007 Economic Census, labor costs account for 27.7 percent of West Virginia’s total construction costs (Figure 2). And for the sectors of the construction industry that would be most impacted by the state’s prevailing wage law, labor’s share is even smaller. Labor accounts for 26.0 percent of total costs for commercial and institutional building construction, and only 17.3 percent of total costs for highway, street, and bridge construction. Heavy construction typically has lower labor costs due to the use of heavy equipment, which raises labor productivity. With higher labor productivity, higher wages can be paid, even as labor costs are a smaller share of total costs.

Figure 2
Labor Share of Construction Value, West Virginia



Source: WVCBP analysis of U.S. Census Bureau, 2007 Economic Census, Construction Industry Series Data.

If labor only accounted for 27.7 percent of total costs, then it is virtually impossible to reduce total costs by 25 percent by reducing the state’s prevailing wage rates, like the Chamber claims. For example, assume that the state has a \$1 million

construction project. Labor costs at 27.7% of construction costs would mean the state is paying about \$277,000 for labor under the prevailing wage law.

If the prevailing wage adds 25 percent to the state’s total construction costs, like the Chamber claims, then the state should only be spending \$800,000 on the project, with the prevailing wage adding \$200,000 in excess costs. Therefore, the state would have to reduce labor costs from \$277,000, to just \$77,000 in order to eliminate the 25 percent increase in total costs that the Chamber claims the prevailing wage adds. In other words, labor costs would have to decrease by 72 percent in order to reduce total costs by 25 percent (**Table 1**).

TABLE 1
Changes in Total Construction Costs through Reducing Labor Costs

	Actual With Prevailing Wage*	Without Prevailing Wage**	Change
Labor Costs	\$277,000	\$77,000	-72.2%
Non-Labor Costs	\$723,000	\$723,000	0.0%
Total	\$1,000,000	\$800,000	-25.0%

Source: WVCBP analysis of U.S. Census Bureau, 2007 Economic Census, Construction Industry Series Data

*Assumes wage costs are equal to 27.7% of total construction costs – 2007 Economic Census

**Assumes prevailing wage law adds 25% to total construction costs – WV Chamber of Commerce

Note: Percent change in labor costs is calculated relative to labor costs with a prevailing wage. Percent change in total costs is calculated relative to total costs without a prevailing wage, consistent with WV Chamber’s statement.

The decline in wages necessary to achieve a 25 percent reduction in total construction costs is implausibly large. For example, a cement mason in Kanawha County would have to have his wages fall from \$28.70 per hour under the prevailing wage¹⁵ to just \$7.98 per hour, below the state’s minimum wage. And workers would have to be just as productive being paid \$7.98 per hour as they were when they were paid \$28.70.

Claims that West Virginia could save hundreds of millions of dollars by repealing its prevailing wage law are unrealistic, and could only be realized by paying poverty-level wages to the state’s construction workers, all without negatively affecting their productivity.

Comparing Prevailing Wage Rates

Opponents of West Virginia’s prevailing wage law overstate its costs in part because they exaggerate the state’s prevailing wage rates compared to average wage rates. For example, a report from the Public Policy Foundation of West Virginia critical of the state’s prevailing wage claimed that the state’s method of calculating wage rates was flawed, and resulted in prevailing wage rates that are an average of 49 percent higher than the average market wage.¹⁶ However, the method used to compare wage rates was itself flawed.

The study compared the prevailing wage rates set by the West Virginia Division of Labor with the average wages for construction occupations from the Bureau of Labor Statistics Occupational Employment Statistics (OES), showing that West Virginia’s prevailing wage rates are an average of 49% higher than the average wages for construction occupations from the OES.

While the OES allows for comparisons by occupations, it is not an appropriate source to compare average market wage rates with prevailing wage rates. The OES data includes workers in the residential construction sector, which typically employs workers with lower skill levels and less experience than those who work on large projects typically funded by the

state. Prisons, schools, and bridges are larger, more complex projects than what is found in the residential construction sector, and require more skilled and experienced workers. As a result, the workers are higher paid.

