

PERSPECTIVE

Public Policy Sense from the Bluegrass Institute

No. 2006-1



Repeal prevailing wage policies

After Hurricane Katrina ravaged much of the Gulf Coast, President Bush ordered the suspension of the federal Davis-Bacon Act.

This law mandates that workers on all federally financed construction projects of more than \$2,000 (virtually all, that is) be paid the “prevailing wage” of the project location. The suspension would have covered only the parts of the coast devastated by the hurricane.

Big Labor and its leftist allies howled that this move would be “anti-worker” because it would lift their “wage protection.” The howling worked: Bush in late October reinstated Davis-Bacon.

The truth, however, is that Davis-Bacon and all the state prevailing-wage laws are price-fixing schemes, enforced by government, designed to shield high-cost unionized workers against competition from more-efficient nonunion contractors.

By preventing more-efficient contractors from underbidding the union rates, prevailing-wage laws ensure that union workers will get most government construction work. A union electrician, for example, is thus able to work at the set union scale, which may actually be more than he often gets in the market, while the nonunion electrician cannot be employed at the rate he

is willing to work for.

Prevailing-wage laws are special-interest legislation pure and simple, benefiting some workers at the expense of others – and the taxpayers.

Davis-Bacon is an ugly relic of the legislative hysteria that gripped Washington during the Great Depression. It was passed in 1931 and signed into law by the emphatically non-laissez faire President Herbert Hoover.

Hoover was convinced that prosperity could be restored if wages were kept high. With its guarantee that construction wages on federal projects would be taken out of competition, Davis-Bacon seemed to be a good idea to the president.

Its congressional sponsors, however, were not thinking about its supposed macroeconomic effects. They were carrying water for the overwhelmingly white construction unions, which were complaining that contractors were underbidding them by using lower-paid nonunion black workers.

Construction unions are labor cartels, seeking to keep wages artificially high by suppressing competition. And just like other cartels, they succeed only if they can have government stifle the competition that naturally occurs in the free market.

By George C. Leef

Summary

(Total Word Count 708)

Prevailing-wage policies are leftover relics of the past that remove competition from government building projects, shutting nonunion construction firms out of the process and driving up the cost of schools, jails and justice centers.

Continued on Reverse

BLUEGRASS
INSTITUTE

FOR PUBLIC POLICY
SOLUTIONS

"Construction unions are labor cartels, seeking to keep wages artificially high by suppressing competition. And ... they succeed only if they can have government stifle the competition that naturally occurs in the free market."

Imagine a parallel situation, where the auto dealers in some state want to enjoy higher profits. They get together and agree that no one will sell a car for less than its sticker price.

Sadly, they soon discover that their prices are being undercut by nasty outsiders who will negotiate better deals with customers. Their solution? They lobby the legislature for a "prevailing price" law that

makes it illegal for anyone to sell below the "official" price. The law sets up a new government office to determine what the official price of each car is and to enforce compliance.

If we had "prevailing price" laws to "protect" auto dealers, almost everyone would see

that it was just a price-fixing conspiracy. I say "almost" because the dealers would attempt to make it seem as though their conspiracy was actually in the public interest.

They might claim that by promoting "price stability" they were actually protecting the public against unsafe cars, since a study (of course, they'll be able to conjure up some piece of "research") shows that cars purchased from "cutthroat" dealers have a bad accident record.

The construction unions have done exactly the same thing. They use the government to suppress competition, and their public argument for doing so

is that union workers are safer on the job.

The safety argument is entirely bogus, but it gives the unions and their political allies a place to retreat to when their competition-stifling law is questioned.

Prevailing-wage laws largely, although not entirely, shut nonunion construction firms out because their work is not organized around the rigid and inefficient job classifications the unions use.

Trying to fit a nonunion firm's round peg into the square hole of prevailing-wage regulation is usually too troublesome, so government construction overwhelmingly goes to unionized contractors. That's exactly what the unions want.

Economist Morgan Reynolds made the point clearly in his book "Making America Poorer: The Cost of Labor Law." Reynolds wrote:

"Eventually, construction unions will be confined to federally financed construction, where union inefficiencies are protected by the Davis-Bacon Act. In open competition, the building-trades unions—with their exorbitant wages, inefficient work practices, and strikes—cannot survive."

— *George Leef is the book review editor of "The Freeman," a publication of the Foundation for Economic Education. A longer version of this article originally appeared in the December edition of "The Freeman."*

Contact Information:
Jim Waters
Director of Policy and
Communications
P.O. Box 51147
Bowling Green, KY 42102
Phone: 270-782-2140
Fax: 305-675-0220
www.bipps.org
jwaters@bipps.org

Permission to reprint
Perspective commentaries,
in whole or in part, is hereby
granted, provided the author
and his affiliations are cited.

Authors are available for
interviews by contacting the
Institute.

The Bluegrass Institute is an independent, nonpartisan association of writers, speakers and thinkers from across Kentucky committed to analyzing state and local public policy, and conveying alternatives that are more in concert with the founding ideas of America: individual liberty, economic freedom, personal responsibility and a respect for others.