

In summer 1999, the University of Idaho Center for Business Development and Research began a study, funded by the North Idaho Central Labor Council, of the effects of repealing Idaho's prevailing wage law, particularly on Idaho's construction trades employees, county and state economies, and state public works expenditures. Designed to protect local labor markets from unfair competition of lower-wage, out-of-state construction workers on state and local construction projects, Idaho's prevailing wage law was passed in 1911 and then repealed in 1985. Using trend and regression analyses as well as IMPLAN input-output modeling, we used data from such federal and state government sources as Regional Economic Information Systems (REIS), the U.S. Bureau of the Census, the Idaho Industrial Commission, and the Idaho Department of Labor.

Construction Wages Decrease

- Since repeal, there has been a strong downward trend in average construction wages in Idaho, for both union and nonunion jobs. Salary losses per job increased from an average \$6,800 in 1986 to \$8,500 in 1999.
- From 1985 to 1997, Idaho's national ranking for average earnings per construction worker dropped from 13 to 31. In contrast, Idaho's national ranking for earnings per worker in *all* industries remained unchanged at 41. These trends implied that: (1) since repeal of the prevailing wage law and relative to the rest of the nation, construction wages in Idaho fell sharply and (2) despite Idaho's rapid population and economic growth, prevailing wage law repeal may have exerted downward pressure on *all* wages in Idaho.
- Idaho's national ranking in per capita personal income in 1997 was 42.
- Consistent with those in other nonprevailing wage states, Idaho's construction wages averaged \$5,000 per year less than for workers in a prevailing wage state in 1997—\$29,247 (nonprevailing wage state) vs. \$34,440 (prevailing wage state).
- The total lost income in Idaho construction wages for all workers in 1999 ranged from approximately \$281 million (as estimated by covered employment) to \$450 million (as estimated by total employment). From 1986 to 1997 the cumulative loss of wages was \$2.48 billion (Figure A), a \$2 billion direct loss of sales to Idaho businesses (adjusted for potential household savings). While some of this loss may have been due to other economic factors, the repeal of the prevailing wage law was a major contributor to this decline.

Number of Construction Firms Increases

- There has been a sharp increase in the number of construction firms in Idaho since the late 1980s that may have been caused by the compression of wages in the construction industry, enticing workers to start their own firms.
- As wages in Idaho declined, workers migrated where they could reap higher pay. This trend suggested that as the more experienced construction workers looked for higher wages elsewhere, the less-experienced construction workforce remained in Idaho.
- A statistical regression analysis suggested a fundamental structural change in Idaho's construction industry in the mid-1980s that coincided with prevailing wage law repeal in Idaho—reduced wages, increased number of firms and unskilled workers, and reduced rate of decline of industrial accidents (Figure B).

FIGURE A.
Total Yearly Lost Earnings, in Construction, in Idaho, 1986–1997 (in constant \$1997)

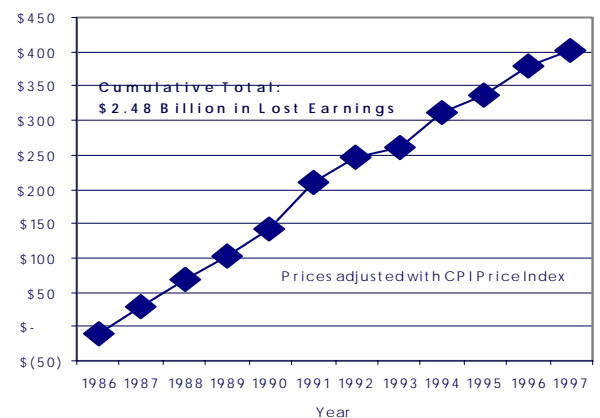
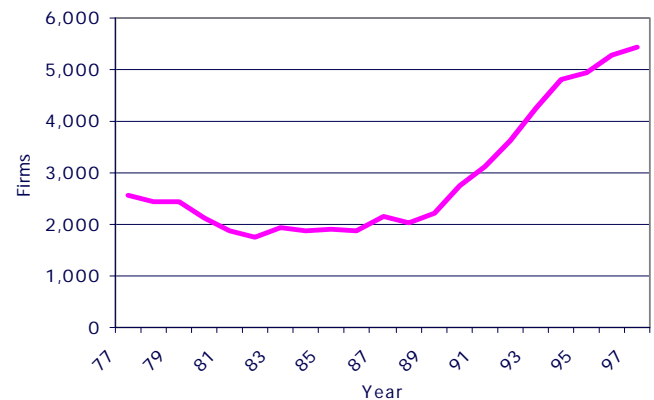


