

*Building Up New York, Tearing Down Job Quality:  
Taxpayer Impact of Worsening Employment Practices in  
the New York City Construction Industry*

*Presentation by*

**James A. Parrott, Ph.D.**

**Deputy Director & Chief Economist,**

***FISCAL POLICY INSTITUTE***

11 Park Place, Suite 701

New York, NY 10007

212-721-5624

[parrott@fiscalpolicy.org](mailto:parrott@fiscalpolicy.org)



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[www.fiscalpolicy.org](http://www.fiscalpolicy.org)

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Nonpartisan research and education organization that focuses on the broad range of tax, budget, and economic issues that affect the quality of life and the economic well-being of New York State residents.

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# NEW YORK CITY CONSTRUCTION INDUSTRY

- ▶ New York City Construction Industry Ongoing building boom in NYC; Building Congress forecasts record \$27.5 B in spending in 2008 (a one-third increase over 2005)
- ▶ Official employment data vastly understate size of the industry; 225,000 workers vs. 125,000 in the official data
- ▶ However, industry's bright prospects marred by deteriorating wage and employment practices

# Persons Employed in Construction in New York City, 2005

<b>American Community Survey</b>	<b>Employees</b>	<b>Self-employed</b>	<b>Total by area</b>	
NYC residents	126,939	28,208	155,147	
Residents of NYS outside of NYC	25,434	2,951	28,385	
Residents of NJ, PA, or CT	14,621	1,628	16,249	
<b>Total by employment status</b>	<b>166,994</b>	<b>32,787</b>	<b>199,781</b>	
			Misclassified workers or employed off the books	
<b>Estimates by industry segment</b>	<b>Payroll employment</b>	<b>Self- employment</b>	<b>employed off the books</b>	<b>Total by segment</b>
Residential construction *	38,500	14,250	29,000	81,750
Non-residential construction	71,500	18,550	28,000	118,050
<b>Total construction **</b>	<b>110,000</b>	<b>32,800</b>	<b>57,000</b>	<b>199,800</b>

# CONTRACTORS ILLEGALLY EMPLOY MORE THAN 50,000 WORKERS (Almost 1 in 4)

- ▶ Workers either misclassified as “independent contractors” or employed off the books –either way it’s the “underground economy” and illegal
- ▶ Misclassification is a growing problem, particularly in the construction industry. Businesses seek to avoid payment of payroll taxes, premiums for workers’ compensation and unemployment insurance, and other employment-related costs
- ▶ For workers in the underground economy it might as well be the 19<sup>th</sup> century—no rights, no safeguards, no social safety net
- ▶ The underground economy is not an immigrant problem, it’s a problem created by businesses cutting corners and government letting them get away with it

THE UNDERGROUND  
CONSTRUCTION ECONOMY  
CARRIES A HUGE FISCAL COST—  
RISING TO OVER \$550 MILLION IN 2008

# THE BREAKDOWN FOR TAXPAYER COSTS OF THE UNDERGROUND CONSTRUCTION ECONOMY

- ▶ Lost payroll taxes and social insurance premiums: \$272 million
- ▶ Health care costs shifted to other payors: \$148 million
- ▶ Lost income tax collections: \$70 million (not counting business taxes)

# LOST PAYROLL TAXES AND SOCIAL INSURANCE PREMIUMS: \$272 MILLION

- ▶ Even at only \$10 or \$11 an hour, these payments would total \$6,000 to \$6,500 per worker per year. Workers comp and social security are the biggest costs. Also unemployment and disability insurance.
- ▶ Workers forced to pay the employer's share of payroll taxes, but few do, and they shouldn't be expected to
- ▶ This summer, Governor Spitzer said the misclassification of workers is "rampant" and "a growing epidemic that is keeping wages and benefits artificially low." He issued an Executive Order calling for coordinated enforcement.

