

LITTLE DAVIS-BACON:
AN ECONOMIC CRITIQUE OF ATTACKS ON
STATE PREVAILING WAGE LEGISLATION

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Reno, Nevada
April 1996

FISHER, SHEEHAN & COLTON
PUBLIC FINANCE AND GENERAL ECONOMICS
33126 S.W. CALLAHAN ROAD ** SCAPPOOSE, OREGON 97056
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I. INTRODUCTION

Many states have little "Davis-Bacon" acts. These acts require that "prevailing wages" be paid on most public construction projects. The purpose of these laws is to encourage competition in public contract bidding on the basis of profit rates, management efficiency, overhead costs, and innovation and to discourage competition based on which contractor is most effective is breaking down family wage pay and benefit rates.

Prevailing wage legislation grew out of the problems and abuses of the Depression. Itinerant contractors with low wage labor from the poorest parts of the nation would target states with a generally higher standard of living and then underbid local contractors. This pattern of bidding resulted in widespread economic dislocation and a downward spiral in economic conditions for workers and contractors, as well as for local governments.¹

The problem became severe enough that in 1931 the Hoover administration and its congressional allies enacted what

¹ As will be demonstrated below, the reduction in local wages and other income is generally not mirrored in reduced construction costs. The impacts on local families and businesses, this is to say, were often *not* made up for in project savings, leaving target communities worse off in net.

came to be known as the Davis-Bacon Act.² This act required that contractors on federally funded projects pay wage levels "prevailing" in the area where the work was to be done. This means that competition among contractors would be based on management skill, engineering capability, and profit rates, and not on the basis of wages.³ The Davis-Bacon Act has resisted various attempts at repeal and is still in force today.

The Act covers federally funded projects. At the state and local level, however, the same tactics were being applied by the same itinerant, low-wage contractors. To combat abuses at the state and local levels, by 1969 forty one states and the District of Columbia had passed what were called "little" Davis-Bacon Acts.⁴

There have been many efforts to repeal these acts by low wage construction contractors, other entities with an

² Currently codified at 40 USC 35 et seq. See Ray Marshall, "America Still Needs Davis-Bacon." *National Journal* (October 1981), p.1837.

³ The Davis-Bacon Act, of course, is not the only limitation on "competition" to protect workers. All contractors have to pay into, and may not bid away, Social Security, cover their workers with workers' compensation and unemployment insurance, and comply with minimum wage and health and safety laws (though the trend toward "contracting out" is an effort in this direction). For the history of the struggles to obtain some of this protective legislation and to get a flavor of what unbridled "competition" would mean, see Lawrence M. Friedman, *A History of American Law*. New York: Simon & Schuster (1973) Part III, chapters 6 and 9.

⁴ Azari-Rad, Yeagle & Philips, "The Effects of the Repeal of Utah's Prevailing Wage Law on the Construction Labor Market." In *Labor Law Reform*, edited by Ronald Seeber, et al. Ithaca: Cornell University Press, 1993.

economic interest in seeing wages lowered, and their allies.⁵ Academic economists have participated in both sides of the various debates, emphasizing the usual run of blackboard issues. In the end, some of these laws have been repealed, but most have not. What follows is a review of the economic arguments employed by both sides in an attempt to repeal Oregon's Little Davis-Bacon Act by referendum in 1994.⁶

This paper develops the economics of prevailing wage legislation and reviews the arguments, economics and data of groups both challenging and supporting the legislation.

II. THE OREGON CHALLENGE AND THE FRAUNDORF STUDY

The Oregon Act requires that:

"The hourly rate of wage to be paid by any contractor or subcontractor to workers upon all public works shall not be less than the prevailing rate of wage for an hour's work by the same trade or occupation in the locality where such labor is performed." ORS 279.350(1).

"Prevailing rate of wage" is defined as:

⁵ The Center to Protect Worker's Rights, *The War on Wage Protection: The Business Offensive*. Washington, D.C., The Center to Protect Worker's Rights (October 1979). Page 6.

⁶ ORS 279.348 to 279.365.

