



News from the Fiscal Policy Institute

Embargoed for release **Sunday, April 15.**

Contact:

James Parrott, Deputy Director and Chief Economist

212-721-5624 (work)

917-880-9931 (cell)

718-788-4911 (home)

New study:

[The Underground Economy in the New York City Affordable Housing Construction Industry](#)

Affordable Housing Construction Tainted By Sub-Standard Jobs

Think Tank Finds Huge Underground Economy, Rampant
Employment Abuse and Tax Non-Compliance

Affordable housing is essential to the long-term health of New York City's economy, and the Mayor's ambitious 10-year plan calls for doubling the pace of new affordable housing construction over the next six years. But a study released today by the Fiscal Policy Institute reveals that most affordable housing is built in an underground economy in which workers earn low wages and few benefits, and real costs are evaded by builders and shifted to workers, other employers and taxpayers.

"City-subsidized housing construction should be about affordability but also about quality homes and quality jobs," said FPI's chief economist James Parrott.

According to the study, fully two thirds of affordable housing construction takes place in the underground economy. When the group examined the period 2000 to 2005, they found that new housing construction permits and awards more than doubled—at the same time that Labor Department payroll data indicated that jobs increased by just 16 percent. "Clearly a huge number of workers go to work every day but don't show up in the Labor Department statistics," Parrott said.

Using these data and census data from the Current Population Survey, the study goes on to calculate the wages that these workers earn—for as many as 9,000 workers, just \$10 an hour, with no benefits and often off the books entirely.

Despite the dangerous working conditions in the affordable housing construction industry, few workers have health insurance. And illegal employment practices are rampant. For most workers, employers are not paying premiums for workers compensation or unemployment insurance. And for a significant number of workers, affordable housing contractors do not make payroll tax payments for Social Security or Medicare.

The study goes on to tackle the broad fiscal impact these employment practices have on the city, state and national economies. Parrott said, “As close as we can tell, \$85 million to \$126 million of costs are evaded by employers that pay people off the books and misclassify some employees as so-called independent contractors.” These costs are instead shifted to employers that do pay into social insurance programs and that do buy health insurance for their employees. Taxpayers in general suffer, too, because the government ends up paying for Medicaid, Social Security and Medicare.

Parrott said that New York City should work together with the New York state officials to improve working conditions and the poor pay and benefit practices that exist in the affordable housing construction sector. He noted that New York State is poised to dramatically improve labor standards enforcement, pointing to the tough anti-fraud enforcement provisions in the historic workers’ compensation reform legislation recently signed into law by Governor Spitzer.

FPI’s study, *The Underground Economy in the New York City Affordable Housing Construction Industry*, is available at http://www.fiscalpolicy.org/publications2007/ADVANCE_FPI_AffordableHousing.pdf.

The Fiscal Policy Institute (FPI) is a nonpartisan research and education organization that focuses on tax, budget, and economic issues that affect the quality of life and the economic well being of New York State residents. FPI reports are available at www.fiscalpolicy.org.

####