



Prevailing Wages: Frequently Asked Questions

By Malkie Wall, David Madland, and Karla Walter | December 22, 2020

What is a prevailing wage?

A prevailing wage is the basic hourly rate of wages and benefits paid to a number of similarly employed workers in a given geography. Policymakers can use prevailing compensation levels to set wage and benefit floors for workers in the locality—for example, construction workers on government-funded projects in Minneapolis¹ or security guards providing government contracted services in New York City.² Prevailing wage laws can ensure that government dollars do not undercut local wage and benefit standards, prevent a race to the bottom among publicly funded contractors, support good jobs, and provide good value to taxpayers.

Where are prevailing wages used?

The Davis-Bacon Act and Service Contract Act have long required contractors and subcontractors on federally funded or assisted construction and service contracts to pay locally prevailing wages and provide benefits.³ Additionally, roughly half of all U.S. states, as well as various cities, have their own prevailing wage laws.⁴

In recent years, lawmakers in several states—including Michigan, Indiana, West Virginia, Arkansas, Missouri, Wisconsin, and Kentucky—have moved to weaken or repeal those protections or preempt action by cities,⁵ often with negative economic outcomes and few cost savings.⁶ At the same time, other places are seeking to extend prevailing wage requirements to other types of work. For example, a number of municipalities in New Jersey have enacted requirements that building service workers at properties owned or leased by the government be paid prevailing wages.⁷ And in 2019, Maine amended its laws to require prevailing wages on all construction projects of \$50,000 or more funded “in whole or in part” by state funds—not just those let by state agencies.⁸

What are the benefits of prevailing wage laws?

Workers, businesses, and taxpayers all benefit from these types of policies:

- **Support good wages and benefits.** Research consistently shows that construction prevailing wage laws help blue-collar workers earn middle-class incomes.⁹ They also expand health insurance coverage and increase the share of workers with pension plans.¹⁰ Even in lower-paying occupations, such as janitorial or food service, prevailing wage laws can support compensation rates well above legislated minimums.¹¹

See also:

[“A How-To Guide for Strengthening State and Local Prevailing Wage Laws for Government-Funded Work”](#)

[“Raising the Bar: State and Local Governments Can Use Prevailing Industry Standards to Raise Minimum Standards for Private Sector Workers”](#)

- **Help close racial pay gaps.** One statistical analysis found that the income gap between white and Black construction workers would be roughly 7 percentage points smaller if a state without a prevailing wage law instituted such a law.¹² Prevailing wage laws may also be paired with targeted hire provisions that can help increase recruitment of women and Black and Latinx workers in the construction industry.¹³ Finally, prevailing wage laws can also help ensure that government spending does not erode standards in the service sector, where many jobs are held by Black, Latinx, and immigrant workers.¹⁴
- **Promote quality work and produce good value for taxpayers.** Research shows that prevailing wage laws boost worker productivity, reduce injury rates, and increase apprenticeship training, which helps to address the shortage of skilled labor in construction.¹⁵ In addition, service sector wage standard laws have been shown to decrease turnover and improve service quality.¹⁶ Because they ensure a stable, well-qualified workforce, prevailing wage laws produce good value for taxpayers. Furthermore, numerous studies refute arguments that prevailing wages raise construction costs.¹⁷ In fact, research shows that these laws generate positive impacts for public budgets by increasing the amount of work performed by local contractors, thus reducing the leakage of local dollars,¹⁸ boosting state and local tax revenues,¹⁹ and making workers less reliant on government programs such as the Supplemental Nutrition Assistance Program (SNAP).²⁰
- **Level the playing field for high-road employers.** Prevailing wage requirements prevent low-road businesses from undercutting high-road employers committed to paying decent wages and benefits in bid competitions. Providing employers with a clear guideline for what is an acceptable rate of compensation signals to high-road employers that they can compete for and win government contracts. Experience shows that by raising standards for workers, governments can encourage more companies to bid for contracts.²¹
- **Protect union workers' gains.** Strong prevailing wage laws prevent low-road contractors from undermining higher standards that workers attain through collective bargaining. Indeed, prevailing wage laws tend to be particularly important for protecting market rates in areas with strong unions.²² Unionized workers and employers gain stability knowing that low-road contractors will not constantly undercut labor standards negotiated through private sector bargaining. Moreover, prevailing wage laws can help standardize compensation rates across union and nonunion worksites.
- **Promote sectoral standards.** Because they extend market wages and benefits—which at times reflect collectively bargained rates—to all covered workers, prevailing wage laws are a key support for promoting high sectoral standards.²³ Standardizing compensation across an industry leads to higher wages and benefits for more workers, moderates economic inequality, and reduces pay gaps across race and gender.²⁴ It can also increase productivity by encouraging businesses to compete based on quality, rather than low labor costs.

