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February 25, 2009

Alderman Ashanti Hamilton
City of Milwaukee Common Council
200 East Wells Street
Milwaukee, WI 53202

Dear Alderman Hamilton:

I have been asked to review a report by Professor Mark Eppli of Marquette University. This report argued that that (1) most prevailing wage jobs and construction contracting go to workers and firms outside of the City, (2) prevailing wage laws reduce minority hiring and (3) prevailing wage requirements increase project costs. I have a particular interest in point (2) as Professor Eppli misconstrues my research on this matter and I offer comment on the other claims as my expertise allows.

To establish my experience in construction trades research, I have studied construction and construction employment relations for more than a decade and have several scholarly studies on construction issues in referred publications. In addition, I have received grants to study construction from the National Institute of Occupational Safety and Health, have presented research before the National Academies working group on Personal Protective Devices and co-chair the Construction Economics Research Network. I have included a copy of my vitae with this note.

I start with Professor Eppli's second point, that prevailing wage requirements reduce minority employment, because the professor cites my research to support his assertion. In essence, Professor Eppli has turned the work of Professor Peter Philips and myself on its head. He claims that our statistical finding of no effect on minority employment was, if correctly interpreted, evidence that prevailing wage laws reduced minority employment. Now, I don't really mind being turned on my head if it is meritorious, but Professor Eppli's claim mostly demonstrates his lack of understanding of the theory of how prevailing wage laws could act to reduce minority employment.



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As Professor Philips and I explain in our article, the central determinate of the proportion of African-Americans employed in construction is the proportion of African-Americans in the overall labor force (or population). Absent laws that cause discrimination, we would expect the proportion of African-Americans in construction to be reasonably similar to the proportion in the overall labor force. Laws, such as prevailing wage laws, would then cause deviations from this proportion if they support discrimination. What we demonstrate in our article is that, if one leaves out a control for the proportion of African-Americans in the non-construction labor force, one finds that prevailing wage laws are associated with reduced employment of African-Americans. However, once the proportion of African-Americans in a state's non-construction labor force is included, the negative relationship between the presence of state prevailing wage laws and African-American employment vanishes. This same result is found if we substitute the proportion of African-Americans in the overall population for the proportion in the non-construction labor force. Our findings demonstrate the opposite of what Professor Eppli states. Our findings are that prevailing wage laws DO NOT cause deviations in construction employment.

Professor Eppli cites only our first result, the model without labor force controls, and includes a footnote indicating that he believes the balance of our models are poorly specified and tautological. It is unusual to pick and choose among others work in this fashion without a more complete explanation; for example how the latter models are more poorly specified than the first model. As indicated in the previous paragraph, his point about tautology is not consistent with the theory he purports to be supporting. More to the point, this is an unusual format to be so fundamentally contradicting other researcher's work. If Professor Eppli so basically disagrees with this result, and believes his point has scholarly merit, he should air his differences in a letter to the authors or in publications which report research on the prevailing wage. Any of these methods would have allowed a thoughtful review of the original research and of his work and promote discussion on this issue. His failure to make his views available in an appropriate academic forum make his claims suspect; my view is that they are without merit.

The third claim of the report is that prevailing wage requirements increase project costs. Professor Eppli supports this claim citing "The Effect of Prevailing Wage Requirements on the Cost of Low-Income Housing," (Quigley and Rosenthal, 2005). This claim over generalizes Quigley and Rosenthal's results and fails to consider the extensive literature on prevailing wage. With respect to the first matter, Quigley and Rosenthal's findings apply only to low-income housing. They are consistent with work by Steve Allen work that found the union advantage in productivity and cost diminishes in projects that can use low skill workers – projects such as low rise low income housing. But Quigley and Rosenthal's results cannot be used to make statements about construction other

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than low cost housing – Quigley and Rosenthal only studied low cost housing and, unlike Professor Eppli, they make no claims about the effect of prevailing wages on other types of construction. It is my understanding that the prevailing wage standards for projects that receive city financial assistance make explicit exemptions for affordable housing projects, so this point is moot in the current public policy discussion in Milwaukee.

In addition, Professor Eppli has failed to incorporate results from the substantial literature on the effect of prevailing wage laws into his report. It is difficult to believe this literature was not available to him, the book in which he found my article on minority employment includes five articles that relate to the cost effects of prevailing wage laws. A recent literature review of prevailing wage research reports *Prevailing wages and government contracting costs: A review of the research* By Nooshin Mahalia reports on the results of 28 publications reports,

“An overwhelming preponderance of the literature shows that prevailing wage regulations have no effect one way or the other on the cost to government of contracted public works projects. And as studies of the question become more and more sophisticated, this finding becomes stronger, and is reinforced with evidence that prevailing wage laws also help to reduce occupational injuries and fatalities, increase the pool of skilled construction workers, and actually enhance state tax revenues.” (<http://www.epi.org/publications/entry/bp215/>)

It is clear that Professor Eppli’s claim about the costs of prevailing wage laws is both over generalized and is not supported by the literature on this issue.

Finally, Professor Eppli argues that much of the construction spending by the City of Milwaukee flows to firms and workers outside of the city. This claim may well be correct, but is irrelevant to the discussion of prevailing wage legislation. Prevailing wage laws are intended to maintain area wage standards. They act to discourage employers from finding pools of low wage workers, such as undocumented immigrants and low wage workers, from outside of a regional labor market and using those low wage and benefit costs to drive competitive bidding. Prevailing wage laws do not limit the employment of workers to a municipality within a labor market, nor is such an effect claimed by their proponents. If the City wishes to limit employment on City construction to residents or to Milwaukee firms, the council can, as it is considering, pass legislation with this requirement.

Professor Eppli’s report has no substance with respect to the prevailing wage. His review of my work is willfully obtuse and he has not subjected his interpretation to even minimal academic review. His statement about the cost effects of prevailing wage laws is a simplistic over-generalization of a single article. Further, he fails to incorporate the results of a large body of research. Finally, his point about the employment of

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Milwaukee residents on prevailing wage projects is accurate but irrelevant to the analysis of the effects of prevailing wage statutes.

Yours sincerely,

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