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Introduction

Good afternoon, Chairman Hoffman, Vice Chair Jones, Spokeswoman Ives, and Members of the Committee. My name is Robert Bruno and I am a Professor of Labor and Employment Relations in the School of Labor and Employment Relations at the University of Illinois at Urbana-Champaign. I also serve as Director of the Labor Education Program and Director of the Project for Middle Class Renewal. My testimony today addresses three key points. First, I discuss the purpose of the Illinois Prevailing Wage Law. Second, I describe the substantial body of evidence on the effect of repealing state prevailing wage laws on workers and the economy. And third, I discuss an October 2013 study that I co-authored with peers at the University of Illinois and Michigan State University on the economic and social impacts of repeal of the prevailing wage law in Illinois.

What Is the Illinois Prevailing Wage Act?

Enacted in 1941, the Illinois Prevailing Wage Act is a law in Illinois that supports blue-collar construction workers employed on public construction projects. Prevailing wages are essentially minimum wages on publicly-assisted projects. Illinois law requires that contractors and subcontractors submit "certified payrolls" each month to the government body in charge of a public project. In Illinois, the law applies to all laborers, workers, mechanics, and those who transport materials and equipment in public works construction projects.

The Illinois Prevailing Wage Act levels the playing field for all contractors by ensuring that state and local expenditures maintain and reflect local area standards for wages and benefits. Public construction bidding is different from the private construction sector. Public bodies in Illinois are required to select the lowest responsible bidder. In the low-bid model, contractors are always incentivized to aim to lower their bids wherever possible, including through inefficient reductions in worker wages, benefits, and apprenticeship training or benefits. Thus, long-term investments in workers training, health, and well-being are often jettisoned by contractors to win bids on short-term projects.

The Illinois Prevailing Wage Act is a partial solution to this problem. By taking labor costs out of the equation for contractors, the prevailing wage law incentivizes construction contractors to compete on the basis of efficiency and core competencies, rather than on undermining middle-class compensation standards. Under the Illinois Prevailing Wage Act, responsible low bids are the result of a combination of superior management practices, labor, and logistics. Additionally, by protecting area standards workers can afford to live in the county where they are building the critical infrastructure necessary for economic development and public safety.

Review of Previous Studies on Repealing Prevailing Wage Laws

A review of the prevailing wage scholarly literature reveals mostly conclusive results. Papers on this topic range in methodological approach, but common results tend to show that prevailing wage repeals are associated with negative labor market outcomes for workers with negligible or fully-offset cost savings. Conversely, state prevailing wage laws are typically found to be worth the additional cost, providing substantial benefits to states.

Previous research has established that repeal of state prevailing wage laws lowers construction wages within a state (Kessler & Katz, 2001). The effect of repeal ranges by study. For instance, University of Missouri, Professor Michael Kelsay finds that repeal decreases construction worker wages by between 3.2 percent and 5.1 percent (Kelsay, 2016). However, a recent economic analysis found that repeal of a strong or average prevailing wage law reduces blue-collar construction worker earnings by between 15.7 percent and 17.2 percent (Manzo et al., 2016). Another January 2018 study on the impact of Indiana repealing its prevailing wage law found that repeal decreased blue-collar construction worker wages by 8.5 percent. Economic studies across the Midwest have estimated that repeal of state prevailing wage laws would reduce construction worker incomes by $756 million in Wisconsin (Duncan & Lantsberg, 2015), $305 million in Missouri (Kelsay, 2016), and $152 million in Kentucky (Philips, 2014).

Repealing or weakening prevailing wage laws are also associated with less work for local contractors. Across the country, the average share of construction work completed by out-of-state firms is 2 percent higher in states that either do not have a prevailing wage law or have a weak prevailing wage law (Manzo et al., 2016). An analysis of public school projects in Mid-Atlantic states revealed that the probability of winning a bid is 5 percent lower for in-state contractors in states that do not have prevailing wage laws. Similarly, a case study from southern Indiana illustrates how the weakening of Indiana's prevailing wage act negatively impacted local contractors. Public works construction employment in the 13 southernmost Indiana counties decreased by over 800 jobs (-21 percent) after the wage policy was weakened. Over the same period, public works construction employment grew by nearly 800 jobs (21 percent) in 14 border counties across the river in Kentucky, where wages were lower. Weakening the prevailing wage law resulted in greater demand for low-wage, out-of-state workers (Manzo, 2016).

