WebMemo
Published by The Heritage Foundation
No. 1562
July 23, 2007

Davis–Bacon for Ethanol: A Special Interest Handout That Will Raise Gasoline Prices

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An amendment to the House's farm bill (H.R. 2419) would extend Davis–Bacon Act wages, which are set far above average market wages, to workers building new ethanol plants. Labor unions favor Davis–Bacon mandates because they block price competition from nonunion competitors, but the higher wages bring no public benefits and actually harm taxpayers by increasing the costs of covered projects. In this case, Davis–Bacon wages would raise the cost of producing ethanol, in turn raising the price of ethanol-blended gasoline. Congress should not add a Davis–Bacon provision to the farm bill.

Davis–Bacon Raises Costs. Congress passed the Davis–Bacon Act in 1931 to protect unionized northern white workers from competition from nonunion southern blacks who were moving north to work on construction projects.[1] It serves a similar purpose today, shielding unionized construction firms from nonunion competition.

Davis–Bacon requires contractors on federal construction projects to pay workers a federally defined "prevailing wage." The methodology used to calculate this prevailing wage sets it close to union wage scales and well above average wages. Davis–Bacon requirements help unionized construction firms to win federal construction contracts—even though they pay above-market wages—because their nonunion competitors must also pay inflated union wages.

Davis–Bacon coverage raises the price of construction projects dramatically. Table 1 shows Davis–Bacon wages and average market wages in several U.S. cities. Davis–Bacon rates are typically 15 to 40 percent higher than average wages for the same job. In some cases, Davis–Bacon rates more than double the competitive wage.

Taxpayers foot the bill for these inflated wages when contractors pass on the cost of higher Davis–Bacon wages to the federal government. The Government Accountability Office found that Davis–Bacon increases federal contractors' costs by over $1 billion per year.[2] The Davis–Bacon Act is a classic example of a Washington handout that sends tax dollars to a special interest without providing any public benefit.

Farm Bill Extends Davis–Bacon. The Farm Bill Extension Act of 2007 is filled with provisions to direct taxpayers' dollars to politically connected special interest groups. For example, the bill would give agribusiness corporations hundreds of billions of dollars to farm their land in some cases and *not* to farm their land in others. Congress is poised to add another special interest handout to the bill by extending the reach of Davis–Bacon.

The farm bill provides government loan subsidies for the construction of new plants that convert corn

This paper, in its entirety, can be found at:
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Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

Table 1 WM 1562

Davis-Bacon Wages in Selected Cities

	Detroit	Pittsburgh	Philadelphia	Houston	New York	Washington, DC
Carpenter						
Davis-Bacon	n/a	$25.64	$32.65-33.75	$19.50	$34.47-40.25	$23.37
Market Rate	n/a	$18.46	$20.64	$12.77	$23.94	$20.20
Electrician						
Davis-Bacon	$33.55	$30.08	$31.09-41.91	$23.05	$43.00	$32.45
Market Rate	$31.92	$19.16	$18.84	$22.76	$35.63-41.47	$25.37-26.97
Plumber						
Davis-Bacon	$31.03	$30.15	$38.93	$24.46-25.43	$45.51	$31.52
Market Rate	$23.32	$22.05	$25.09	$16.55	$32.27	$21.43
Laborer						
Davis-Bacon	$24.68-25.93	$19.32-20.07	n/a	$9.29-12.90	$28.86	$11.83-18.41
Market Rate	$18.79	$13.24	n/a	$11.53	$23.80	$11.89

Note: Market rates are from the period November 2005-April 2006, and Davis-Bacon Rates are from February or March 2007.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, at *www.bls.gov/ncs/ocs/compub.htm*, and U.S. Government Printing Office, Davis-Bacon Wage Determinations by State, at *www.gpo.gov/davisbacon/allstates.html.*

into ethanol. This itself is an unjustifiable special interest subsidy, because even without the subsidies, businesses would build ethanol plants to meet the new federal fuel requirements. On top of this handout, Congress appears ready to add another: A widely supported amendment to the Farm bill requires contractors building plants backed by these loan guarantees to pay Davis–Bacon wages.[3]

This provision would make it more expensive to build ethanol plants in the United States, raising the price of ethanol in the process. Ethanol producers must recoup the cost of their more expensive plants, so they will charge more for the ethanol they produce. More expensive ethanol means more expensive gasoline prices, because the law also mandates the use of ethanol as a fuel additive.

Workers—whether union or nonunion—should earn their livings through honest work, not through a congressionally mandated 30 percent wage hike coming out of drivers' pockets. Congress should strike every special interest handout from the farm bill, starting with the expansion of Davis–Bacon Act coverage.

Conclusion. The Davis–Bacon Act makes federal construction projects much more expensive by requiring contractors on those projects to pay union wage scales set well above average wages. Unions naturally support this, but these above-market wages provide no benefit to the public. Congress should not extend this mistaken policy to the construction of ethanol plants. Doing so would only increase the already high price that Americans pay for gasoline.

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1. David Bernstein, "The Davis-Bacon Act: Let's Bring Jim Crow to an End," The Cato Institute, *Briefing Paper* No. 17, January 18, 1993, at *www.cato.org/pubs/briefs/bp-017.html*.
2. General Accounting Office, "Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2000," at *www.gao.gov/archive/1999/cg99026.pdf*.
3. En Bloc Amendment to Chairman's Mark of H.R. 2419, at *http://agriculture.house.gov/inside/Legislation/110/FB/enbloc_7-13.pdf*.