

## The Benefits of Paying the Travis County Living Wage

Travis County is committed to the principle that all individuals working in construction on Travis County projects should receive a living wage. Research in recent years has examined the situation of construction workers in Texas<sup>1</sup> and the U.S. South.<sup>2</sup> These studies have identified extensive evidence of low wages, unsafe working conditions, and lack of access to basic workplace benefits such as health insurance, workers compensation, and retirement benefits. The spillover effects of these low-wage jobs impact communities and populations beyond the workers and their families. Low wages put more pressure on public institutions, local governments, and taxpayers to carry the burden through increased use of public assistance such as Medicaid, SNAP, and hospital visits. These studies, and others, have also proposed sensible recommendations such as raising worker wages and strengthening existing institutions for training and career workforce development.

Fifty-two percent (52%) of construction workers surveyed in the 2013 Build a Better Texas report were found to be earning wages that placed them below the federal poverty line. Seventy-five percent (75%) of the workers in the sample stated they were not earning a wage that would allow them to support their families on their take-home pay alone. Furthermore, low wages in the construction industry go hand in hand with other injurious practices such as wage theft and payroll tax fraud. Low-wage, non-union workers in the construction industry were less likely to receive basic workplace benefits such as health insurance and retirement; less likely to be covered by workers compensation insurance; and less likely to receive OSHA trainings, and more likely to be injured on the job.

Local stakeholders have pursued a number of remedies in recent years. As of November 2017, 39 cities and counties in the U.S. had passed local minimum wage ordinances raising wages above levels set by federal or state laws.<sup>3</sup> In the construction sector, prevailing wages effectively serve as minimum-wage floors adjusted to local conditions and standards. For contractors bidding on federally-funded construction projects, the Davis-Bacon Act ensures prevailing wage levels are paid to all categories of workers. Twenty-eight states, including Texas, have “little” Davis Bacon laws that establish prevailing wages at the state level. Many cities, including Austin, have passed prevailing wage laws for those bidding on city or municipal contracts as well. Other policies, such as paid sick leave, offer workers access to essential workplace benefits and level the playing field for all businesses, ensuring that bad actors and low-road entrants cannot undercut responsible businesses. All in all, these approaches represent effective policies that benefit communities and their economies, create stable jobs for local workers, and ensure high-road employers are rewarded for following the law.

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<sup>1</sup> Workers Defense Project. 2013. “Build a Better Texas: Construction Working Conditions in the Lone Star State” Research Report, [http://www.workersdefense.org/Build%20a%20Better%20Texas\\_FINAL.pdf](http://www.workersdefense.org/Build%20a%20Better%20Texas_FINAL.pdf)

<sup>2</sup> Workers Defense Project, Partnership for Working Families, Nik Theodore. 2017. “Build a Better South: Construction Working Conditions in the Southern US” Research Report, <http://www.workersdefense.org/wp-content/uploads/2017/05/Build-a-Better-South-Full-Report-Digital.pdf>

<sup>3</sup> “Inventory of US City and County Minimum Wage Ordinances” University of California-Berkeley Labor Center. Accessed December 5, 2017. <http://laborcenter.berkeley.edu/minimum-wage-living-wage-resources/inventory-of-us-city-and-county-minimum-wage-ordinances/>

Higher wages have proven to be a vital and effective remedy for issues facing the most vulnerable workers in low-wage sectors such as the restaurant, service, health care, and construction industries. Academic and other published research supports this proposition, consistently demonstrating a range of benefits for workers, their families, their communities, and employers.

In a 2016 report on the benefits of higher wages, the American Public Health Association<sup>4</sup> stated: “More than a decade’s worth of research indicates that increasing the minimum wage is an effective means of improving public health across many settings.” This conclusion is consistent with a University of Washington report that found higher wages allowed workers to address their family’s medical needs, further reducing the pressure on taxpayer-funded sources such as emergency rooms and health clinics.<sup>5</sup>

Research studies across a range of industries have demonstrated the benefits of higher wages not only for employees and their families, but for businesses as well. The most robust savings to employers offering higher wages are seen in the gains made by reduced turnover. A 2015 U.S. Department of Commerce study found: “Research suggests that firms with higher payroll per employee have more skilled workers who also work harder, and the companies adopt other practices to take advantage of this talented, dedicated workforce and further boost its productivity. In this “highroad” recipe, firms harness the knowledge of all their workers to create innovative products and processes; the higher wages paid to these workers are offset by their higher productivity.”<sup>6</sup> In a national level study, Michigan State University researchers found that “high-wage firms can sometimes offset more than half of their higher wage costs through improved productivity and lower hiring and turnover costs.”<sup>7</sup>