Which industries could benefit from prevailing wage protections?

Policymakers can raise standards for millions of American workers by using prevailing wage laws to set standards across the construction and service sectors. Many people associate prevailing wages with the construction industry, since numerous federal, state, and local laws require that contractors and subcontractors on public works projects pay their workers local, prevailing wage rates. However, governments can also require prevailing wages for service workers, such as custodial staff, security guards, food service workers, call center workers, and temporary office service workers. Extending prevailing wage coverage to all government-funded service work is particularly important for raising standards for female workers and workers of color, who make up a substantial portion of the service workforce.²⁵

Are prevailing wages only applicable to direct government contracts?

No. Policymakers have enacted prevailing wage laws that set compensation rates for a variety of government-funded work,²⁶ including—but not limited to—direct government contracts, grants, loans, and tax incentives. Prevailing wage standards should also be applied to employees on service contracts at properties owned or leased by the government.

In addition, a few cities and states have enacted sectoral minimum wage laws—what the authors call prevailing industry standards²⁷—that operate in a manner analogous to traditional prevailing wage laws but regulate private businesses that are not conducting government-funded or assisted work. For example, Washington, D.C., requires security guards in any commercial office building to be paid at least the prevailing wage.²⁸

How do prevailing wage standards fit alongside minimum wages?

State and local policymakers can set wage and benefits standards in a variety of ways and may adopt multiple approaches to raise standards for workers across the income spectrum. Prevailing wage standards are useful even in places with high area-minimum wages because they come with required benefits supplements and can protect high standards for middle-income earners. Different wage-setting mechanisms serve different purposes:

- **Basic minimum standards laws** include minimum wages, paid leave, and fair scheduling laws that apply equally to all workers, regardless of industry or occupation. These types of minimums help address undue hardship or dire economic need and are an essential tool for increasing basic standards for tens of millions of workers across the economy.²⁹
- **Prevailing wage laws** set wages and benefits rates based on market conditions, which are frequently higher than across-the-board minimum standards. Importantly, prevailing wage laws also establish a floor for government-funded work so that public contracting does not depress standards.

These types of laws tend to produce the highest compensation rates when some employers in the industry already pay decent wages and benefits, as is often the case in areas with strong unions. For example, the prevailing hourly rate for electricians in Chicago is more than \$85.³⁰ In New York City, building cleaners on city service contracts earn more than \$40 per hour in combined wages and benefits.³¹ But even in somewhat lower wage areas, benefit requirements can often ensure that prevailing compensation rates are higher than statutory minimums. For example, the combined wage and benefit rate that prevails for food service workers on federal contracts in Durham, North Carolina, is \$15.45—nearly twice the state minimum wage of \$7.25.³² And commercial painters on state public works projects in New Mexico—where the minimum wage is \$9.00 per hour—earn a base wage of \$17.00 per hour, plus \$6.88 per hour in fringe benefits.³³

Taken together, the approaches above can help raise standards for the lowest-wage workers while also supporting strong income growth throughout the labor market. In industries with endemic poverty wages and where workers face significant barriers to organizing, policymakers should consider adopting complimentary policies—such as workers’ boards³⁴—that give workers a voice in determining workplace standards.

Malkie Wall is a research associate for Economic Policy team the Center for American Progress. David Madland is a senior fellow at the Center. Karla Walter is the senior director of Employment Policy at the Center.

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