"(T)he hourly wage, including all fringe benefits under section (4) of this section, paid in the locality to the majority of workers employed on projects of similar character in the same trade or occupation, as determined by the Commissioner of the Bureau of Labor and Industries." ORS 279.348(1).

The Act covers both state and local public works projects.

The central claim of supporters of repeal in Oregon (and all jurisdictions) has been that without the Act public project costs to the public would be reduced by large amounts.⁷ The argument was that high wage rates (including health, pension and other fringes) could be sharply reduced if contractors were allowed to hire labor willing to work for substantially less.

In Oregon the bulwark of these arguments was a study done in 1982 by Martha Fraundorf and John Farrell (both economists) and Robert Mason (of the Survey Research Center) at Oregon State University. ("Fraundorf Study" or "Fraundorf").⁸ The claim was that the conclusions of the study supported the arguments for repeal in Oregon.

The study was based on a multiple regression analysis of a sample of one hundred *rural* counties nationwide and then a further sample of projects in those counties.

Going down the list of counties, if a federal project was identified, then private projects in that county were sifted to

⁷ "(O)ver \$200 million," by "as much as \$100 million each year," and by "hundreds of millions of dollars." Secretary of State, *Oregon Voters Pamphlet (November 1994)*. Salem, OR (nd), pages 60, 62 and 63.

⁸ Fraundorf, Farrell & Mason, "Effect of the Davis-Bacon Act on Construction Costs in Non-Metropolitan Areas of the United States." Corvallis: Department of Economics, OSU (January 1982).

determine if a private project of roughly the same characteristics as the federal project existed. If a match was found, then the paired projects were added to the data set, otherwise a similar private project from outside the county was paired with the federal project. In the end, 537 projects were identified, half subject to Davis-Bacon and half not subject either to the Davis-Bacon Act or similar state legislation.

| Table 1 DISTRIBUTION OF PROJECTS BY REGION | | |
|---|--------|------------|
| Region | Number | Percentage |
| Northeast | 19 | 8.8 |
| North Central | 68 | 32.6 |
| South | 89 | 41.4 |
| West | 39 | 18.1 |
| | | |
| TOTAL | 215 | 100.0 |

SOURCE: Fraundorf, et al, op.cit. Table 4-1, p.17.

Preliminary contacts were attempted with each of the contractors involved. For various reasons 152 of the 537 were eliminated at this stage, leaving a sample of 385. The survey was performed on these 385 projects/firms. The number of satisfactorily completed questionnaires were 215. Tables 1 and 2 show the characteristics of the sample.

| Table 2 DISTRIBUTION OF PROJECTS BY TYPE | | |
|---|--------|------------|
| Type | Number | Percentage |
| Office-Commercial | 122 | 56.7 |
| Industrial | 62 | 28.8 |
| Storage | 14 | 6.5 |
| Medical | 11 | 5.1 |
| Amusement | 8 | 3.7 |
| Other | 7 | 3.3 |
| TOTAL | 224 | 104.1 |

SOURCE: Fraundorf, et al, op.cit. Table 4-2, p.17. Results sum to more than 100% due to multiple responses.

The results of the survey with respect to wages are presented in Table 3:

Based on these results, Fraundorf concludes,

"Except for supervisors, construction workers were, on average, paid significantly higher wages on projects subject to Davis-Bacon prevailing wage requirements than on private projects. The increase above the mean rate on private projects ranged from 12.9% to 23.2%."⁹

Yet Fraundorf is good about noting the possible substitution effects arising out of the higher wages. Capital may be substituted for labor, but more important, more

| Table 3 WAGE RATES BY CRAFT Public versus Private Projects | | | |
|--|-----------------|------------------|------------------|
| Craft | Hourly Wages | | Percent Increase |
| | Public Projects | Private Projects | |
| Carpenters | \$9.378 | \$7.875 | 19.1 |
| Masons | 9.135 | 8.029 | 12.9 |

⁹ Fraundorf, op.cit. p.18.

| | | | |
|---------------------|-------|-------|------|
| Iron Workers | 9.350 | 7.586 | 23.2 |
| Finishers | 7.717 | 6.308 | 22.3 |
| Operating Engineers | 9.751 | 8.206 | 18.8 |
| Laborers | 6.551 | 5.428 | 20.7 |
| Supervisors | 9.689 | 9.968 | -2.8 |

SOURCE: Fraundorf, et al, op.cit. Table 4-5, p.18.

productive labor may be substituted for less productive labor.¹⁰ For this reason the overall cost of the building was the unit of analysis and not wage differentials. Table 4 presents the results of Fraundorf's analysis by building component.