Higher turnover rates have consequences for business, customers, patients, and product quality. According to a 2007 research study, the restaurant industry in San Francisco experienced decreased turnover and saw an increase in worker tenure after the city raised the minimum wage by 26% in 2003.<sup>8</sup> More recent research using national data estimated that a minimum wage increase of 10%, led to a 2.2%

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<sup>4</sup> “Improving Health by Increasing the Minimum Wage” American Public Health Association, November 1, 2016. Accessed December 5, 2017. <https://www.apha.org/policies-and-advocacy/public-health-policy-statements/policy-database/2017/01/18/improving-health-by-increasing-minimum-wage>

<sup>5</sup> McCarrier KP, Zimmerman FJ, Ralston JD, Martin DP. 2011. “Associations Between Minimum Wage Policy and Access to Health Care: Evidence from the Behavioral Risk Factor Surveillance System, 1996–2007” *American Journal of Public Health*. Vol. 101

<sup>6</sup> Helper, Susan and Ryan Noonan. “Taking the High Road: New Data Show Higher Wages May Increase Productivity, Among Other Benefits” US Department of Commerce Economics and Statistics Administration. August 4, 2015. Accessed December 7, 2017. <http://www.esa.doc.gov/sites/default/files/taking-the-high-road-new-data-show-higher-wages-may-increase-productivity-among-other-benefits.pdf>

<sup>7</sup> Holzer, Harry J. “The Determinants of Employee Productivity and Earnings: Some New Evidence” National Bureau of Economic Research. December 1988. Accessed December 5, 2017. <http://www.nber.org/papers/w2782.pdf>

<sup>8</sup> Dube, Arindrajit, Suresh Naidu, and Michael Reich. 2007. “The Economic Effects of a Citywide Minimum Wage” *Industrial And Labor Relations Review*. 60(4).

decline in turnover rates for teen workers and 2.1% decline in turnover for restaurant workers overall.<sup>9</sup> Among home healthcare workers, higher turnover has shown to lead to inferior care for elderly patients.<sup>10</sup> Researchers studying the effects of minimum wage increases on the fast food industry found employers who increased wages did not reduce employment levels, as many business and industry critics had warned, but rather found the costs of increased wages balanced out by a variety of “channels of adjustments,” including reduced turnover, increased job performance, and improved morale and customer service standards. These channels led to further cost savings for businesses.<sup>11</sup>

Beyond reducing employee turnover, higher wages have a variety of other trickle-down effects for high-road employers. Employees are better able to focus on work tasks and are less distracted by the exacting effects of low wages and uncertain work.<sup>12</sup> Employers have reported reductions in absenteeism and disciplinary action after wage increases.<sup>13</sup> High-road employers in a sample of U.S. manufacturing firms reported fewer disciplinary actions compared to the local labor market.<sup>14</sup>

In recent years, elected officials, industry leaders, and contractors have all called attention to the shortage of skilled labor in the key construction trades.<sup>15</sup> In a 2017 Wall Street Journal article, the Associated General Contractors January 2017 survey found that “73% of firms had a hard time finding qualified workers.”<sup>16</sup> Industry analysts and experts have called attention to two key remedies critical to attracting construction workers: higher wages<sup>17</sup> and greater investment on fostering the stable career-path construction jobs made possible by established joint-labor management training programs.<sup>18</sup>

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<sup>9</sup> Dube, Arindrajit, T. William Lester, and Michael Reich. 2016. “Minimum Wage Shocks, Employment Flows and Labor Market Frictions” *Journal of Labor Economics* 34(3).

[https://econpapers.repec.org/article/ucpjlabec/doi\\_3a10.1086\\_2f685449.htm](https://econpapers.repec.org/article/ucpjlabec/doi_3a10.1086_2f685449.htm)

<sup>10</sup> Howes, Candace 2005. “Living Wages and Retention of Homecare Workers in San Francisco” *Industrial Relations* 44(1).

<sup>11</sup> Hirsch, Barry T., Bruce E. Kaufman, and Tetyana Zelenska. 2015. “Minimum Wage Channels of Adjustment” *Industrial Relations*. 54 (2). <http://onlinelibrary.wiley.com/doi/10.1111/irel.12091/abstract>

<sup>12</sup> Mullainathan, Sendhil and Eldar Shafir. 2014. *Scarcity: The New Science of Having Less and How it Defines Our Lives*. Picador Press.