Data from the Quarterly Census of Employment and Wages (QCEW) show this difference, with workers in nonresidential construction earning much higher wages than workers in residential construction. Rather than demonstrating a flaw in the calculation of West Virginia’s prevailing wage rates, the gap between the average wages from the OES and the prevailing wage rates set by the Division of Labor reflects the gap between residential and nonresidential construction. For example, electricians who work on non-residential projects make more than 50 percent more than electricians who work on houses, while non-residential roofers make more than double what residential roofers earn (**Table 2**).

TABLE 2
Average Weekly Wages in Residential and Nonresidential Construction, West Virginia (2013)

Establishment	Residential Average Weekly Wage	Nonresidential Average Weekly Wage	Difference
Building Construction	\$514.40	\$1,134.29	120.5%
Poured Concrete Structure	\$440.69	\$884.50	100.7%
Framing	\$442.69	\$936.08	111.5%
Masonry	\$463.90	\$931.40	100.8%
Glass and Glazing	\$589.25	\$858.79	45.7%
Roofing	\$404.31	\$928.85	129.7%
Electricians	\$766.15	\$1,153.21	50.5%
Drywall	\$507.40	\$1,004.67	98.0%
Painting	\$449.88	\$802.75	78.4%
Carpentry	\$500.90	\$645.73	28.9%

Source: Workforce West Virginia, Quarterly Census of Employment and Wages

The gap between wages for residential and nonresidential construction workers is not unique to West Virginia. There are similar gaps for construction workers in West Virginia’s neighboring states, including Virginia, which does not have a prevailing wage law (**Table 3**).

TABLE 3
Average Weekly Wages in Residential and Nonresidential Construction (2013)

State	Residential Average Weekly Wage	Nonresidential Average Weekly Wage	Difference
Kentucky	\$733	\$1,079	47.2%
Maryland	\$1,015	\$1,399	37.8%
Ohio	\$804	\$1,149	42.9%
Pennsylvania	\$821	\$1,279	55.8%
Virginia	\$926	\$1,204	30.0%

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

While the wage data from the QCEW better reflects the difference between residential construction and the type of construction typically affected by the prevailing wage, it is not itself a good source for determining prevailing wage rates.

The wages in the QCEW are the average of all workers at a particular establishment, which can include multiple occupations and jobs. So, while the QCEW shows that workers at a roofing establishment earn an average weekly wage of \$928 in West Virginia, those workers are not all necessarily roofers. That wage figure includes managers, receptionists, and other non-roofing occupations that can exist in a roofing establishment.

In addition, the average weekly wage in the QCEW is calculated by dividing the annual wage by 52 (weeks). The construction industry is very seasonal, with most workers working less than 52 weeks in a year (according to the Current Population Survey, West Virginia construction workers work an average of 44 weeks per year). This makes construction workers' average weekly wages appear lower in the QCEW, since it includes several weeks of not working. For example, construction worker earning \$25/hour, but only working 44 weeks/year would show up in the QCEW as earning \$946/week or the equivalent of \$21.15/hour. And since the prevailing wage is set hourly, the two are not comparable.

If West Virginia's prevailing wage rates were drastically higher than average market rates, West Virginia's construction costs should also be higher than other states, particularly those without prevailing wage laws. But as Figure 1 showed, that is not the case, with West Virginia's construction costs below or equal to neighboring states without prevailing wage laws.

