

CBO TESTIMONY

Statement of
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before the
Subcommittee on Labor Standards,
Occupational Health and Safety
Committee on Education and Labor
U.S. House of Representatives

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NOTICE

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Mr. Chairman, I welcome this opportunity to appear before your Committee to discuss the potential budgetary effects of changes in the Davis-Bacon Act.

My testimony will make three points:

- o Restricting the coverage of the Davis-Bacon Act would reduce federal costs, and if these reduced costs were reflected in appropriation actions, the changes could help the Congress meet the spending caps required under the Budget Enforcement Act of 1990 (BEA).
- o Reduced overall discretionary spending can only be ensured if the BEA caps are reduced by the estimated savings from changes in the Davis-Bacon Act.
- o Cost savings could accrue from setting a higher minimum contract under the act.

WHAT IMPACT DOES THE DAVIS-BACON ACT HAVE ON FEDERAL CONSTRUCTION COSTS?

The Davis-Bacon Act, enacted in 1931, requires that contractors on federal construction projects pay wages comparable to those that prevail in the labor market where the construction takes place. Other legislation--often referred to as "related acts"--extended these prevailing wage requirements to other

construction projects involving federal monies, including federal grants, loans, loan insurance, or loan guarantees. The Davis-Bacon Act grew out of a concern that the federal government not be a party to encouraging contractors from other regions of the country coming into an area and undercutting the wage standards in that locality. The original legislation covered all federal construction projects of at least \$5,000--a level that was reduced to \$2,000 in 1935, where it remains today.

Prevailing wages under the act are currently calculated for a class of construction workers as the wage rate (including fringe benefits) paid to a majority of workers in a locality. Alternatively, if no single wage rate applies to the majority of workers, the prevailing wage becomes the average wage paid to this category of the area's construction workers. Where the Department of Labor determines that the wage is based on a majority of workers paid the same rate, the rate is generally that paid to unionized workers under a single collective bargaining agreement.

Because average wage rates and fringe benefits paid to unionized workers are significantly higher than for other construction workers, majority wage determinations generally result in wage rates on federal construction projects being higher than the average wage on nonfederal construction work in the

area. Even where average wages are used, significant numbers of construction workers actually earn less than the average wage rates on federal construction.

In fiscal year 1992, the Davis-Bacon Act and related acts covered about \$47 billion in federal spending on construction and rehabilitation. Outlays for highways, airports, mass transportation, and other transportation represent about \$2 of every \$5 of spending for federal construction. Spending on defense-related construction, though a significant share of direct federal procurements, represents only a little more than one-tenth of the total outlays for federal construction. (See Table 1 for outlays for federal construction in fiscal year 1992 for different categories of spending.)

Higher wage rates do not necessarily increase costs, however. If these differences in wages were offset by hiring more skilled and productive workers, no additional construction costs would result. Similarly, the higher wage rates might encourage different, less labor-intensive construction methods that would offset part of the differences in wages.

Although research into the impact of the Davis-Bacon Act on federal construction costs has generally supported the view that the act's requirements have increased spending, the estimates vary substantially--from 0.1 percent in a study by Steven Allen of North Carolina State University to as much as

11 percent in a study by President Carter's Council of Economic Advisors. In a 1983 report, the Congressional Budget Office (CBO) weighed the evidence from a variety of studies and concluded that the majority of average wage calculations by themselves increase federal construction costs by about 1.5 percent--a factor that is still used as the basis for CBO cost estimates. Little has been written on the cost impacts of the Davis-Bacon Act since 1983 to provide sufficient grounds to modify the earlier CBO finding.

TABLE 1. FEDERAL CONSTRUCTION OUTLAYS, FISCAL YEAR 1992
(In billions of dollars)

Category	
National Defense	5.3
Highways	15.1
Mass Transportation	2.8
Air Transportation	1.7
Other Transportation	0.3
Community and Regional Development	4.1
Pollution Control and Abatement	3.4
Water Resources	2.5
Housing Assistance	2.2
Veterans Hospitals and Other Health	1.0
Energy	3.8
Postal Service	1.3
Other	3.8
Total	47.3

SOURCE: Office of Management and Budget, *Budget of the United States, Fiscal Year 1994*, p. 73.

Some critics also argue that the burden of paperwork and the requirements for reporting compliance on federal construction projects add significantly to federal construction costs. Contracts covered under the Davis-Bacon Act--and the related acts--are also covered by the Copeland Anti-Kickback Act, which requires employers to make weekly reports of wage rates paid and hours worked by each employee on each covered contract. Although computerized payroll systems have lightened these burdens for many employers, the reporting requirements still represent additional costs for them and are certainly a factor in the bids the federal government receives for its construction projects. Small contractors in particular have emphasized that they believe these requirements to be onerous. Again, based on its 1983 report, CBO estimates that compliance costs add about 0.2 percent to construction spending, in addition to the direct costs of the prevailing wage requirements.

