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Davis–Bacon Wage Provisions Depress the Economy

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Congress has included a little-known provision in the economic stimulus legislation that wastes tax dollars and costs jobs. All $188 billion worth of construction projects funded in the American Recovery and Reinvestment Act (H.R. 1) must pay Davis–Bacon prevailing wage rates. This requirement will inflate construction costs by $17 billion and depress the economy.

If, on the other hand, Congress paid market wages, the same appropriations would fund more projects and create more jobs. Alternatively, Congress could give a $110 tax rebate to single filers and a $220 tax rebate to joint filers for the same cost. Including the Davis-Bacon requirements gives some workers a windfall with no benefit to the public. Before extending prevailing wage requirements to the stimulus bill, Congress should require the Department of Labor to use an accurate and scientific methodology to calculate prevailing wages.

The Davis–Bacon Act. The Davis–Bacon Act requires federal construction contractors to pay at least the prevailing wage rates for non-federal construction projects located in the same areas as their federal project. Supporters consider Davis–Bacon an important means of preventing the government's buying power from distorting construction labor markets. In areas where the government is the largest buyer of construction services, it could use its negotiating power to lower construction wages.

Contrary to its purpose, the Davis–Bacon Act distorts construction labor markets. Davis–Bacon wages bear little relation to market wages, because the government's prevailing wage estimates are wildly inaccurate. In some cities, Davis–Bacon rates are much higher than market wages. In Long Island, New York, for example, market rates for plumbers are $29.68 an hour.[1] Davis–Bacon rates, however, are $44.75 an hour—51 percent more than what the market demands.[2] In other cities, Davis–Bacon wages are significantly below market rates. For instance, Davis–Bacon rates for carpenters and plumbers in Sarasota, Florida, are $6.55 an hour, a figure below Florida's minimum wage of $7.21.[3] Nationwide, Davis–Bacon rates average 22 percent above market wages and inflate the cost of federal construction by 10 percent.[4]

Davis–Bacon in the Stimulus. H.R. 1 applies Davis–Bacon restrictions to all construction projects directly or indirectly funded in the legislation—over $188 billion worth of projects.[5] The new schools, highways, hospitals, and other construction in the act will be built by contractors paying inflated Davis–Bacon rates. This requirement will add $17 billion to construction costs.[6]

Depresses the Economy. Davis–Bacon restrictions ensure that the infrastructure spending—such as that provided for in H.R. 1—will yield as little economic benefit as possible. The $17 billion is spent paying a premium for work that employees would do at market wages. Without Davis–Bacon inflating costs, construction spending would go

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farther, funding more projects and creating more jobs. Including Davis–Bacon restrictions in the stimulus bill lines the pockets of some workers at the cost of both fewer jobs and fewer schools and highways built.

Davis–Bacon restrictions are also an inefficient and ineffective way to increase Americans' purchasing power. There is no economic reason to give federal construction workers—but no other workers—inflated wages. If Congress wants to spend $17 billion to increase Americans' purchasing power, it could use that money to give a $110 tax rebate to single filers and a $220 tax rebate to joint filers.[7] Such a rebate would broadly benefit all workers instead of just those who happen to work in construction.

Flawed Estimates. Davis–Bacon wages badly distort construction markets and federal spending because the Wage and Hour Division of the Department of Labor uses unscientific and inaccurate methods to calculate wage rates.[8] Indeed, the inspector general has found three significant flaws that distort Davis–Bacon rates:[9]

- *Unscientific Methodology*. The Wage and Hour Division does not use a scientific random sample of construction contractors.
- *Survey Errors*. The inspector general's office found errors in 100 percent of audited returned survey forms.
- *Outdated Surveys*. It takes over two years to conduct a survey and then years to update the survey after its completion. In some counties, Davis–Bacon rates have not been updated since the 1970s.

These flaws cause Davis–Bacon wages to bear little resemblance to market wages. There is no reason for Congress to pay workers on $188 billion worth of construction projects wages that are based on unscientific, inaccurate estimates.

Recommendations to Congress. The Davis–Bacon Act inflates the wages of some construction workers and depresses the wages of others. Including it in the stimulus bill will drive up construction costs by $17 billion and cost jobs on projects that could have been funded with that extra money. Therefore, Congress should strip Davis–Bacon requirements from the stimulus bill.

If Congress intends to keep prevailing wage requirements in the stimulus legislation, it should at least ensure that prevailing wages are scientifically estimated. Congress already spends over half a billion dollars a year on the Bureau of Labor Statistics, an agency that accurately estimates wage statistics using scientific methods. At the very least, Congress should require the Department of Labor use scientific estimates to calculate Davis–Bacon rates.

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1. Department of Labor, Bureau of Labor Statistics, "Occupational Employment Statistics—May 2007," for Nassau and Suffolk, New York, Metropolitan Division, at *http://www.bls.gov/OES* (January 27, 2009).
2. Government Printing Office, "Davis–Bacon Wage Determinations by State," January 2, 2009, at *http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=Davis-Bacon&docid=NY20080013* (January 27, 2009).
3. *Ibid*.
4. Sarah Glassman *et al.*, "The Federal Davis–Bacon Act: The Prevailing Mismeasure of Wages," Beacon Hill Institute, February 2008, at *www.beaconhill.org/BHIStudies/PrevWage08/DavisBaconPrevWage080207Final.pdf* (January 27, 2009).
5. Heritage Foundation calculations based on summaries of the spending published by the House Appropriations and Ways and Means Committees.
6. Based on the 9.91 percent increase in total construction costs estimated in Glassman *et al*.
7. Calculations based on the Center for Data Analysis Individual Income Tax Model. For the simulation, a non-refundable credit was applied of $220 for tax payers filing joint returns, and $110 for all other filers. The revenue of this policy was compared with current law for tax year 2008. The revenue difference was $17.195 billion.
8. James Sherk, "Davis–Bacon Prevailing Wage Determinations Need to Be Calculated Scientifically," Heritage Foundation *Backgrounder* No. 2111, March 3, 2008, at *http://www.heritage.org/research/labor/bg2111.cfm.*
9. U.S. Department of Labor, Office of Inspector General, "Concerns Persist with the Integrity of Davis–Bacon Act Prevailing Wage Determinations," March 30, 2004, pp. 12–13, at *www.oig.dol.gov/public/reports/oa/2004/04-04-003-04-420.pdf* (January 27, 2009).