Because repeal of a state prevailing wage law reduces incomes for construction workers and reduces the market share of local contractors, repeal has a negative impact on public budgets. A 2017 working paper finds that the absence of state prevailing wage laws reduces income tax and property tax revenues by 17 percent while raising the number of workers on government assistance programs (Philips & Blatter, 2017). Repeal of prevailing wage laws also increases the probability that a given construction worker will qualify for food stamps and Earned Income Tax Credit assistance (Manzo et al., 2016). Conversely, the preponderance of previous research on prevailing wages and their impact on total construction costs indicates that prevailing wage laws do not have a noticeable effect on the cost of public construction projects (Duncan & Ormiston, 2017). Ultimately, repeal of prevailing wage laws does not save money for governments; rather, it reduces their tax revenue collections while increasing expenditures on public assistance programs.

Forecasting the Impacts of Repeal of the Prevailing Wage Law in Illinois

In October 2013, I co-authored a report titled, *A Weakened State: The Economic and Social Impacts of Repeal of the Prevailing Wage Law in Illinois* with two University of Illinois researchers, Alison Dickson Quesada and Frank Manzo IV, and Professor Dale Belman of Michigan State University. The study was the first comprehensive examination of the economic and social impacts of the Illinois Prevailing Wage Act, and provided a forecast of the effect of a hypothetical repeal of the law. The study was grounded in years of prior academic research on the effects of repealing prevailing wage laws.

We found that repeal of Illinois' prevailing wage law would have negative economic effects on the state. The study forecasted that lower construction worker wages would reduce consumer demand in the Illinois economy, causing a net loss of about 3,300 jobs. The drop in construction worker wages and the rise in out-of-state contractors winning bids on public construction projects would reduce Illinois' gross domestic product (or GDP) by $1.1 billion annually, resulting in more than $44 million in lost state and local tax revenue. The impact would be negative across all regions in the state. For example, in the Springfield metro area, repeal would reduce construction worker earnings by over $10 million and shrink the regional economy by nearly $27 million.

Detrimental social impacts would also accompany a potential repeal of prevailing wage in Illinois. While states with prevailing wage laws maintained an average fatal work-related injury rate of 10.8 deaths per 100,000 construction workers, states without prevailing wage experienced an average construction worker fatality rate of 12.1 deaths per 100,000 workers. The primary reason is that workers are less-skilled in states without prevailing wage laws. The share of apprenticeships to the overall construction workforce is 14.4 percent in states with prevailing wage laws. In states without prevailing wage laws, apprentices account for just 7.7 percent of the construction workforce. Ultimately, we estimated that an additional 70 construction workers would lose their lives over a decade if prevailing wage is repealed and apprenticeship programs are weakened in Illinois.

Finally, we found no substantial evidence that state prevailing wage laws are harmful to any demographic group's participation in the construction industry. For instance, claims that prevailing wage laws reduce African-American participation in construction are based on unconvincing and flawed analyses. In fact, a February 2018 study that I co-authored with researchers at the Illinois Economic Policy Institute (ILEPI) found that state prevailing wage laws reduce racial income inequality in construction, boosting incomes while having no negative impact on employment opportunities for underprivileged groups (Manzo et al., 2018).

Conclusion

Economic and social science research generally finds that repealing state prevailing wage laws are bad public policy. Repeal of a prevailing wage laws reduces construction worker incomes and increases the chances that out-of-state contractors will come in, win bids on public projects, and take their earnings back with them to their home state. As a result, repeal of a prevailing wage law reduces consumer demand, shrinks the economy, and causes tax revenues to decline without having a discernible impact on public construction costs.

Prevailing wages for public construction projects in Illinois provide numerous positive economic and social impacts for both construction workers and the state as a whole. Contrarily, repeal of the Illinois Prevailing Wage Act would not result in savings for taxpayers. Rather, repeal of Illinois' prevailing wage law would result in a decline in training opportunities, an increase in construction worker fatalities, and job losses throughout the state's economy.

Repeal of prevailing wage should be rejected as a policy tool because it is grounded in a view of the Illinois economy that depends on reducing the incomes of workers. Most elected officials run on the promise of lifting wages, helping the middle class, and creating jobs. Repealing a prevailing wage law accomplishes none of these objectives. Maintaining and strengthening prevailing wage, however, generates equitable opportunities and fosters middle-class prosperity for the residents of Illinois.

Sources

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