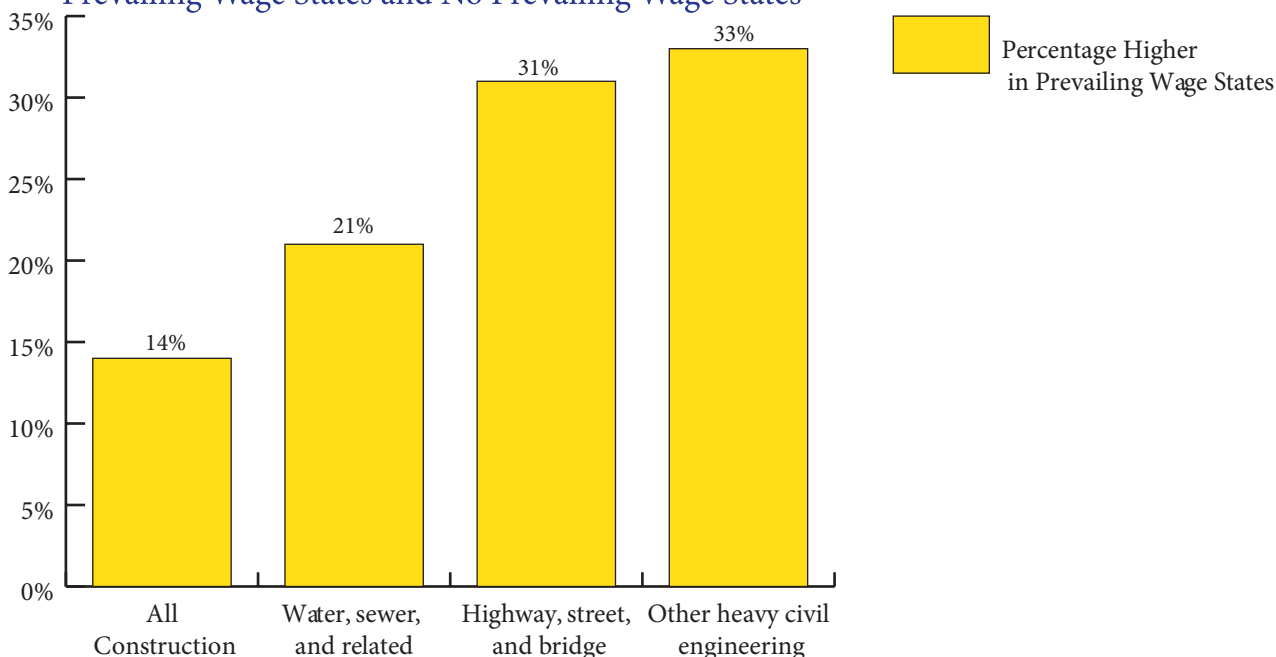
Prevailing Wage and Productivity

Research has consistently shown that prevailing wage laws do not add significant costs to public construction projects, nor does the repeal of prevailing wage laws lead to significant savings. This is because the higher wages offered under prevailing wage laws are reflected in higher worker productivity.

In states with prevailing wage laws, the value added per construction worker is, on average, 14 percent higher than in states without prevailing wage laws. The difference in productivity is even greater when looking at segments of the construction industry where much of the work is public construction. In highway, street, and bridge construction, value added per worker is 31 percent higher in states with prevailing wage laws and 33 percent higher for other heavy civil engineering. In water, sewer, and related construction, it is 21 percent higher in states with prevailing wage laws (**Figure 3**).

Figure 3

Difference in Value Added per Construction Worker, Prevailing Wage States and No Prevailing Wage States



Source: : Peter Phillips, "Kentucky's Prevailing Wage Law: An Economic Impact Analysis."

The higher value added per worker in prevailing wage states reflects the higher human capital that prevailing wage laws create. Higher wages, as well as health and retirement benefits, help attract and retain workers with more experience and know-how. This human capital results in lower costs, from reducing the need for supervisors to lowering training and recruiting costs.

The greater skill and productivity in the construction industry that results from prevailing wage laws is very important for the public sector, due to how the bidding process on government projects work. In the private sector, lower bids can be overlooked for higher bids that can deliver higher quality work, but in the public sector, the lowest bid must be accepted. Prevailing wage laws help ensure that all of the bids on a public project are using high quality, skilled labor, and that the lowest bid is not simply the lowest due to the use of cheap labor.

