



ALLIANCE FOR WORKER FREEDOM

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A Tale of Two Wages: The Truth Behind Minnesota's Prevailing Wage Laws

MYTHS & FACTS: PREVAILING WAGES IN MINNESOTA

MYTH: *The “prevailing wage” matches the local rate already being paid in the community where the work is being done.*

FACT: “Prevailing wage” laws force Minnesota employers to pay wages that are far higher than the true average wage. The Minnesota Taxpayers Association found that “In many cases, the government-determined prevailing wage is 30 to 40 percent higher than the wages paid to an average laborer undertaking the same work on a job which is not subject to the prevailing wage requirements.”¹

This wage disparity is due in part to Minnesota’s unusual method of determining the prevailing wage. Minnesota does not use the *average* rate reported. Instead, the wage that is *most often* reported becomes the prevailing wage. For example, if five workers reported hourly wages of \$7, \$9, \$13, \$13, \$14, then the prevailing wage would be set at \$13 because it was the amount reported most often. The average wage of that sampling would be \$11.50/hour.

This is severely detrimental to Minnesota workers because an employer can only hire as many workers as the budget allows, and paying rates that are 30% higher than the average for the *same* work in a non-DBA job

inherently decreases the amount of employees that can be afforded. Forced higher wages, therefore, can lead to increased unemployment for Minnesota laborers, and unnecessary expenditures that are paid for by raising taxes!

MYTH: *Minnesota’s Prevailing Wage ensures that the state doesn’t pay more than the typical rate on construction projects.*

FACT: Minnesota taxpayers are forced to pay for inflated and wastefully high construction costs because of the prevailing wage law.

Indeed, Minnesota’s Legislative Auditor found that “The method used to calculate prevailing wage rates may sometimes result in rates that are not representative of wages and benefits paid for nonresidential construction work.”² Contractors are forced to pay cement masons and concrete finishers working on public projects in Rochester, MN a wage that is 50% higher than the true average of wages for the same work on non-public projects. Also in Rochester, painters are paid 63% higher than the true average wage for the same work done on a private job site. The facts demonstrate that the state *is* wasting tax dollars paying wages that are unjustified.

MYTH: *It isn’t a union issue. It’s a matter of community standards, and of taxpayers being able to hold contractors accountable for the wages and benefits they provide.*

FACT: Because union wages are what set the prevailing wage in practice, it clearly is a union issue. Minnesota's method of determining a prevailing wage means that whatever wage rate is *most often* reported will become the prevailing wage. Since union members typically receive the same wage while non-union workers receive differing wages, the union wage is highly likely to become the prevailing wage. Minnesota's prevailing wage laws necessarily create a disadvantage to small contractors who cannot afford the same wage rates as the large unions and has an extra impact of putting lower-skilled and lower-paid laborers out of work. This is acutely harmful because construction and labor are comparatively well-paying occupations that low-skilled laborers are particularly suited.

Taxpayers do not hold contractors accountable for fair wages by forcing them to pay patently unfair wages. Unfortunately, this is exactly what Minnesota's prevailing wage law does. It is the state that needs accountability when spending taxpayer dollars: wasting money on cost-inflated public projects is irresponsible and ought to be curbed. The Taxpayer's Association of Minnesota found that if the public projects in 2002 had been conducted under the true average wages, the same projects could have been accomplished for 7.4% to 10.0% less than was actually spent, which translates into a potential savings of \$126 to \$171 million.³

MYTH: *The prevailing wage strengthens Minnesota's local employers, and improves the local workforce.*

FACT: Prevailing wage laws misrepresent the true wage levels in a given field, which hurts Minnesota's local employers and the workforce. When a prevailing wage is set below the market wage, employees are harmed because they are underpaid. In Todd County the prevailing wage for carpentry was set over 50% below the average wage,

thus underpaying carpenters and harming their families.⁴

When the prevailing wage is set above the market wage employers are harmed which in turn harms employees when jobs are cut or benefits are decreased. In Le Sueur County the 2005 prevailing hourly wage for pipefitters and steamfitters was set at \$43.31, which was over \$18.00 higher than the next highest reported wage.⁵

The State's own auditor agreed that the method used to determine the prevailing wage in Minnesota does not truly reflect the majority of wages paid in a given Minnesotan community. Clearly, it is time to move beyond the dismal failure of a prevailing wage system in Minnesota.

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The Alliance for Worker Freedom is a special project of Americans for Tax Reform dedicated to combating anti-worker legislation and the promotion of a free and open labor market.

¹ Minnesota Taxpayers Association, "Prevailing Wage Rates in Minnesota: An Examination of Alternative Calculation Methods and Their Effects on Public Construction Wages," February 2005

² Minnesota Office of the Legislative Auditor, "Prevailing Wages," February 2007: 31.

³ MTA, 23.

⁴ Auditor, 32.

⁵ Auditor, 32.