Table 4 is fascinating. The purpose of using a multiple regression model is to control for non-target variables so as to isolate the impact of the target variable on the dependent variable. Here, however, there is a problem. Davis-Bacon only affects directly wage rates. This means that if the public and private projects in the sample

¹⁰ Op.cit. pages 5, 8 and 9.

| Table 4 COSTS OF PUBLIC AND PRIVATE BUILDINGS BY COST COMPONENTS | | | |
|--|----------------------|------------------|----------------|
| Cost Component | Cost in 1977 Dollars | | Public/Private |
| | Public Projects | Private Projects | |
| Labor | \$92,371 | \$47,762 | 1.934 |
| Subcontracting | 557,975 | 212,695 | 2.623 |
| Materials | 136,089 | 88,304 | 1.541 |
| Equipment | 16,716 | 6,490 | 2.576 |
| Other Direct Costs | 9,570 | 3,938 | 2.430 |
| Overhead and Profit | 49,179 | 27,321 | 1.800 |
| TOTAL COSTS | 708,074 | 360,503 | 1.964 |

SOURCE: Fraundorf, et al, op.cit. Table 4-12, p.23.

are indeed *paired* by characteristics, i.e. they are essentially the same project except for coverage by the Act, then it is suspicious to find that *all components* (including materials and equipment) are higher by very large amounts for public

projects. It is not apparent why a paired public building would require 54% more material and 157% more equipment than the more or less identical private building.

"Other overhead costs" was defined to include "financing charges, project utilities costs, the costs of performance bonds" and record keeping.¹¹ Interestingly, Fraundorf notes that for firms reporting record keeping expenses separately, costs for *private projects* were substantially higher than for public projects: 1.70% versus 1.4% of total cost.¹²

Finally, Fraundorf tells us that for office-commercial and industrial buildings (comprising roughly 85% of the sample of projects) "(t)he Davis-Bacon coefficient is large and significant at standard levels . . . and for the North Central region, but *not significant for the West and South*."¹³

"The regional results are unexpected. It is not at all obvious why the Davis-Bacon Act would raise costs substantially in the North Central region but not significantly in the South or West. *A possible explanation is that the Act in fact has little effect on cost in rapidly growing regions such as the West and South.*"¹⁴

In sum, Fraundorf concludes that the Act increases costs for the overall survey between 26% and 37.7%, but not for

¹¹ Fraundorf, op.cit. p.24.

¹² Ibid, p.24.

¹³ Ibid, p.25.

the South and West census regions.

III. THE RESPONSE

A. THE FRAUNDORF STUDY

The Fraundorf study had several weaknesses with respect to Oregon and generally.

- ★ The report did not find a statistically significant increase in costs for two of the four main census regions, the South and the West;
- ★ Moreover, even for the survey at large, some or all of the variation may be due to building characteristics, and more importantly, to the presence of other federal protective legislation on federal projects, the effect of which cannot be separated out from that of Davis-Bacon and would be there even if Davis-Bacon were repealed.¹⁵

Fraundorf also cautions the reader that the data covers only the impact of Davis-Bacon on non-residential buildings in rural areas.

¹⁴ Ibid, p.25.

¹⁵ Fraundorf discusses the impact of affirmative action programs on raising costs, for example, at some length. See page 24.

"The impact of Davis-Bacon on the cost of projects in urban areas or of other types [sic] could conceivably be quite different."¹⁶

Not covered at all, for example, were highway and bridge projects.

Also interesting is that Fraundorf specified several multi-regression forms. In the linear form, "the R²s are low and the Davis-Bacon variable is not significant."¹⁷

Finally, and critically for the Oregon effort, the study's conclusions were based on 215 interviews with contractors *nationwide*. Only 39 successful interviews were from projects from the thirteen states of the Western Census region, including California. There is no information in the study that tells us how many of the 39 interviews were from Oregon.