When states pay the prevailing wage for their public construction projects, not only do the workers receive better pay, but the public gets a more experienced, skilled, and productive workforce completing the projects.

Other Benefits of Prevailing Wage

The benefits of prevailing wage laws are not limited to better pay for construction workers and more productive workforce for states. For example, since prevailing wage laws encourage training and retention, and attract a more experienced and skilled workforce, prevailing wage laws are associated with fewer workplace injuries and worker compensation costs in the construction industry.¹⁷ In Kansas, serious-injury rates in the construction industry increased by 21 percent after the state's prevailing wage law was repealed.¹⁸ In addition, construction workers in states without a prevailing wage law reported 12 percent more disabilities than construction workers in prevailing wage states.¹⁹

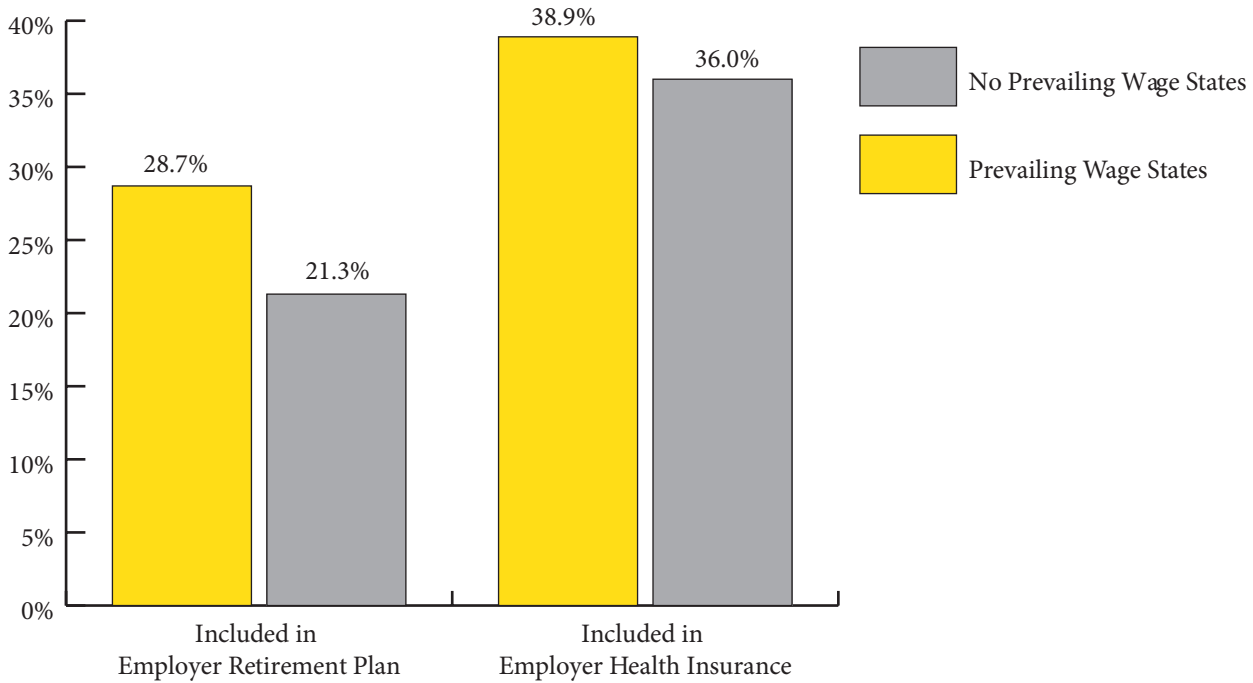
States with prevailing wage laws have fewer injuries in the construction sector because their construction workers are more skilled and experienced. And those workers are more skilled and experienced because states with prevailing wage laws have more apprenticeship training. With greater worker retention in prevailing wage states, companies are more willing to invest in apprenticeship training.²⁰

Prevailing wage laws also encourage employers to provide health and pension benefits. Many prevailing wage laws, like West Virginia's, establish a minimum contribution for fringe benefits. As a result, construction workers in states with a prevailing wage law are more likely to have both a retirement plan and health insurance than in states that do not. And those workers are also less likely to receive food stamps, or live in poverty (**Figures 4 and 5**).

