

**Testimony of Kevin Duncan, Ph.D.**  
**Professor of Economics**  
**Colorado State University–Pueblo**  
**Before the Labor & Commerce Committee**  
**Illinois House of Representatives**  
**Illinois General Assembly**

**At a Hearing Titled “Impacts of Repealing the Prevailing Wage”**

**February 27, 2018**

Good afternoon, Chairman Hoffman, Vice Chair Jones, Spokeswoman Ives, and Members of the Committee, and thank you for allowing me to submit my testimony into record. My name is Kevin Duncan and I am a Professor of Economics at the Hasan School of Business at Colorado State University–Pueblo. My research on construction labor market policy has informed public policy in 20 states. In recent years, states and municipalities have been increasingly engaged in heated, often partisan, debates over the future of prevailing wage laws. In addition to the repeal of state prevailing wage laws in Arkansas, West Virginia, Wisconsin, Indiana, and Kentucky, there have been high-profile political challenges in several states, including Illinois. To provide clarity to the debate in Illinois, this testimony highlights recent academic findings, identifies empirical shortcomings of non-academic studies, and discusses a recent report that I co-authored with Frank Manzo IV of the Midwest Economic Policy Institute on the effects of Indiana repealing its prevailing wage law.

Among policymakers and researchers, the predominant interest in prevailing wage laws has been in understanding their effect on public construction costs. The most common public argument supporting the repeal of existing prevailing wage laws has been that doing so will save taxpayer dollars. This logic assumes that repeal will lead to lower wages and, as a result, lower labor costs on public projects. However, this argument ignores fundamental differences between high-wage and low-wage construction. This includes skill and productivity differences between high-wage and low-wage workers, greater use of capital equipment as labor costs increase, increased rates of training and safety among high-wage workers, and other issues.<sup>1</sup> These effects have the potential to offset some, if not all, of the cost increases associated with higher wage and benefit rates.

Studies that conclude that prevailing wage laws increase construction costs typically rely on a simplistic empirical approach that produces biased estimates called the “wage differential” method. Rather than use actual contractor bids to measure the cost impact of the policy, this approach multiplies the wage premium associated with prevailing wages by the labor cost share of total construction costs—typically between 20 and 25 percent. The subsequent product is touted as the increase in public construction costs attributable to the presence of a prevailing wage law.<sup>2</sup>

However, studies relying on the wage differential approach suffer from methodological defects that render them ineffective and misleading as critical analyses.<sup>3</sup> For example, this method

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<sup>1</sup> Manzo IV, Frank; Alex Lantsberg; and Kevin Duncan. (2016). *The Economic, Fiscal, and Social Impacts of State Prevailing Wage Laws: Choosing Between the High Road and the Low Road in the Construction Industry*. Illinois Economic Policy Institute; Smart Cities Prevail; Colorado State University-Pueblo.

<sup>2</sup> For example, see: Horwitz, Jason. (2014). *Illinois’ Prevailing Wage Law and the Cost of Education Construction*. Anderson Economic Group, LLC.

<sup>3</sup> Duncan, Kevin. (2016). *The Wage Differential Method: Promising Construction Costs Savings with the Repeal or Weakening of Prevailing Wage Laws that Cannot be Delivered*. Colorado State University-Pueblo.

rules out the potential cost offsets attributable to contractors hiring fewer and more skilled workers or substituting capital for more expensive labor. Additionally, contractor profits and material costs have been found to be lower in states with prevailing wage laws, demonstrating that the burden of cost increases may be shared between contractors and taxpayers.<sup>4</sup> As a result, the wage differential method produces inaccurate estimates of the cost effects of prevailing wage laws based on an incomplete understanding of construction labor markets.

By contrast, the most advanced studies published in recent years do not support the hypothesis that prevailing wages increase public construction costs. These studies are based on the statistical analysis of hundreds and even thousands of contractor bids submitted under competitive market conditions. Seven out of eight rigorous analyses using the preferred method of economists—regression—failed to find statistically significant evidence that prevailing wage laws have any effect on school construction costs.<sup>5</sup> I have also analyzed the cost impact of the federal Davis-Bacon Act on highway maintenance costs in Colorado. Federal funding requires the payment of Davis-Bacon prevailing wages while state-funded projects in Colorado are not covered by a wage policy. After accounting for project size, complexity, location, year, and terrain, the Davis-Bacon Act has no effect on average project costs or on bid competition.<sup>6</sup> Results also indicate that the wage policy does not affect the level of bid competition.

