WebMemo

Published by The Heritage Foundation

No. 3145
February 14, 2011

Repealing the Davis–Bacon Act Would Save Taxpayers $10.9 Billion

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The Davis–Bacon Act (DBA) requires the government to pay construction wages that average 22 percent above market rates. This shields unions from competition on federal construction projects. It will also add $10.9 billion to the deficit in 2011.

Given that the federal government is already running historic and unsustainable deficits, federal policy should not unnecessarily inflate the cost of federal construction projects. Congress should repeal the DBA.

Unsustainable Spending. The Congressional Budget Office estimates that the federal government will run a record $1.5 trillion deficit in 2011 and that the national debt will double over the next decade.[1] Higher government spending is driving these historic deficits.[2] To avoid national bankruptcy, Congress must sharply reduce federal spending and eliminate nonessential programs. Congress should begin by first eliminating special interest handouts. One such unaffordable handout is the DBA.

DBA Restrictions Increase Costs. Under the DBA, contractors on all federally funded construction projects must pay their workers at least prevailing market wages. However, the Department of Labor (DOL) estimates DBA rates using a highly flawed methodology. The Inspector General has criticized the DOL for:

- Using a self-selected sample instead of a scientific random sample to estimate DBA rates;
- Allowing 100 percent error rates in audited samples of returned DBA surveys; and
- Permitting long delays in updating DBA surveys.[3]

These errors cause DBA rates to bear little relation to actual prevailing wages. Table 1 displays DBA rates and market wages estimated by the Bureau of Labor Statistics for five American cities. As the table shows, DBA rates are well above market wages in most (though not all) cities.

The DBA effectively requires federal contractors to overpay their workers. Sheet metal workers on Long Island earn $31.37 an hour at market rates, while the DBA requires federal contractors to pay $48.15 hour—a 53 percent premium. Nationwide, DBA rates average 22 percent above market rates.[4]

These inflated wages unnecessarily increase the cost of federal construction projects by 9.9 percent.[5] Repealing the DBA and paying market wages would have saved taxpayers $10.9 billion in 2010.[6]

More Infrastructure and Jobs. Alternatively, if Congress is not willing to reduce construction spending, suspending the DBA would make each public construction dollar go 9.9 percent further. This would create more bridges and buildings at the same cost to taxpayers. It would also employ 155,000 more construction workers.[7]

This paper, in its entirety, can be found at:
http://report.heritage.org/wm3145

Produced by the Center for Data Analysis

Published by The Heritage Foundation
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Washington, DC 20002–4999
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Unlike increasing government spending, suspending the DBA would create, on net, new jobs. These new jobs would not be offset by private-sector job losses because their funding does not come from the private sector. Instead, the government would simply be using the money it has already appropriated more efficiently. Suspending the DBA means hiring five workers at market

Davis–Bacon and Market Wages, by City

	Long Island, N.Y.	St. Louis	San Diego	Tallahassee, Fla.	Philadelphia
Carpenter					
Davis–Bacon Act	$37.21	$33.23	$37.15	$12.85	$37.40
Market	$28.62	$25.54	$23.35	$15.29	$25.16
% Difference	*30%*	*30%*	*59%*	*–16%*	*49%*
Electrician					
Davis–Bacon Act	$44.75	$33.60	$37.40	$23.48	$46.85
Market	$30.76	$30.55	$24.22	$16.53	$34.26
% Difference	*45%*	*10%*	*54%*	*42%*	*37%*
Sheet Metal Worker					
Davis–Bacon Act	$48.15	$34.82	$34.55	$11.64	$38.36
Market	$31.37	$27.65	$24.50	$16.38	$23.18
% Difference	*53%*	*26%*	*41%*	*–29%*	*65%*

Sources: Heritage Foundation calculations based on the latest available data for Davis–Bacon wage rates from the U.S. Department of Labor, Wage and Hour Division, "Davis–Bacon Wage Determinations by States," at *http://www.gpo.gov/davisbacon/* (February 10, 2011), and U.S. Department of Labor, Bureau of Labor Statistics, "May 2009 Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates," May 14, 2010, at *http://www.bls.gov/oes/current/oessrcma.htm* (February 10, 2011).