The repeal of West Virginia's prevailing wage law could result in thousands of construction workers losing their employer-sponsored retirement and health care benefits, while the lower wages would put many at risk of falling into poverty.

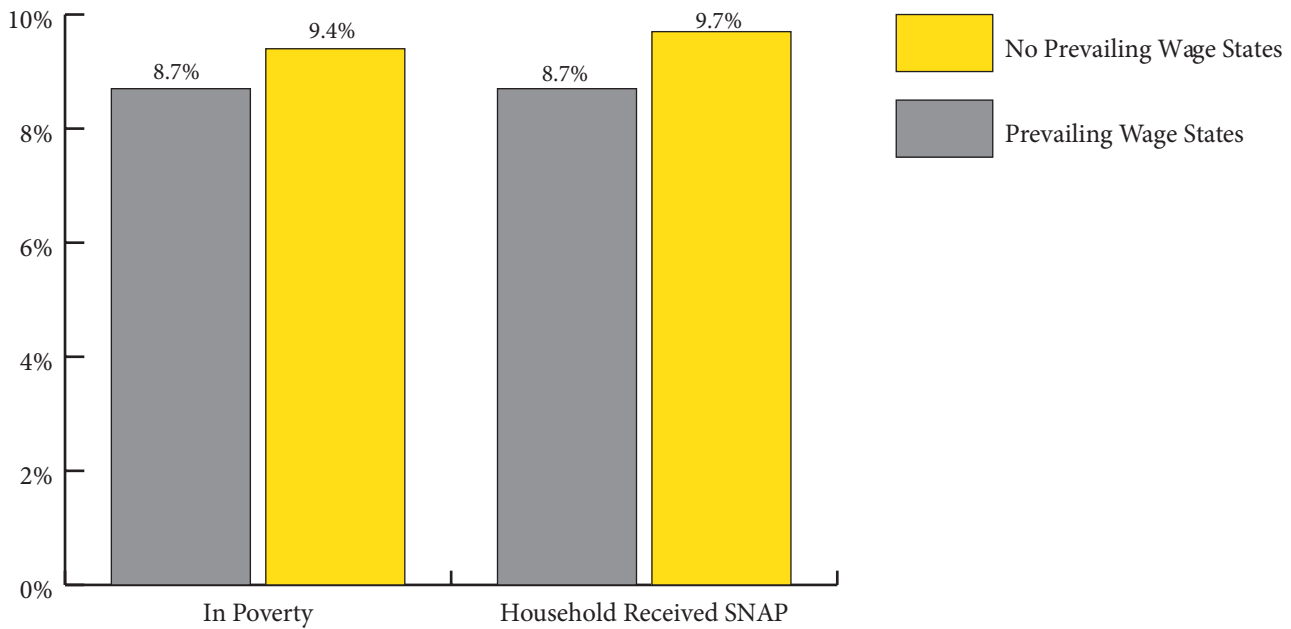
Weakening West Virginia's prevailing wage law by requiring the use of OES data rather than the state survey would also put many construction workers at risk of falling into poverty. As mentioned above, construction workers often work seasonally, and according to Census data, work on average only 44 weeks, or approximately 1,760 hours per year. For a roofer earning Kanawha County's prevailing wage of \$27.25 per hour, the prevailing wage creates a modest annual income of \$49,050. But using the OES average wage of \$13.78, as advocated by the Public Policy Foundation of West Virginia and others, would result in an annual income of \$24,253, which is below the poverty threshold for a family of four.

Figure 4
Retirement and Health Care Benefits in Prevailing Wage and Non-Prevailing Wage States



Source: WVCBP analysis of 2012-2014 U.S. Census Bureau, Current Population Survey data.

