

# WebMemo



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## Davis–Bacon Suspension Would Fund 160,000 New Construction Jobs

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As part of their effort to create jobs, President Obama and congressional Democrats are proposing to increase federal construction spending. This strategy will fail, because it would take resources from elsewhere in the economy. However, spending tax dollars more efficiently would create new jobs.

The Davis–Bacon Act (DBA) requires government contractors to pay wages averaging 22 percent above market rates. Federal policy should not give some workers inflated wages while others remain unemployed. Suspending the DBA would allow the government to build more and hire 160,000 new workers without increasing the deficit.

**Public Works Spending Does Not Create Jobs.** Increased government construction spending makes up the heart of President Obama and congressional Democrats' second stimulus bill.<sup>1</sup> The bill spends \$48.3 billion on roads, government buildings, and other federal construction projects.<sup>2</sup> Congressional Democrats argue that this spending will create jobs.<sup>3</sup>

Despite the claims of its supporters, government construction spending would not create net new jobs. Construction spending does fund some jobs. Professor Stephen Fuller of George Mason University estimates that each \$1 billion the government spends on construction projects directly employs 14,300 workers.<sup>4</sup> However, this spending eliminates other jobs.

In order to pay for new construction workers, the government takes money from elsewhere in the economy through either taxes or borrowing. Each \$1 billion the government spends on construction represents \$1 billion less spent in the private sector. Less spending and investment means fewer private sector jobs. Research shows that the jobs lost in the private sector outnumber the jobs funded by government spending.<sup>5</sup> Congress cannot reduce unemployment through public works projects.

**DBA Restrictions Increase Costs.** Congress can create jobs by spending the money it appropriates more efficiently. 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.<sup>6</sup>

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Labor/wm2782.cfm](http://www.heritage.org/Research/Labor/wm2782.cfm)

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## Average Davis-Bacon and Market Wages, by City

		Long Island, N.Y.	St. Louis	San Diego	Tallahassee	Philadelphia
<b>Carpenter</b>	<i>Davis-Bacon</i>	\$37.21	\$32.48	\$37.15	\$12.85	\$37.40
	<i>Market</i>	\$28.01	\$25.54	\$23.04	\$15.29	\$24.83
	<i>% Difference</i>	33%	27%	61%	-16%	51%
<b>Electrician</b>	<i>Davis-Bacon</i>	\$44.75	\$33.60	\$37.40	\$22.23	\$46.85
	<i>Market</i>	\$31.36	\$29.95	\$23.02	\$16.35	\$31.55
	<i>% Difference</i>	43%	12%	62%	36%	48%
<b>Sheet Metal Worker</b>	<i>Davis-Bacon</i>	\$45.40	\$33.77	\$34.05	\$11.64	\$38.34
	<i>Market</i>	\$28.79	\$25.91	\$23.06	\$15.88	\$22.65
	<i>% Difference</i>	58%	30%	48%	-27%	69%

**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> (January 26, 2010), and U.S. Department of Labor, Bureau of Labor Statistics, "May 2008 Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates," modified May 1, 2009, at <http://www.bls.gov/oes/current/oesrcma.htm> (January 26, 2010).

Table 1 • WM 2782  [heritage.org](http://heritage.org)

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 \$28.79 an hour at market rates, while the DBA requires federal contractors to pay \$45.40 hour—a 58 percent premium. Nationwide, DBA rates average 22 percent above market rates.<sup>7</sup>

These inflated wages unnecessarily increase the cost of federal construction projects by 9.9 percent.<sup>8</sup> Repealing the DBA and paying market wages would save taxpayers \$11.4 billion in 2010.<sup>9</sup>

1. Jobs for Main Street Act of 2010, H.R. 2847, 111th Cong., 1st Sess.
2. Speaker Nancy Pelosi, "Jobs for Main Street Act of 2010," at <http://www.speaker.gov/newsroom/legislation?id=0351> (January 26, 2010).
3. Speaker Nancy Pelosi, "Pelosi: Jobs for Main Street Legislation Will Create Jobs, Help the Unemployed, and Put Us on Path to Prosperity," December 15, 2009, at <http://www.speaker.gov/newsroom/pressreleases?id=1472> (January 26, 2010).
4. Stephen Fuller, testimony before the [Committee on Transportation and Infrastructure](#), U.S. House of Representatives, January 22, 2009, at <http://transportation.house.gov/Media/File/Full%20Committee/20090122/Stephen%20Fuller.pdf> (January 27, 2010).
5. Yann Algan, Pierre Cahuc, and André Zylberberg, "Public Employment and Labour Market Performance," *Economic Policy*, Vol. 17, No. 34 (2004), pp. 7–66; Jim Malley and Thomas Moutos, "Does Government Employment 'Crowd-Out' Private Employment? Evidence from Sweden," *Scandinavian Journal of Economics*, Vol. 98, No. 2, pp. 289–302.
6. 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/Labor/bg2111.cfm>.
7. 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 [www.beaconhill.org/BHISStudies/PrevWage08/DavisBaconPrevWage080207Final.pdf](http://www.beaconhill.org/BHISStudies/PrevWage08/DavisBaconPrevWage080207Final.pdf) (January 26, 2010).
8. *Ibid.*

**Suspending DBA Means More Infrastructure and Jobs.** Alternatively, these savings could fund \$11.4 billion in additional construction projects. 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 more workers. For example, if each \$1 billion of federal construction spending supports 14,300 workers, then the savings from suspending the DBA would support 163,000 new construction jobs.

Unlike new public works projects, suspending the DBA would create 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 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 \$15.30 an hour premium.

The DBA remains on the books because labor unions successfully lobby for it.<sup>10</sup> Labor unions' inter-

est in preserving DBA should come as little surprise: DBA rates typically match union wage scales.<sup>11</sup> 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.

**Executive Order Can Suspend DBA.** If the President is serious about creating jobs, he should ignore such special interest pressure. The law allows the President to suspend DBA restrictions during national emergencies.<sup>12</sup>

The President can and should issue an executive order declaring a national employment emergency. This executive order should suspend the DBA until unemployment falls below 5 percent. With one executive order, the President could create 163,000 new jobs in 2010.

**Recommendations to Congress and the Administration.** Congress and the Administration say they want to reduce unemployment. Spending tens of billions of tax dollars on public works projects will not do this, because the government takes these funds from the private sector. Each government-created job created comes at the cost of more than one private-sector job.

However, Congress can create jobs by spending more efficiently. The DBA requires contractors on federally funded construction projects to pay wages

9. Heritage Foundation calculations were determined as follows: Census bureau data on total public (federal, state, and local) construction spending data in 2008 was taken as the baseline for non-stimulus 2010 public construction spending. 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. That yields \$98 billion in public construction spending covered by the DBA. To this was added the 2010 share of the \$143 billion spent on construction spending in the stimulus (\$28 billion), all of which was covered by the DBA. That yields \$127 billion in public construction spending with DBA. Adjusting this for the DBA induced 9.91 percent cost increase yields  $127 / (1 + 1.0991) = \$115$  billion in construction costs without the DBA. This represents cost reductions of \$11.4 billion, after rounding.
10. AFL-CIO Building and Construction Trades Department, "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> (January 26, 2010).
11. 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 DOL sends them, and the DOL 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.
12. U.S. Code Title 40, §3147.

that average 22 percent above market rates. As a result, the government pays four workers artificially inflated wages instead of hiring five workers at market rates. Repealing DBA restrictions would fund 163,000 net new construction jobs in 2010. President Obama should issue an executive order sus-

pending the DBA. Congress should repeal DBA restrictions before considering any additional public works spending.

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