FIGURE B.
Construction Firm Growth, in Idaho, 1977–1997



Source: U.S. Bureau of the Census, *County Business Patterns*

Out-of-State Firms Outbid Idaho Firms

- In 1990 on Idaho projects, out-of-state firms paid 24.5% higher salaries than Idaho firms.
- Commuting data obtained from the 1980 and 1990 censuses indicated that fewer out-of-state construction firms were winning bids in Idaho in 1990 than in 1980, but (adjusting for inflation) they paid 20.4% more in real 1990 wages.
- Idaho's higher skilled labor was migrating out-of-state in search of higher-paying jobs, leaving the less-skilled as the predominant construction worker in Idaho. Though paid at a higher rate, the out-of-state, more skilled worker was sufficiently more productive to lower the production costs for out-of-state firms. Thus out-of-state firms could successfully underbid Idaho firms.
- More Idaho firms were working out-of-state in 1990 than in 1980, but their real wages fell sharply and suggested a change in behavior by Idaho construction firms due to prevailing wage law repeal. When adjusted for inflation, the real wages paid by Idaho firms on in-state projects fell 9.7%. On out-of-state projects, the annual average real wage fell 22.0%.

Tax Revenues Lost

- The decline in wages since 1986 resulted in a cumulative loss of potential sales and income tax revenue of about \$25.3 million. These conservative numbers were estimated from the Philips model. If we applied a 5% straight income tax rate to the \$2.48 billion in cumulative lost income, \$123.7 million in cumulative income tax revenues would have been collected.
- As wages compress, the tax burden shifts from labor to business. This factor plays an important role in a firm's decision to relocate in Idaho. Indeed, compared to other Western states Idaho has a relatively high corporate income tax rate.

Direct and Indirect Multiplier Effects Estimated

- As Idaho construction earnings declined, construction families spent less, and Idaho businesses lost sales revenues.
- Using an IMPLAN economic model of Idaho and based on the \$281 million estimated lost earnings, we estimated \$265 million in lost sales to businesses, a lost value-added (output) of \$72 million, lost personal income of \$42 million, lost wages of \$34 million, and a loss of 2,000 additional jobs.

Worker's Compensation Claims Decrease Slower than National Average

- Worker's compensation claims in Idaho in all industries were declining but at a slower rate than the nation's. Idaho's safety record is falling behind the nation's.
- When compared against national data, a small but statistically significant difference was found between the two trends, implying repeal of the prevailing wage law in Idaho increased injury rates relative to the national average.
- The data suggested that the decline in construction injuries might have fallen even further if apprenticeship and training programs had continued.
- There also may have been substantial under-reporting of injuries. The extent of under-reporting needs to be explored further.

Cost Savings on Public Works Projects Lost

- Nationwide, in study after study, the evidence suggested that labor productivity was tied to wages, and there were no cost savings resulting from repeal of prevailing wage laws.
- Construction cost index information suggested Idaho's trends were consistent with national trends. As wages fell, so did productivity, resulting in no cost savings to taxpayers. In fact, taxpayer costs could have increased given the possibility of cost overruns and lower productivity.

Labor and Union Data in Idaho Needed

- Idaho is behind most of the nation in collecting and disseminating labor market and union data—virtually nothing is available.
- With better access to such information, Idaho's policy makers will be better able to make more sound economic policy.

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