However, 94% of the population of the Western States region was not in Oregon in 1980 (see below). If we assume that successful interviews were roughly in proportion to the populations of the various western states in the Census Region as of 1980, then only 2-4 of the 39 interviews would have been from Oregon. Since the interviews were "paired" (p.31), this means that the total number of *public* projects surveyed in Oregon was no more than two. The study presents no

¹⁶ Ibid, p.27.

¹⁷ Ibid, p.22.

information at all relating specifically to the Oregon projects studies, if, indeed, there were any.

B. THE IOWA REGENTS STUDY

In 1985, Peter Fisher of the Graduate Program in Urban and Regional Planning at the University of Iowa and the current author conducted a study of the likely impacts of the adoption of a prevailing wage act by the state of Iowa.¹⁸

The methodology used was different from that adopted by Fraundorf. The data set was Board of Regent construction projects for the University of Iowa for the years 1982-85, totalling 14 major projects. For each project in the data set, the lowest bid submitted by a union firm and the lowest bid submitted by a non-union firm were recorded. Where a union firm was the lowest bidder, it was assumed that the contract went to a firm paying what would have been the prevailing wage had there been a prevailing wage law.

The labor component of contract costs was estimated using data from the *1982 Census of Construction Industries: General Contractors--Non-Residential Buildings, Other Than Industrial Buildings and Warehouses*.

Data from this report showed that 1982 there were on average about 0.02 hours of construction worker labor for each \$1.00 of construction firm revenues. Since data on bid amounts was available, it was possible to multiply the lowest union

¹⁸ Fisher & Sheehan, *The Economic Impacts of a Prevailing Wage Law for Iowa State Construction Projects*. Iowa City: Fisher, Sheehan & Colton (1985).

bid times the labor factor, and then times the hourly union wage rate, to get labor cost on union bid projects and similarly for non-union company bids. No effort was made to account for differences in productivity between union and non-union workers, and a very large union versus non-union wage differential (\$14 per hour versus \$7) was accepted for the purposes of the analysis.

The results are presented in tables 5 and 6.

Table 5

**UNION VERSUS NON-UNION CONTRACTOR BIDDING
IN A NON-DAVIS-BACON ENVIRONMENT
University of Iowa Projects
1982-5**

| Project | Lowest Bid | | Winning Bid | BID DIFFERENTIAL | | Estimated Labor Costs | |
|-------------------------|-------------|-------------|-------------|------------------|------------|-----------------------|------------|
| | Union | Non-Union | | Amount | % Increase | Union | Non-Union |
| A | C | E | G | I | J | L | N |
| UI Theater | XXXXXX | XXXXXXXX | XXXXXXXXXX | XXXXX | XXXXXXXXXX | XXXXXXXXXX | XXXXXXXXXX |
| General | \$3,664,748 | \$3,378,000 | Non-Union | \$286,748 | 8.5% | \$1,026,129 | \$513,065 |
| Mechanical | 643,800 | 643,300 | Non-Union | 500 | 0.1% | 180,264 | 90,132 |
| Electrical | 994,540 | 910,553 | Non-Union | 83,987 | 9.2% | 278,471 | 139,236 |
| Fieldhouse | 4,252,700 | 3,987,000 | Non-Union | 265,700 | 6.7% | 1,190,756 | 595,378 |
| Comm Building | XXXXXX | XXXXXXXX | XXXXXXXXXX | XXXXX | XXXXXXXXXX | XXXXXXXXXX | XXXXXXXXXX |
| General | 2,888,000 | 2,816,900 | Non-Union | 71,100 | 2.5% | 808,640 | 404,320 |
| Electrical | 516,502 | 352,310 | Non-Union | 164,192 | 46.6% | 144,621 | 72,310 |
| Mechanical | 901,106 | 802,400 | Non-Union | 98,706 | 12.3% | 252,310 | 126,155 |
| Oakdale Addition | 6,486,000 | 5,888,250 | Non-Union | 597,750 | 10.2% | 1,816,080 | 908,040 |
| Carver Pavilion Phase C | 3,893,800 | 4,078,950 | Union | Union | -2.3% | 1,115,464 | 557,732 |
| Colloton Pavilion | XXXXXX | XXXXXXXX | XXXXXXXXXX | XXXXX | XXXXXXXXXX | XXXXXXXXXX | XXXXXXXXXX |
| B Ext. Shell | 6,316,500 | 6,345,000 | Union | Union | -0.4% | 1,768,620 | 884,310 |

