



# Repairing Ohio's Prevailing Wage Law

By Tom Lampman

POLICY REPORT

Ohio's "prevailing wage" law artificially inflates labor costs on public works construction projects and is a costly obstacle to economic growth and effective governance. The law should be repealed or reformed to stop special interest groups from lining their pockets at the taxpayers' expense. If the law cannot be repealed, the inaccurate and unfair process used to calculate the "prevailing wage" must be reformed.

When state and local government agencies begin a construction project, Ohio's Department of Commerce first determines the so-called "prevailing wage" for each type of labor that the project will need.<sup>1</sup> Unfortunately, this wage is determined by local union contracts and collective bargaining agreements in the vicinity of the project.<sup>2</sup> For example, the Department has determined total value of wages and union retirement fund contributions for Franklin County roofers comes to \$39.05 per hour.<sup>3</sup> Therefore, any contractor bidding on a project in Franklin County must bid according to the union-dictated wage schedule, even if their workers are not unionized or paid \$39.05 per hour.<sup>4</sup> This type of artificial wage setting increases public construction costs for taxpayers, and reduces competition and the competitive advantage of non-union employers.

## The Prevailing Wage Law Increases Construction Costs

Public works projects like road, school, and public housing construction are paid for with state tax dollars. By inflating the price of labor on these and other government projects, the prevailing wage law drives up construction costs at the taxpayers' expense. When the Ohio Legislative Service Commission examined this issue, it found that exempting Ohio schools from

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- 1 Ohio Rev. Code Ann. §4115.04.
  - 2 Ohio Rev. Code Ann. §4115.05.
  - 3 Ohio Department of Commerce, "Prevailing Wage Rates," Bureau of Wage and Hour Administration, accessed August 1, 2015, <http://198.234.41.198/w3/webwh.nsf/wrview>.
  - 4 Ohio Rev. Code Ann. §4115.03.

the prevailing wage law saved the government \$487.9 million on construction costs over a four-year period.<sup>5</sup> A study of Michigan’s similar prevailing wage requirements found construction expenses increased by 10-15%.<sup>6</sup> A comprehensive and detailed study of prevailing wage requirements in California demonstrated that some types of public construction, such as public housing projects, endure cost increases as much as 37%.<sup>7</sup>

These over-inflated costs ultimately burden citizens and taxpayers. Rising construction prices require taxpayers to suffer dramatic tax increases or ballooning budget deficits. In some cases, prevailing wage laws can make construction projects so expensive that state and local leaders decide to forego the projects altogether, depriving communities of needed improvements or facilities. One way or the other, taxpayers must bear the added expense created by this special interest legislation.

Advocates for prevailing wage requirements often claim that the higher costs are merited by higher quality construction.<sup>8</sup> Such claims are simply unsubstantiated.<sup>9</sup> Taking public school construction as one example, 91% of Ohio schools exempted from prevailing wage laws reported no difference in construction quality. 6% of schools exempted even reported improved quality in the absence of prevailing wage regulations.<sup>10</sup> Taxpayers and communities should be free to invest in high-quality construction, and to hire contractors and construction crews to meet their needs and budgets. Ohio’s prevailing wage law detracts from this freedom and forces taxpayers to pay for artificially high-priced construction without ensuring a high-quality product.

## The Prevailing Wage Law Limits Competition

In setting Ohio’s prevailing wage, the Department of Commerce takes an overly narrow view of wages. By looking only at union wages and collective bargaining agreements, the law overstates the price of labor because union wage rates include funding for expensive union

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5 Legislative Service Commission, “The Effects of Exemption of School Construction Projects from Ohio’s Prevailing Wage Law,” Legislative Service Commission, May 20, 2002, <http://www.lsc.ohio.gov/research/srr149.pdf>.

6 Paul Kersey, “The Effects of Michigan’s Prevailing Wage Law,” The Mackinac Center for Public Policy, 2007, <http://www.mackinac.org/archives/2007/s2007-09.pdf>.

7 Sarah Dunn, John M. Quigley, and Larry A. Rosenthal, “The Effects of Prevailing Wage Requirements on the Cost of Low-Income Housing,” Sage Journals, October 1, 2005, <http://ilr.sagepub.com/content/59/1/141.full.pdf>.

8 Jason Horwitz, “Illinois’ Prevailing Wage Law and the Cost of Education Construction,” Anderson Economic Group, LLC, June 9, 2014, [http://www.andersoneconomicgroup.com/Portals/0/AEG\\_ABCIL\\_PrevailingWage\\_FINAL.pdf](http://www.andersoneconomicgroup.com/Portals/0/AEG_ABCIL_PrevailingWage_FINAL.pdf).

9 Paul Kersey, “The Effects of Michigan’s Prevailing Wage Law,” The Mackinac Center for Public Policy, August 25, 2007, <http://www.mackinac.org/archives/2007/s2007-09.pdf>.

