



News from the Fiscal Policy Institute

For release: Not before Wednesday, December 5, 2007 -- 8:30am

Contact:

James Parrott, Chief Economist
212-721-5624 (office)
917-880-9931 (cell)
parrott@fiscalpolicy.org

More and More Construction Work Underground in New York City Workers, Taxpayers and Honest Employers Pay the Price

New York-- The New York City construction industry is booming, but as buildings go up, construction work has gone underground, according to a new report by the Fiscal Policy Institute. At least 50,000 construction workers are employed off the books or misclassified as independent contractors, according to the report, *Building Up New York, Tearing Down Job Quality: Taxpayer Impact of Worsening Employment Practices in the New York City Construction Industry*.

“Official figures don’t reflect activity of a growing number of unscrupulous employers skirting the law. Their workers are the first to suffer but it doesn’t stop there,” said James Parrott, Ph.D., deputy director and chief economist at the Fiscal Policy Institute and author of the report.

“Taxpayers are forced to pick up the tab for social security and the other payroll taxes that go unpaid when construction workers are hired off the books. And, law-abiding employers are put at a real disadvantage, forced to bear many costs shifted to them from employers breaking the law.”

Parrott said that the fiscal costs of these employment practices—in the New York City construction industry alone—were \$489 million in 2005 and are likely to reach \$557 million in 2008. Costs fall into three categories: payroll taxes for social security and Medicare and social insurance premiums covering workers’ compensation, unemployment insurance and disability insurance (\$272 million in 2005); foregone income tax collections (\$70 million); and the shifted cost of employee health care onto the workers themselves, taxpayers and other employers (\$148 million).

Census data show that the New York City construction industry is much larger than indicated by the official government payroll job numbers, employing over 200,000 workers. The report estimates that 50,000 construction workers—one in four—are either misclassified as independent contractors or employed by construction contractors completely off the books. Half of underground workers are in residential and half in non-residential construction. While two-thirds

of the affordable housing sector is underground, it accounts for about one-fifth of the entire underground construction sector.

Parrott said that the offending employers are motivated by cost-cutting, but that in cutting their own short-term costs they drive up total costs. He said, “Underground construction activity is no bargain. Rather than keeping costs down, it just shifts them onto the backs of others—workers, taxpayers and legitimate companies.” Conversely, he said, contractors that pay a prevailing wage internalize the social and economic costs with the result that total costs likely are not higher but workers fare much better, productivity is higher, quality is better, and the workplace is safer.

Parrott concluded, “As a society, we should be opting for the better overall outcome, not falling for the false bargain of the underground economy.” From the worker perspective, Parrott noted, “A prevailing wage economy supports skill-building, careers and a path into the middle class. The underground economy sends workers back to 19th century working conditions.”

The group says that New York City and New York State should work together and strengthen efforts to address pervasive non-compliant labor practices. “Both the City and the State have taken important first steps,” Parrott noted. “After a rash of workers died on construction sites last year, New York City moved aggressively to address hazardous scaffold safety problems in construction. And several tough anti-fraud enforcement provisions were included in the historic workers’ compensation reform legislation the Governor signed into law earlier this year.” Parrott continued, “Now, the Mayor and the Governor need to follow through to send a strong message that illegal employment practices will not be tolerated.”

Parrott urged, “The best policy choice for New York City and New York State would be to require prevailing wage for all affordable housing contracts and for any construction project benefiting from city and state government funding, subsidy or zoning or other land use action. Both contractors and taxpayers get better value with prevailing wage. It is an effective anti-poverty program, and an obvious way to address New York’s widening income gap between the rich and the poor.”

FPI’s study, *Building Up New York, Tearing Down Job Quality: Taxpayer Impact of Employment Practices in the New York City Construction Industry*, is available at www.fiscalpolicy.org.

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