Table 5

**UNION VERSUS NON-UNION CONTRACTOR BIDDING
IN A NON-DAVIS-BACON ENVIRONMENT**
University of Iowa Projects
1982-5

| Project | Lowest Bid | | Winning Bid | BID DIFFERENTIAL | | Estimated Labor Costs | |
|---------------------|------------|------------|-------------|------------------|-------------|-----------------------|-----------|
| | Union | Non-Union | | Amount | % Increase | Union | Non-Union |
| A | C | E | G | I | J | L | N |
| B Completion | 13,015,500 | 12,582,300 | Non-Union | 433,200 | 3.4% | 3,644,340 | 1,822,170 |
| Alumni Center Add'n | 753,300 | 699,500 | Non-Union | 53,800 | 7.7% | 210,924 | 105,462 |
| Law School | 15,334,742 | 15,777,500 | Union | Union | -2.8% | 4,293,728 | 2,146,864 |
| Indoor Prac. Fac. | 1,287,700 | 1,271,712 | Non-Union | 15,988 | 1.3% | 360,556 | 180,278 |
| | | | | | | | |
| TOTAL | 61,038,938 | 59,533,675 | N/A | 2,071,671 | 3.5% (Note) | 17,090,903 | 8,545,451 |

SOURCE: Fisher & Sheehan, *The Economic Impacts of a Prevailing Wage Law for Iowa State Construction Projects*. Iowa City: Fisher, Sheehan & Colton (1985), revised Table 2.

NOTE: Not statistically significant.

Table 6

UNION VERSUS NON-UNION CONTRACTOR BIDDING
IN A NON-DAVIS-BACON ENVIRONMENT
University of Iowa Projects
1982-5

| Project | Labor Cost Differential | Non-Labor Costs Plus Profit | | Non-Union Labor Savings Not Passed Through | Savings Percentage Passed Through |
|-------------------------|-------------------------|-----------------------------|------------|--|-----------------------------------|
| | | Union | Non-Union | | |
| A | P | R | T | V | X |
| UI Theater | XXXXXX | XXXXXXXX | XXXXXXXXXX | XXXXX | XXXXXXXXXX |
| General | \$513,065 | 2,638,619 | 2,864,935 | 226,317 | 55.9% |
| Mechanical | 90,132 | 463,536 | 553,168 | 89,632 | 0.6% |
| Electrical | 139,236 | 716,069 | 771,317 | 55,249 | 60.3% |
| Fieldhouse | 595,378 | 3,061,944 | 3,391,622 | 329,678 | 44.6% |
| Comm Building | XXXXXX | XXXXXXXX | XXXXXXXXXX | XXXXX | XXXXXXXXXX |
| General | 404,320 | 2,079,360 | 2,412,580 | 333,220 | 17.6% |
| Electrical | 72,310 | 371,881 | 280,000 | Note 1 | Note 1 |
| Mechanical | 126,155 | 648,796 | 676,245 | 27,449 | 78.2% |
| Oakdale Addition | 908,040 | 4,669,920 | 4,980,210 | 310,290 | 65.8% |
| Carver Pavilion Phase C | Union | 2,868,336 | 4,078,950 | Union | N/A |
| Colloton Pavilion | XXXXXX | XXXXXXXX | XXXXXXXXXX | XXXXX | XXXXXXXXXX |
| B Ext. Shell | Union | 4,547,880 | 6,345,000 | Union | N/A |