10 Paul Kersey, “The Effects of Michigan’s Prevailing Wage Law,” The Mackinac Center for Public Policy, August 25, 2007, <http://www.mackinac.org/archives/2007/s2007-09.pdf>.

pension plans.<sup>11</sup> For example, the median market wage for a Columbus-area electrician is \$19.31 per hour. The prevailing wage base rate, however, for a Franklin County electrician is \$30.60 per hour, with a total prevailing wage of \$45.69 per hour.<sup>12</sup> The total wage required by law is based on union pay scales and includes union pension fees—neither of which is paid by non-union contractors. By requiring even the non-union firms to bid on projects using union wage rates, the law negates a significant competitive advantage for non-union firms. Contractors paying the median wage for electricians—\$19.31 per hour—cannot use their competitive labor costs (more than 50% lower than the total prevailing wage) to submit lower bids.<sup>13</sup> (See Appendix 1 below for examples of the differences between prevailing wages and market wages.)

With only 15% of Ohio’s eligible labor force choosing to unionize, the prevailing wage law significantly reduces competition and puts the vast majority of workers and firms at a competitive disadvantage when bidding against the small minority of unionized firms.<sup>14</sup> The law effectively favors the special interests of a few firms at the expense of taxpayers, communities, and the majority of other companies. Accordingly, repeal or reform is sorely needed. Repealing the prevailing wage requirements, of course, would be the preferred solution, but some reform measures present viable alternatives.

The law could be amended, for instance, to require the Department of Commerce to use the broader and more inclusive wage data from the Ohio Department of Jobs and Family Services (ODJFS), rather than relying exclusively on local union contracts. This at least would provide a more complete and accurate picture of the labor market when setting an artificial wage requirement. Such an approach would make non-union firms more competitive and could help increase competition, and also resolve a logistical problem created by the unions’ use of very specific job classifications that non-union contractors seldom use. These classifications, currently required by the prevailing wage requirements, further complicate and confuse the bidding process.<sup>15</sup> ODJFS classifications on-the-other-hand are less specific, making them a better, more widely-accepted baseline. Even with this reform, union contractors could continue classifying labor as they wish, but their granular classifications would not be imposed on the other contractors as part of the bidding process.

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11 Jason Horwitz, “Illinois” Prevailing Wage Law and the Cost of Education Construction,” Anderson Economic Group, LLC, June 9, 2014, [http://www.andersoneconomicgroup.com/Portals/0/AEG\\_ABCIL\\_PrevailingWage\\_FINAL.pdf](http://www.andersoneconomicgroup.com/Portals/0/AEG_ABCIL_PrevailingWage_FINAL.pdf).

12 Ohio Department of Commerce, “Prevailing Wage Rates,” Bureau of Wage and Hour Administration, accessed August 1, 2015, <http://198.234.41.198/w3/webwh.nsf/wrview>.

13 Ohio Department of Jobs and Family Services, “Occupational Wages and Employment,” Ohio Department of Jobs and Family Services, June 2014, <http://ohiolmi.com/oes/oes.htm>.

14 Barry Hirsch and David Macpherson, “U.S. Historical Tables: Union Membership, Coverage, Density, and Employment, 1973-2014,” UnionStats.com, accessed April 16, 2015, <http://www.unionstats.com/>.

15 Paul Kersey, “The Effects of Michigan’s Prevailing Wage Law,” The Mackinac Center for Public Policy, August 25, 2007, <http://www.mackinac.org/archives/2007/s2007-09.pdf>.

## Conclusion and Recommendations

Repealing the prevailing wage law is the most direct and comprehensive solution to the problems the law creates. House Bill 282, introduced in July 2015, takes this approach. Short of repeal, however, reforms such as allowing localities to opt-out of the law's onerous requirements or correcting the method for base-wage calculation may provide a piecemeal approach to addressing the law's more troubling consequences. Communities with comparatively low union membership, for example, could see substantial savings on public works projects if they were exempt from the law's requirements. Similarly, using a broader-based wage scale to calculate the prevailing wage would decrease labor costs and increase job opportunities for more Ohio workers. In either case, a more competitive and accurate labor market will lower the cost of public works projects and lessen the tax burden endured by all Ohioans.

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# Appendix 1

Columbus Area Prevailing Wage vs. Market Rates <sup>16</sup>				
Occupation	Prevailing Wage Rates*		Market Rates**	
	Base Hourly Rate (Prevailing Wage)	Total Prevailing Wage Rate	Median Wage	75% Percentile
Boilermaker	35.26	60.05	16.98	28.49
Carpenter***	25.17	38.09	17.90	24.20
Cement Masons & Concrete Finishers***	26.38	42.22	15.65	21.89
Laborers***	25.00	34.89	9.81	12.60
Roofer	25.40	39.05	15.85	20.48
Sheet Metal Worker	27.71	50.89	18.26	23.06
Glazier	24.24	36.07	15.55	18.00
Plumber/Pipefitter	34.23	56.19	21.98	29.29
Millwright	28.63	45.07	16.16	22.43
Electrician (Inside)	30.60	45.69	19.31	23.78
Electrician (Light Commercial)	30.60	45.69	19.31	23.78
*Franklin County				
**Columbus Metropolitan Statistical Area				
***Prevailing wage classifications averaged				

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16 Ohio Department of Jobs and Family Services, "Occupational Wages and Employment," Ohio Department of Jobs and Family Services, June 2014, <http://ohiolmi.com/oes/oes.htm>; and Ohio Department of Commerce, "Prevailing Wage Rates," Bureau of Wage and Hour Administration, accessed August 1, 2015, <http://198.234.41.198/w3/webwh.nsf/wrview>.