



## New York – Underground Construction Economy Booms in NYC

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At least 50,000 New York City construction workers are being misclassified as independent contractors or being paid “off the books” and may push losses from such practices to \$557 million by 2008, the Fiscal Policy Institute (FPI) warned in a report released today.

The institute, whose recent reports on the underpayment of workers’ compensation premiums helped fuel Gov. Eliot Spitzer’s 2007 legislative reforms, echoed previous warnings that abuses are widespread in New York’s booming construction industry and getting worse.

In a report entitled “Building Up New York, Tearing Down Job Quality,” FPI said New York City’s underground economy cost about \$490 million in lost workers’ comp premiums, unemployment insurance taxes and other state and local taxes in 2005, compared to projected losses of \$557 million next year.

“Official figures don’t reflect activity of a growing number of unscrupulous employers skirting the law,” said James Parrott, deputy director and chief economist for the institute.

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

The institute reported in January that New York state employers may be underreporting payrolls for purposes of workers’ compensation insurance by \$500 million to \$1 billion a year. The study was based on payrolls reported for calculating workers’ compensation premiums compared to those used to determine unemployment insurance.

The new report compares U.S. Census Bureau data with government payroll numbers and concludes a fourth of the city’s 200,000-plus construction workers are being illegally treated as independent contractors and being paid off the books.

The report said about half of the underground workers are in residential construction and the other half are in nonresidential jobs.

“While two-thirds of the unaffordable housing sector is underground, it accounts for about one-fifth of the entire underground construction sector,” according to an FPI statement accompanying the report.

After signing a set of reforms that beefed up enforcement for noncompliance and gave the New York State Workers' Compensation Board its first powers to halt work at noncompliant job sites, Spitzer also empanelled a statewide misclassification task force this year.

Parrott said in an interview that New York City has made some progress in construction workers safety with a task force on scaffolding safety. He said the industry, which included 12,000 construction companies and more than 30,000 self-employed construction workers, logged 29 deaths in 2006 and 22 in 2007, based on reporting for the federal fiscal years ended Sept. 30.

He said it's too early to gauge the progress of the Spitzer reform package. "The big underground industry is still out there," Parrott said.

FPI broke down the \$490 million estimated annual loss in 2005 this way:

- \$272 million was attributed to unpaid payroll taxes covering Social Security, Medicare and social insurance premiums, including workers' compensation, unemployment insurance and disability insurance.
- \$148 million in health care costs was shifted onto the workers themselves, taxpayers and other employers that provide health insurance.
- Another \$70 million was in personal income taxes, because there is no withholding for the underground economy, the report said.

The Fiscal Policy Institute recommended:

- City and state officials should combine forces to ensure compliance with employment, tax and social insurance laws.
- The city and state should require prevailing wages for all affordable-housing contractors and for any other construction projects benefiting from city or state funding.
- Enforcement efforts should be developed to deal with black and Hispanic workers, who comprise the most vulnerable sector of the construction workforce.

The report will be available at <http://www.fiscalpolicy.org/>.