| Table 6 | | | | | |
|--|----------------------------|-----------------------------|------------|---|--------------------------------------|
| UNION VERSUS NON-UNION CONTRACTOR BIDDING IN A NON-DAVIS-BACON ENVIRONMENT University of Iowa Projects 1982-5 | | | | | |
| Project | Labor Cost Differential | Non-Labor Costs Plus Profit | | Non-Union Labor Savings Not Passed Through | Savings Percentage Passed Through |
| | | Union | Non-Union | | |
| A | P | R | T | V | X |
| B Completion | 1,822,170 | 9,371,160 | 10,760,130 | 1,388,970 | 23.8% |
| Alumni Center Add'n | 105,462 | 542,376 | 594,038 | 51,662 | 51.0% |
| Law School | Union | 11,041,014 | 15,777,500 | Union | N/A |
| Indoor Prac. Fac. | 180,278 | 927,144 | 1,091,434 | 164,290 | 8.9% |
| | | | | | |
| TOTAL | 4,956,545 | 43,948,035 | 54,577,130 | 2,976,756 | 41.8% |

SOURCE: Fisher & Sheehan, *The Economic Impacts of a Prevailing Wage Law for Iowa State Construction Projects*. Iowa City: Fisher, Sheehan & Colton (1985), revised Table 2.

NOTE 1: The bid differential here is more than twice the labor differential and so is excluded from this column as an aberration.

Tables 5 and 6 are designed to address two issues: Whether there is a significant difference between the bids of the lowest union and the lowest non-union firms bidding on the 14 projects; and whether the differential in the lowest bids reflects the non-union firm passing on the full savings of its lower wage package to the public.

Fourteen projects are listed in column A in table 5. The lowest bids from both union and non-union firms are shown in columns C and E. Column G shows whether the bid was won by a union or non-union firm. Column I is critical; it shows the margin by which the winning non-union firm underbid the lowest bidder in the union category.

1. Are the Paired Bids Significantly Different?

Refer to columns C and E of table 5. The differences in the low union and low non-union firm bids were analyzed using a t test for paired differences. The variations in the bidding were not significant at the 5% level. Put another way, the differences in the bid amounts are consistent with a conclusion that a prevailing wage law would **not** significantly raise the public's cost of public projects.

It is also consistent with the claims on the part of labor, union contractors, and a number of studies, that union labor, while higher paid per hour, is better trained and organized and significantly more productive, thereby offsetting in whole or

in part the wage differential.¹⁹

2. How Much of the Wage Differential is Passed Through in Lower Bids by Non-Union Contractors?

Many proponents of repeal have argued that a way to determine savings to government by repeal of Davis-Bacon or Little Davis-Bacon Acts is to determine the union versus non-union wage differential in percentage terms and then multiply that percentage times the labor component of the construction program.^{20 21} The second purpose of the Iowa Regents Study was to investigate this claim.

To do this the study held labor hours constant, i.e. assumed that there were no productivity gains associated with using union labor. The *Census of Construction's* labor hours factor of 0.02 was applied to the lowest union bid and then

¹⁹ See, for example, Allan B. Mandelstamm, "The Effect of Unions on Efficiency in the Residential Construction Industry," *Industrial and Labor Relations Review*, July 1965; Steven G. Allen, *Unionized Construction Workers are More Productive* (Washington, D.C., Center to Protect Workers' Rights, 1979); Clinton C. Bourdon and Raymond E. Levitt, "A Comparison of Wages and Labor Management Practices in Union and Non-Union Construction," MIT, Research Report No. R-78-3, all cited in Jeff Vincent, "State Prevailing Wage Laws and Construction Costs: A Reply to Professor Thieblot," ____, Indiana: Institute for the Study of Labor in Society, Indiana University (March 1987), p.5. Interestingly, see also Fraundorf, et al, op.cit. p.8-9 for a decent survey of the literature.

²⁰ For example, if the labor cost of a project under prevailing wage was \$1 million, and non-union wages were only 80% of union wages, then the savings under repeal would be calculated as $80\% \times \$1 \text{ million} = \$200,000$.

²¹ See, for example, Secretary of State, *Voters' Pamphlet: State of Oregon General Election November 8, 1994*. Salem, OR:

these hours were used as the common labor hours requirement for both the lowest union bidder and the lowest non-union bidder.

Average union wages were estimated to be \$14 per hour with non-union wages at \$7 per hour. The common number of hours were then valued at these two wage rates to get the labor cost for each project for the lowest bidder in each category.