While peer-reviewed economic research fails to find evidence that prevailing wage laws increase total construction costs, it does indicate that prevailing wage laws promote worker training and increased safety. Prevailing wage laws allow for employer contributions to training funds to be counted as a part of the compensation required under the law and allowing enrolled workers to be paid at rates less than the prevailing wage during their apprenticeships. Professor Cihan Bilginsoy of the University of Utah examined the impact of state prevailing wage laws on apprenticeship training across the 36 states for which data was available and found that apprenticeship enrollment was 6 to 8 percent higher in states with prevailing wage laws, a statistically significant outcome. The results also demonstrated that apprenticeship program completion rates were significantly higher in states with prevailing wage laws. Because they are better trained, construction workers in states with prevailing wage laws are also safer. Professor Hamid Azari-Rad, now Chair of the Economics Department at the State University of New York New Paltz, analyzed the construction industry and found that non-fatal injury rates were 7 to 10 percent lower in states with a prevailing wage law.

Drawing on both the peer-reviewed economic research and actual economic data since 2013, Frank Manzo IV and I recently assessed the impact of Indiana repealing its prevailing wage law—called the Common Construction Wage Act—in January 2018. We analyzed 903 total bids on 335 school construction projects in 14 northern Indiana counties between January 2013 and September 2017 and found that repeal had no effect on the cost per public school project. Additionally, there was no statistical difference in the share of school construction projects won by union contractors

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<sup>4</sup> Duncan, Kevin and Alex Lantsberg. (2015). *How Weakening Wisconsin's Prevailing Wage Policy Would Affect Public Construction Costs and Economic Activity*. Colorado State University-Pueblo; Smart Cities Prevail.

<sup>5</sup> Duncan, Kevin and Russell Ormiston. (2017). *Prevailing Wage Laws: What Do We Know?* Institute for Construction Economics Research.

<sup>6</sup> Duncan, Kevin. (2015) (a). "The Effect of Federal Davis-Bacon and Disadvantaged Business Enterprise Regulations on Highway Maintenance Costs," *Industrial and Labor Relations Review*, 68(1): 212-237; Duncan, Kevin. (2015) (b). "Do Federal Davis-Bacon and Disadvantaged Business Enterprise Regulations Affect Aggressive Bidding? Evidence from Highway Procurement Auctions," *Journal of Public Procurement*, 15(3): 291-316.

due to repeal of prevailing wage. These findings parallel the economic consensus on the cost effect of prevailing wage laws.<sup>7</sup>

Ultimately, we find that repeal of prevailing wage produced negative impacts on Indiana's construction industry. Repeal statistically reduced blue-collar construction worker wages by more than 8 percent, increased the share of low-skilled workers in construction by more than 4 percentage points, and increased worker turnover in public works construction by 1 percentage point as lesser-educated individuals replaced high-skilled workers. Repeal had negative consequences for workers, contractors, and taxpayers in Indiana.

Time and again, studies investigating the aftermath of repealing state prevailing wage laws have found that repeal does not save taxpayer dollars but does weaken the construction industry.<sup>8</sup> Lawmakers in Illinois would do well to consider the effects of repeals in other states— including neighboring Indiana— along with the bulk of peer-reviewed economic research. More often than not, the promises made by those in favor of repealing prevailing wage fail to be delivered after the fact.

**About the Author:**

Kevin Duncan, Ph. D. is a Professor of Economics at Colorado State University-Pueblo and has been a visiting scholar at the Institute for Research on Labor and Employment at the University of California, Berkeley. He teaches business and regional economics in the Hasan School of Business. Duncan has conducted applied research for the local chamber of commerce, the economic development corporation, businesses, non-profits, various state and local policy proposals, and labor unions. He has also examined the effect of prevailing wage laws on construction costs and productivity, construction worker poverty and reliance on public assistance, minority employment in the construction industry, and the economic impact of the wage policy. Duncan's research has been used in 20 states to inform construction labor market policy. His research on prevailing wage laws has appeared in leading national and international peer-reviewed academic journals such as *Construction Management and Economics* (University of Reading, UK), *Industrial and Labor Relations Review* (Cornell University), and *Industrial Relations* (UC Berkeley). He received his Ph. D. in Economics from the University of Utah and his BA in Economics from the University of California, Riverside.

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<sup>7</sup> Manzo IV, Frank and Kevin Duncan. (2018). *The Effects of Repealing Common Construction Wage in Indiana: Impacts on Ten Construction Market Outcomes*. Midwest Economic Policy Institute; Colorado State University-Pueblo.

<sup>8</sup> For example, see: Philips, Peter; Garth Mangum; Norm Waitzman; and Anne Yeagle. (1995). *Losing Ground: Lessons from the Repeal of Nine 'Little Davis-Bacon' Acts*. University of Utah.