Table 1 • WM 3145 heritage.org

1. Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2011 to 2021," January 2011, at *http://cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf* (February 10, 2011).
2. Brian Riedl, "New CBO Budget Baseline Reveals Permanent Trillion-Dollar Deficits," Heritage Foundation *WebMemo* No. 3121, January 26, 2011, at *http://www.heritage.org/Research/Reports/2011/01/New-CBO-Budget-Baseline-Reveals-Permanent-Trillion-Dollar-Deficits.*
3. See 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/Reports/2008/03/Davis-Bacon-Prevailing-Wage-Determinations-Need-to-Be-Calculated-Scientifically.*
4. Sarah Glassman, Michael Head, David G. Tuerck, and Paul Bachman, "The Federal Davis-Bacon Act: The Prevailing Mismeasure of Wages," Beacon Hill Institute, February 2008, at *http://www.beaconhill.org/BHIStudies/PrevWage08/DavisBaconPrevWage080207Final.pdf* (February 10, 2011).
5. *Ibid.*
6. Heritage Foundation calculations were determined as follows: Census bureau data on total public (federal, state, and local) construction spending data in 2010 was used as the baseline for 2011 public construction spending. From this was subtracted stimulus construction spending, all of which is covered by the DBA. The Congressional Budget Office estimated in 2001 that 32 percent of public construction spending was covered by DBA restrictions (see *ibid.*). The conservative assumption was made that the expansions of the DBA since then have not increased this percentage. The value of the stimulus construction spending in 2011 was added to 32 percent of non-stimulus public construction spending. That yields an estimated $120.4 billion in the total construction spending covered by DBA restrictions. Adjusting this for the DBA-induced 9.91 percent cost increase yields $109.6 billion in construction costs without the DBA. This represents cost reductions of $10.9 billion, after rounding.
7. Heritage Foundation calculations based on the finding that each $1 billion of construction spending directly employs 14,300 workers. See Stephen Fuller, testimony before the Committee on Transportation and Infrastructure, U.S. House of Representatives, January 22, 2009, at *http://www.agc.org/galleries/advy/090122%20T-I%20Hearing%20-%20AGC%20Statement.pdf* (February 11, 2011).

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rates instead of hiring four workers at a 22 percent premium.

Union Opposition. The government should always spend tax dollars wisely, but this is especially important in a recession. Workers on federally funded projects should not earn artificially inflated wages at the cost of keeping others unemployed. Sound public policy would not spend tax dollars to pay electricians on federal projects in Philadelphia a $12.59-per-hour premium.

The DBA remains on the books because labor unions successfully lobby for it.[8] Labor unions' interest in preserving DBA should come as little surprise: DBA rates typically match union wage scales.[9] The requirement that federal contractors pay DBA rates prevents non-union firms from underbidding unionized companies. DBA restrictions mean less infrastructure and fewer jobs in America but more jobs and higher pay for union members.

Repeal the Davis–Bacon Act. America can no longer afford such special-interest handouts. If Congress is serious about reducing spending or lowering unemployment, it should repeal the DBA. Congress should also reduce the amount it contributes to state construction projects by the amount the DBA inflates costs. This would ensure that the federal government realizes the full $10.9 billion in savings in 2011. Congress should stop requiring the federal government to hire four construction workers for the price of five.

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8. AFL-CIO, "Building Trades Secure Legislative Victories on Davis-Bacon and PLAs," January 26, 2010, at *http://www.bctd.org/Newsroom/Latest-News/Legislative-News/Building-Trades-Secure-Victories-on-Davis–Bacon-an.aspx* (February 11, 2011).
9. This happens because DBA survey participation is self-selected. Most private-sector contractors do not take the time to fill out the complex survey forms the Department of Labor sends them, and the Department does little follow-up. Union firms have staff trained in answering the DBA wage surveys and almost always return them. Consequently, the wages paid by union firms disproportionately influence final DBA rates.