Figure 5
Poverty and SNAP Reciprocity in Prevailing Wage and Non-Prevailing Wage States



Source: WVCBP analysis of 2012-2014 U.S. Census Bureau, Current Population Survey data.

Conclusion

West Virginia's prevailing wage law creates a more productive and efficient construction industry. Rather than increasing construction costs, the human capital developed by prevailing wage laws raises productivity and quality. That's why research has failed time and time again to find significant cost increases attributable to prevailing wage laws, while the savings promised to states that have repealed or weakened their laws fail to materialize.

Claims that West Virginia could save hundreds of millions of dollars by repealing or weakening its prevailing wage law are not based on empirical evidence and are without merit. Instead, the facts show that West Virginia's construction costs are already lower than many of its neighboring states, even those without a prevailing wage law. Instead, weakening West Virginia's prevailing wage law would hurt local workers, send tax dollars out of state, and provide the public with a poorer return on its investment.

Endnotes

- 1 West Virginia Code §21-5A
- 2 <http://www.dol.gov/whd/state/dollar.htm>
- 3 <http://www.charlestondaily.com/article/20141214/DM01/141219616>
- 4 Nooshin Mahalia, “Prevailing Wages and Government Contracting Costs - A review of the research,” (Economic Policy Institute, Briefing Paper 215, July 8, 2008).
- 5 Michael P. Kelsay, “The Adverse Economic Impact from Repeal of the Prevailing Wage Law in West Virginia,” (Prepared for the West Virginia Affiliated Construction Trades Foundation, January 22, 2015).
- 6 Mark Prus, “Prevailing Wage Laws and School Construction Costs – An analysis of Public School Construction in Maryland and the Mid Atlantic States,” (Prepared for the Prince George’s County Council, Maryland, January 1999).
- 7 Peter Phillips, “Square Foot Construction Costs for Newly Constructed State and Local Schools, Offices and Warehouses in Nine Southwestern and Intermountain States,” (Prepared for the Legislative Education Study Committee of the New Mexico State Legislature, September 6, 1996).
- 8 Peter Phillips, “Kansas and Prevailing Wage Legislation,” (Prepared for the Kansas Senate Labor and Industries Committee, February 20, 1998).
- 9 Hamid Azari-Rad, Peter Phillips, Mark Prus, “Making Hay When it Rains: The Effect of Prevailing Wage Regulation, Scale Economies, Seasonal, Cyclical and Local Business Patterns have on School Construction Costs,” *Journal of Education Finance* 27 (Spring 2002): 997-1012.
- 10 Peter Phillips, “A Comparison of Public School Construction Costs In Three Midwestern States that Have Changed Their Prevailing Wage Laws in the 1990s: Kentucky, Ohio and Michigan,” (Utah: University of Utah, 2001).
- 11 Phillips (1998).
- 12 Howard Wial, “Do Lower Prevailing Wages Reduce Public Construction Costs?” (Keystone Research Group, Briefing Paper 99/2, July 1999).
- 13 <http://www.charlestondaily.com/article/20141214/DM01/141219616>
- 14 <http://www.wvchamber.com/CWT/External/WCPages/WCWebContent/WebContentPage.aspx?ContentID=2661>
- 15 <http://www.sos.wv.gov/administrative-law/wagerates/Documents/kanawha.pdf>
- 16 Andrea M. Dean, “An Economic Examination of West Virginia’s Prevailing Wage Law,” (The Public Policy Foundation of West Virginia, January 2009).
- 17 Hamid Azari-Rad, “Prevailing Wage Laws and Injury Rates in Construction,” in Azari-Rad et al., *The Economics of Prevailing Wage Laws*.
- 18 Phillips (1998).
- 19 Peter Phillips, “Kentucky’s Prevailing Wage Law: An Economic Analysis,” (Utah: University of Utah, 2014).
- 20 Mark Price and Stephen Herzenberg, “The Benefits of State Prevailing Wage Laws,” (Keystone Research Group October 2011).