

Comment

Davis-Bacon laws should be repealed

South Africa recently held national elections that brought the era of apartheid to an end. While we roundly condemned South Africa's government in the past, we did little to critique its specific policies. At the dawn of a new period in South African his-

On Locking Out Minorities

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tory, we can learn some lessons about U.S. laws that are equivalent to a South African labor policy that discriminates against minorities — Davis-Bacon laws.

Davis-Bacon laws are rather obscure, but they have important consequences in the construction industry. They mandate that firms pay the "prevailing wage" to their employees when they receive government contracts for public works projects. Usually, this is set at the local union-wage rate for each occupation. There is a federal Davis-Bacon law and about two-thirds of the states have their own versions as well. Kentucky is one of those states. The mandates have a few restrictions, but the main criterion is that at least \$2,000 of federal money is used in the project.

How do the laws work? Imagine that you are a young carpenter who is worth \$12 per hour. Your competition is a veteran of the trade who is in a union and is paid \$16 per hour. (The rookie is not dangerous, but isn't skilled in the "tools of the trade" yet.) Davis-Bacon mandates that the wage for both is \$16. Who wins? The veteran — because the newcomer has been priced out of the competition. Because the challenger is not allowed to compete on the basis of wages, the incumbent wins automatically.

Thus, Davis-Bacon laws hurt the relatively unskilled. Why do we have these laws? They serve to restrict the competition of the incumbent and relatively skilled workers. That is why these laws are pursued by organized labor. Labor unions lobby for such laws because they have an economic incentive to restrict their competition as

much as possible. That enables them to pursue higher wages and compensation. Unfortunately, as a result, unions inadvertently harm relatively unskilled laborers by locking them out of labor markets and opportunities to earn money.

Also, government is prevented from taking "the lowest bid." By law that is impossible because firms are not allowed to submit labor costs that are below the "prevailing wages." Thus, taxpayers also lose because they will get less "bang for the buck" from public works projects. Economists have estimated that this costs taxpayers \$1.5 billion per year.

So how does this hurt minorities in particular? Unfortunately, for a variety of reasons, minorities are disproportionately represented among the "relatively unskilled." In addition, minority firms are often the "new kids on the block." Davis-Bacon laws protect the incumbent at the expense of the challenger. Finally, minority firms are almost exclusively nonunion while more than half of "majority" firms are unionized. Thus, the brunt of such a law falls primarily on minorities.

In addition, Davis-Bacon makes personal discrimination costless. Returning to the earlier example, imagine that the rookie belongs to a group that someone does not want to hire. Without Davis-Bacon, employers are forced to decide whether they want to pay four extra dollars to discriminate. With Davis-Bacon, the wages have been equalized and no cost is incurred if they decide to indulge their preferences.

In the fall, *The Courier-Journal* printed articles and editorials expressing concern about the lack of government business for minority contractors. They noted that minority firms receive about 2 percent of Louisville and Jefferson County's spending on goods and services. The proposed solution was to establish quotas and set-asides for minority contractors. To the extent that public works projects are a proportion of that spending, however, a better initial step would be to repeal Davis-Bacon ("prevailing wage") laws.

The Metropolitan Sewer District has

been praised for awarding 19 percent of its business to minority contractors. This should not be surprising since MSD is not under Davis-Bacon laws. This is because its public works projects are paid for with user fees and not grants from state or federal government. Without having to pay "prevailing wages" to employees, minority firms have been able to more effectively compete for those contracts.

When the federal Davis-Bacon law was established in 1931, it had racial motivations. In debate over the bill, Alabama Rep. Miles Allgood complained: "that contractor has cheap colored labor . . . and it is labor of that sort that is in competition with white labor." South Africa uses the same laws (along with the minimum wage) to keep relatively unskilled blacks from competing with white union laborers, locking them out of the labor market. While presumably the intent of our prevailing wage laws is different, the results are the same.

Davis-Bacon laws hurt taxpayers, lock relatively inexperienced workers out of labor markets and harm minorities most of all. Certainly other factors are significant in why minority contractors have such a small share of government business. But one way to help minorities would be to get government out of the way of minority initiative and hard work in the construction industry, to remove a barrier that government has built — to repeal Davis-Bacon.

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