The difference between the two wage bills, i.e. labor hours at prevailing wage (here assumed to be union scale) versus labor hours at the non-union wage level, was taken to be the amount that an equally efficient non-union firm could afford to underbid the low union bidder on average.

Recall that the issue here is whether the non-union bidders pass through all their labor cost savings to the public, as claimed implicitly by many proponents of repeal, or whether they underbid just enough to get the bid and then pocket the difference as higher profits?

To test this, the bid differential (column I in table 5) was compared with the labor cost differential, column P in table 6. Full pass through should show the bid differential equal to the labor cost differential. What do we find?

Column X on table 6 shows the results. The amounts passed through range from 0.6% of the labor cost savings (UI

State of Oregon (nd), pp.61-5.

Theater Mechanical), to 78.2% (Communications Building Mechanical). The average pass through being only 41.8% of the total labor cost differential. **58.2% of the labor cost savings was not passed through.**

IV. CONCLUSIONS

In a recent attempt to repeal Oregon's Little Davis-Bacon Act by initiative more or less standard arguments were made that prevailing wage laws in general, and Oregon's act in particular, result in substantial additional costs to the public.

Two studies were reviewed here. The study by Fraundorf, et al, published by Oregon State University in 1982, and the Fisher & Sheehan study of University of Iowa projects in 1982-5. The Fraundorf study dealt with public (Davis-Bacon) projects compared to private (non-Davis-Bacon) projects in nearby areas; the Iowa study dealt with paired union versus non-union firms bidding on the same projects in a non-prevailing wage environment.

Major conclusions from the two studies:

- ★ Fraundorf concluded that the federal Act produced a significant impact on project in rural areas overall, but for two of the four U.S. census regions (South and West) the federal Davis-Bacon Act produced **no significant impact** on project costs;
- ★ Fraundorf was unable to distinguish between the impact of the Davis-Bacon Act on project costs and other federal protective legislation applying to the same projects;

- ★ The Iowa study concluded that there was no significant difference between the bids of low union and non-union bidders on Regent's projects; and,
- ★ The Iowa study concluded that non-union firms passed on less than half (42%) of their estimated labor cost savings in lower bid amounts.

In sum, based at least on the two studies reviewed here, the case against prevailing wage laws on the grounds that their repeal would significantly lower the costs of public projects, appears to be weak, especially for the South and West U.S. Census regions.

More work needs to be done in several areas:

Comparative Productivity Neither study reviewed here dealt in any detail with the issue of union productivity as an offset to higher wages. This is an important factor in any analysis of prevailing wage laws.

Revenue Impacts for State and Local Governments Another part of the Iowa study (not reviewed here) dealt with the prospective tax and revenue impacts in Iowa of adopting a prevailing wage act, as did later work by economists in Oregon.²² Tax and revenue ramifications may be an important part of the impact on government and should be evaluated

²² Sheehan, *Financial Impact on State and Local Governments of the Proposed Repeal of Oregon's Prevailing Wage Statute: A Review of the Proposed Impact Statement*. Scappoose, OR: Fisher, Sheehan & Colton (August 1994).

for inclusion in all reviews of prevailing wage laws.

Who Gains?, Who Loses? The Iowa study dealt with the distributional impacts of prevailing wage laws to the degree that the study demonstrated that cost savings associated with lower wages are largely kept by non-union contractors and not passed through. An important part of public decisionmaking legitimately relates to who get the benefits and losses arising out of various policy options in this area.

Comprehensive Community Welfare Impacts Neither study reviewed here, of course, was a comprehensive review of general benefits and costs to state and local communities affected by the choice. Studies of Davis-Bacon issues need to be more comprehensive than they have been historically, if decisionmakers are to avoid making decisions with serious unanticipated side effects. Oregon does require that all initiatives and referenda have to have a state staff-produced fiscal impact statement. Part of the current author's only partially successful effort in dealing with the fiscal analysts involved was to attempt to broaden the analysis.

The curious reader may not wish to reach the end of this paper without finding out the outcome of the referendum. In the very same election that ushered in the Republican revolution in both Congress and the Oregon legislature, the effort to repeal Oregon's Little Davis-Bacon Act was defeated by a vote of almost 2 to 1.

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