



Michigan's Prevailing Wage Act: Will Common Sense Prevail?

by Mark Fischer

Summary

Michigan's Prevailing Wage Act mandates that artificially high union wages be paid for all construction projects financed by the state. Repealing the law would save taxpayers hundreds of millions of dollars in unnecessary construction costs each year.

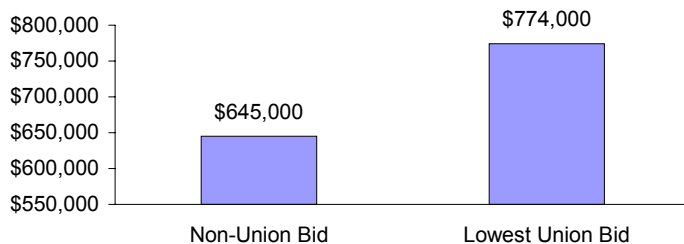
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Suppose the state government wants to build two new state police posts, and it requests bids from contractors around the state. The bids received from both union and non-union firms exceed the state's budget due to excessive labor rates. If you were the decision maker in charge, what would you do?

Being a responsible steward of taxpayer funds, you would probably ask the companies to submit revised bids reflecting more competitive labor rates. In 18 states, that would be the correct answer. Unfortunately, Michigan, like 31 other states, has a "prevailing wage" law that effectively makes labor costs "non-negotiable" for non-union companies bidding on state construction projects.

Michigan's Prevailing Wage Act of 1965 mandates that "prevailing rates of wages and fringe benefits" be paid for all construction work performed under contracts financed by the state. This includes everything from state-sponsored highway work and public housing to school construction. In reality, these "prevailing" wage rates are based on union wage and benefit scales.

Union and Non-Union Contractor Bids on Carrollton Public Schools Renovation



Each year, Michigan's prevailing wage law unnecessarily boosts the cost of government construction projects by hundreds of millions of dollars. The added expense to taxpayers hurts schools by making it more difficult for districts to pass bond measures for needed construction and renovation projects.

The framework of the prevailing wage law also reflects the rigid job classifications present in unions. This places non-union competitors who do not use similar classifications at a disadvantage since they frequently must add workers at the inflated wage rate in order to compete for state projects.

This was not always the case in Michigan. In 1994, a federal district court judge ruled that the state law was preempted by ERISA, a federal pension law. Consequently, the prevailing wage act was not enforced between 1994 and 1997. A subsequent appellate court decision reinstated the law in June 1997, making it possible to analyze the effects of both the law and its

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temporary repeal. In research conducted for the Mackinac Center for Public Policy, nationally recognized economist Dr. Richard Vedder, Distinguished Professor of Economics at Ohio University, examined the state economy's performance in the 30 months that the prevailing wage statute was suspended and the 30 months prior to the district court's nullification of the law.

The results should have Michigan's taxpayers hopping mad in the era of budget surpluses and tax cut debates. Vedder's analysis reveals that, even under extremely conservative assumptions, repealing the law would have saved the state and its localities \$275 million in state governmental capital outlays in fiscal year 1995 alone. That amounts to giving each Michigan taxpayer a five percent rebate on his state income tax payments for that year. Something comparable could be saved in almost any year if the law were repealed.

In Saginaw County, a Carrollton Public School renovation project is just one of many examples of the dramatic savings witnessed during the prevailing wage law's brief suspension. A non-union contractor's bid of \$645,000 for that project was nearly \$124,000 lower than the lowest union contractor bid of \$774,000—a difference of 16 percent.

The hypothetical state police project at the beginning of this article was based in part on an actual state request for bids in Michigan. Now for the rest of the story: The bids, received just prior to the district court's suspension of the prevailing wage requirement, were deemed too costly. The contractors were told to revise their bids, taking the new ruling into account. The low bidder trimmed \$72,000 off of its labor costs and won the contracts, much to the chagrin of its unionized competition.

If the economic evidence against Michigan's prevailing wage law isn't compelling enough, consider the law's odious origins. Michigan's law was modeled on the federal Depression-era Davis-Bacon Act of 1931, a law rooted in union lobbying and racism. The federal law was intended to protect the high wages of union construction workers—predominately white Northerners—at the expense of Southern black, non-union workers. One congressman who supported Davis-Bacon actually made reference to the “problem” of “cheap colored labor” on the floor of the U. S. House.

This is a shameful bit of history, and Michigan should join Alabama, Arizona, Colorado, Idaho, Kansas, Louisiana, New Hampshire, and Utah in discarding it as the state enters the twenty-first century.

Michigan lawmakers now have the advantage of 20/20 hindsight as they re-evaluate the prevailing wage law. The 30-month period during which the law was suspended has given us invaluable information—information that shows the law is little more than special-interest legislation that benefits a few at the expense of the many.

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(Mark Fischer is a labor research assistant at the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. More information on labor law is available at www.mackinac.org. Permission to reprint in whole or in part is hereby granted, provided the author and his affiliation are cited.)

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