Until 1992, CBO estimated that restrictions on using helper workers also raised federal construction costs because they required contractors to pay journeymen's wages to all workers performing similar tasks, even where lesser-paid helpers were frequently used in such work. Although the Department of Labor proposed regulations to expand the use of these workers, labor groups challenged these regulations in the courts. Moreover, the Supplemental Appropriations Act for Fiscal Year 1991 prohibited the

Secretary of Labor from enforcing these regulations. However, the final judgment of the United States Court of Appeals for the District of Columbia in April 1992 freed the Secretary to expand the use of helpers on federal construction projects, and no subsequent legislation was enacted that would have restricted the Secretary from doing so.

Consequently, where the Department of Labor determines that the use of helpers is a prevailing practice, it is supposed to issue separate wage determinations for this group of workers. When compared with the previous practices of the department, this ruling is likely to reduce federal construction costs because contractors will be able to substitute less expensive helpers for more highly paid journeymen.

CBO had previously estimated that the prohibition on the use of helpers increased costs by about 1.6 percent overall. Because the helper rule is now current practice, liberalizing the use of helpers through legislative action no longer results in any estimated savings. Conversely, restoring the previous practice would increase the costs of federal construction and would require the Congress to raise construction funding if the same project were to be undertaken.

SCOREKEEPING BUDGETARY EFFECTS OF CHANGES IN THE DAVIS-BACON ACT

Virtually all spending on federal construction flows from funds appropriated annually by the Congress and falls within the broad classification of discretionary spending. As such, construction monies fall in the category of spending that became subject to specific dollar limits under the Budget Enforcement Act. These limits will require the Congress to appropriate fewer funds in total for the covered activities in 1994 and 1995 than are necessary to maintain the real (inflation-adjusted) resources the programs currently receive. If changes were made in the coverage of the Davis-Bacon Act, however, the Congress could appropriate less for construction without reducing the amount of real activity, thereby helping to meet the discretionary spending caps.

Changes in the Davis-Bacon Act would not cut the total federal deficit, however, unless the Congress reduced appropriations below the limits specified in BEA. Given the tightness of BEA constraints, which apply to budget authority as well as to outlays, these reforms by themselves would probably not actually lead to less spending than specified under BEA. Rather it would substitute for restraint in some other category of spending. Ensuring that Davis-Bacon Act changes would actually lower the deficit would require

the Congress to modify the BEA spending limits to reflect the estimated savings from the changes.

BUDGETARY EFFECTS OF POTENTIAL CHANGES IN THE DAVIS-BACON ACT

Over the years, modifications in the Davis-Bacon Act have been proposed, including those in the Chairman's bill, H.R. 1231. That bill, like many others introduced in recent years, would increase the minimum applicable contract size. Other bills have proposed repealing the act.

The potential savings in outlays for the 1994-1998 period range from \$130 million with the minimum contract at \$100,000, to \$260 million at \$250,000, and \$915 million at \$1,000,000. Repealing the act would reduce estimated construction costs by \$3.3 billion over the next five years. (See Table 2; the estimates assume corresponding changes in the coverage of construction contracts under the Copeland Act.)

Other changes affecting federal construction costs might also be considered. One change--included in H.R. 1231 and passed by this Committee last year as part of H.R. 1987--would reduce the requirements for wage-and-hour reporting for contracts covered by the Davis-Bacon Act. If

reporting were required monthly rather than weekly, we have assumed that compliance costs would fall by two-thirds. That reduction is less than proportional to the number of reports an employer must file, since we have assumed some fixed costs in the internal reporting systems of employers. An estimated \$260 million in savings could be achieved over the next five years with this reporting change.

**TABLE 2. POTENTIAL REDUCTION IN FEDERAL OUTLAYS
FROM CHANGING THE DAVIS-BACON ACT
(By fiscal year, in millions of dollars)**

Change	1994	1995	1996	1997	1998	Total
Minimum Contract Size						
\$100,000	10	20	30	35	35	130
\$250,000	20	45	60	65	70	260
\$1,000,000	55	150	210	240	260	915
Repeal Act	200	560	750	850	930	3,290
Change from Weekly to Monthly Wage Reporting	15	45	60	65	75	260

SOURCE: Congressional Budget Office.

CONCLUSION

Changes in the Davis-Bacon Act could save the federal government money, but only if the appropriations set by the Congress were reduced to reflect the savings. The Congress could use these savings as one way to achieve the discretionary spending limits established in 1990, or it could use them to reduce the deficit further by adjusting the spending limits down by some or all of the estimated savings.