

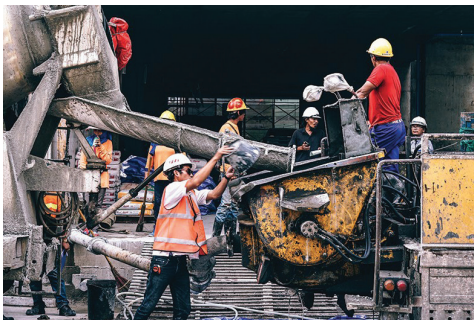
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How Much Will the Repeal of Prevailing Wage Save Taxpayers in Michigan?

Summary

Michigan will save at least \$250 million each year, and probably more than that, from having repealed its prevailing wage law.

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The recent repeal of the prevailing wage mandate gives government officials the chance to save taxpayers hundreds of millions of dollars each year.

It's complicated, but a reasonable estimate is in the hundreds of millions

By Jarrett Skorup

Now that Michigan has repealed its prevailing wage law, the big question is how much it will save each year, either directly for taxpayers or to be spent elsewhere. The law mandated using union contracts to set the pay of workers on public construction projects — those done primarily for schools, roads, bridges, universities, city halls, prisons, and so forth.

A recent piece in MLive critiqued the gubernatorial campaign of Attorney General Bill Schuette for projecting cost savings of \$250 million, which was based on a 2007 study published by the Mackinac Center for Public Policy.

Costs and government spending have both increased since then, so it is likely that the 2007 number actually understates the case today. Michigan is spending around \$5 billion this year on education- and transportation-related construction alone, so saving even 5 percent equates to \$250 million. If the prevailing wage added 10 percent to the cost of those projects, its repeal means an extra \$500 million that could go toward getting a lot more work done.

The size of the financial impact will depend on several factors. The first is how much mandated union wages have added to the cost of public projects. The 2007 study put its estimate at 10 to 15 percent of the cost of construction projects in the state. That is primarily based on what happened when Michigan operated without the law for three years in the 1990s. The estimate also encompasses the difference in wages between union and nonunion workers, how much wages contribute to the overall cost of taxpayer-funded construction projects and the total amount spent on such projects.

A 2015 study from the Anderson Economic Group, focusing on school construction, estimated a project premium of 6 percent. But the union wage premium varies across regions and occupations. A glazier in the Upper Peninsula, for example, showed that the prevailing wage law led to 16 percent higher costs for taxpayers, with no better service.

A second factor in determining how much citizens will save is the amount the state and other units of government spend on construction and how much of that spending is affected by other wage laws. In Michigan,

\$2.1 billion worth of construction projects for K-12 schools, universities and community colleges is affected each year by the prevailing wage law. According to the federal Bureau of Labor Statistics, Michigan will spend \$4.3 billion on transportation construction projects this year, and \$3 billion of that funding comes from state taxes and fees. Spending on transportation is set to increase in the coming years. However, the cost savings will be reduced by the federal Bacon-Davis Act, which still carries a prevailing wage requirement for many road projects.

Third, governments may use the savings to buy more or better goods rather than require less from taxpayers. For example, school projects are paid for by locally issued bonds. Local school boards might ask voters for smaller tax levies to support those bonds, or they may instead build better or larger buildings.

A related point is that public officials won't necessarily choose the best deal for taxpayers when bidding out for construction projects. Cities and counties across Michigan are already considering workarounds to the law so they can protect labor unions. To a certain extent, then, it's up to public officials to determine how much money might be saved. Some might choose to take full advantage of the change and provide taxpayers with savings or improved services, while others might not.

Unions and their allies have argued that union labor operates more efficiently, so repealing the prevailing wage law brings no savings. This is unlikely: If union labor operated more efficiently, providing a better service at a comparable cost, repealing prevailing wage laws would hardly matter. Thankfully, local governments will now be free to consider what they pay and what they get for it, and they have lots of incentive to give the bid to the best firm, whether union or not.

State prevailing wage laws don't make sense. Households and corporations don't mandate a "prevailing wage" when they commission work for their homes or businesses. Instead, they get a fair bid and consider their options. It's nice to know that public bodies across Michigan can now do the same.

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