

# The Estimated Cost of Project Labor Agreements on Federal Construction

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*I estimate the cost of President Clinton's June 1997 executive memorandum encouraging federal departments and agencies to use project labor agreements (PLAs) on "large and significant" construction projects. Based on the higher wage costs associated with PLAs, the cost of federally owned construction will rise by 1.7 to 7.0 percent annually. Over the three years for which the memorandum will apply, federally owned construction costs will increase by \$844 million to \$3.44 billion. If the memorandum is interpreted to apply to state and local construction projects funded with federal money, the cost could range between \$3.2 and \$13.0 billion.*

## I. Introduction

I attempt to quantify the costs associated with President Clinton's June 5, 1997 executive memorandum encouraging federal departments and agencies to use project labor agreements (PLA) on "large and significant" construction projects. A PLA is a project-specific agreement between the construction owner or contractor and the labor unions representing the crafts needed for the project. Bidders for contracts are not accepted unless they adhere to the terms of the PLA, which typically cover wages, working conditions, and work rules. The most important features of PLAs are provisions that forbid strikes, in exchange for requirements that all contractors who work on the project, including open-shop (nonunion) contractors, hire through union hiring halls, pay union wages and benefits, and adhere to the conditions of union collective bargaining agreements. PLAs are favored by unions — the PLA effectively offsets the cost advantages of nonunion contractors.

Citing the goal of minimizing costs and eliminating wasteful and burdensome requirements, President Clinton's memorandum "encourag[es] departments and agencies in this Administration to consider project labor agreements . . . to achieve economy and efficiency in Federal construction projects." The memorandum orders agencies to evaluate on a project-by-project basis whether the use of a PLA "will advance the Government's procurement interest in cost, efficiency and quality. . . ." <sup>1</sup>

There are two main reasons why the costs associated with this memorandum are likely to be considerably smaller than Clinton's proposed executive order which preceded the memorandum and prompted Congressional Republicans to delay confirmation hearings for Secretary of Labor Herman in response. First, the memorandum