<sup>13</sup> Reich, Michael, Peter Hall, and Ken Jacobs. 2003. *Living Wages and Economic Performance: The San Francisco Airport Model*. Institute of Industrial Relations, University of California, Berkeley.

<sup>14</sup> Cappelli, Peter and Keith Chauvin. 1991 “An Interplant Test of the Efficiency Wage Hypothesis” *Quarterly Journal of Economics*, 106 (3).

<sup>15</sup> Salchert, Ryan “Construction Industry Faces Labor Shortage Amid Hurricane Harvey Rebuilding” *Houston Business Journal*. October 2, 2017. Accessed December 6, 2017.

<https://www.bizjournals.com/houston/news/2017/10/02/texas-construction-industry-faces-labor-shortage.html>

<sup>16</sup> “America’s Growing Labor Shortage” *The Wall Street Journal*. March 29, 2017. Accessed December 4, 2017.

<https://www.wsj.com/articles/americas-growing-labor-shortage-1490829265>

<sup>17</sup> Gross, Daniel. “There’s No Such Thing as a Job Americans Won’t Do” *Slate*, March 30, 2017. Accessed December 4, 2017.

[http://www.slate.com/blogs/moneybox/2017/03/30/construction\\_execs\\_are\\_missing\\_the\\_obvious\\_explanation\\_f\\_or\\_their\\_labor\\_shortage.html](http://www.slate.com/blogs/moneybox/2017/03/30/construction_execs_are_missing_the_obvious_explanation_f_or_their_labor_shortage.html)

<sup>18</sup> DePillis, Lydia. “What’s Really Driving the Construction Worker Crunch?” *Houston Chronicle*. April 6, 2017. Accessed December 5, 2017. <http://www.houstonchronicle.com/business/texanomics/article/What-s-really-driving-the-construction-worker-11052517.php>

Higher wages for construction workers have proven to be an effective bulwark against the problems of turnover, workforce retention, unsafe working conditions, and inequality. An analysis of the repeal of state prevailing wage laws in nine states found the repeals were responsible for:<sup>19</sup>

- Reducing workers earnings by an average of \$1,447.
- A 15% increase in occupational injuries.
- A shift to a less-skilled construction labor force.
- A substantial loss of income and sales tax returns for states due to project overruns by a lower skilled workforce that lowered productivity.
- A 40% reduction in construction training.
- A decline in minority representation in apprenticeship programs.

Furthermore, recent research has demonstrated that an increase in construction wages allows skilled workers to replace those with less training. This, in turn, allows contractors to spend less on materials, fuel, and equipment costs and leads to increases in productivity and efficiency for contractors.<sup>20</sup> Based on U.S. Census Bureau data, across time and economic cycles, job separations and employee turnover are consistently higher in states without higher prevailing wage laws than in those with higher prevailing wage laws.<sup>21</sup> In communities across the U.S., the benefits of higher wages have consistently proven to be a win-win for workers, employers, governments, and the community.

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<sup>19</sup> Philips, Peter, Garth Magnum, Norm Waitzman, and Anne Yeagle. 1995. "Losing Ground: Lessons From the Repeal of Nine 'Little' Davis-Bacon Acts" University of Utah Department of Economics Working Paper. Accessed December 4, 2017.

<http://content.csbs.utah.edu/~philips/soccer2/Publications/Prevailing%20Wages/History/Losing%20Ground.pdf>

<sup>20</sup> Duncan, Kevin and Alex Lantsberg. 2015. "How Weakening Wisconsin's Prevailing Wage Policy Would Affect Public Construction Costs and Economic Activity" Research Report. Accessed December 6, 2017.

<http://www.faircontracting.org/wp-content/uploads/2015/05/How-Weakening-Wisconsin%E2%80%99s-Prevailing-Wage-Policy-Would-Affect-Public-Construction-Costs-and-Economic-Activity2.pdf>

<sup>21</sup> Manzo IV, Frank "Prevailing Wage States Have Fewer Job Separations in Construction" Illinois Economic Policy Institute, February 29, 2016. Accessed December 6, 2017. <https://illinoisupdate.com/2016/02/29/prevailing-wage-states-have-fewer-job-separations-in-construction/>