# CONSTRUCTION IS THE MOST DANGEROUS OCCUPATION IN NEW YORK CITY

- ▶ OSHA: 29 construction fatalities in 2006, 22 in 2007; NYC stepped up safety enforcement after Scaffold Task Force
- ▶ OSHA data show strong correlation between fatalities and characteristics of underground economy: half of deaths at very small companies,  $\frac{3}{4}$  non-union, no safety training
- ▶ In 2004, when there were 23 construction fatalities, the occupational fatality rate for males was four times greater in construction than overall for the private sector

# HEALTH CARE COSTS SHIFTED TO MEDICAID AND OTHER PAYORS

- ▶ Generally, only unionized workers have health insurance. Statewide, construction is the sector with highest non-insurance rate according to the United Hospital Fund. Very few NYC adults with low incomes have employer-provided health insurance.
- ▶ Underground workers largely shut out of workers' comp system.
- ▶ We assumed one-fourth of uninsured workers (12,500) had Medicaid coverage and that these workers sought coverage because they became injured and received health care valued at \$6,000 per worker. (Total = \$111 million)
- ▶ We assumed one-fifth of uninsured workers (10,000) didn't qualify for or didn't apply for Medicaid and that they received \$2,500 in uncompensated care. (Total = \$37 million)
- ▶ NYS requires employers providing health insurance to pay surcharges to help cover cost of uncompensated care for workers whose employers don't pay anything

# LOST PERSONAL INCOME TAX COLLECTIONS

- ▶ Union worker making the average wage of \$33/hour pays \$13,550 in income taxes (plus \$4,350 in payroll taxes). A \$15 an hour worker paid on the books would pay \$4,140 in income taxes (and \$2,110 in payroll taxes)
- ▶ Assuming that one-third of the 50,000 underground workers pay income taxes, but two-thirds don't because there is no withholding and/or they are paid entirely off the books, government loses \$70 million a year in income taxes: \$44 million federal, \$15 million NYS and \$11 million NYC.
- ▶ This doesn't include lost business income taxes from companies that operate partially or largely underground

*[these estimates based on a single taxpayer with no dependents and income above the threshold for EITC eligibility]*

# TAXPAYER COST OF CONSTRUCTION'S UNDERGROUND ECONOMY = \$489 MILLION IN 2005

- ▶ With tremendous growth in construction activity since 2005, *this figure will conservatively become \$557 million in 2008.*
- ▶ These estimates based on 50,000 workers in the underground economy (2005--workers that appear in the American Community Survey but not in the payroll jobs data). The number could be much higher.
- ▶ These costs do not include the *economic costs* borne by workers themselves: abysmally low wages for dangerous work, not covered by social insurance (social security, Medicare, workers' compensation, unemployment or disability insurance), no pension or family health insurance, no paid time off, and no right to join a union.
- ▶ 45,000 NYC construction workers make less than \$11/hour (CPS data)

# IN CONSTRUCTION, LOW BIDS OFTEN MEAN SHIFTED COSTS

- ▶ The underground economy is no bargain, costs appear low because wages are very low. Substantial economic costs are shifted onto workers.
- ▶ Considerable fiscal costs are shifted to other construction employers and taxpayers generally.
- ▶ If this is the case in the “affordable” housing sector, “affordable” takes on new meaning.
- ▶ Cost shifting pushes up costs for contractors playing by the rules: they pay more for workers’ compensation, more for health insurance and more as taxpayers.

# WHY IS THIS OCCURRING?

- ▶ Market failure: as in the case of pollution, markets themselves don't force contractors to "internalize" all the costs they generate
- ▶ Government failure: where markets fail, government has to step in, but that hasn't occurred. Government has allowed the underground economy to flourish. Governor: misclassification "rampant".
- ▶ Declining unionization: in a market economy, unions can be an effective counterweight to bad employment practices, but unionization has declined from 63% to 45% (calculated on a basis that includes an estimated 50,000 workers misclassified or working off the books).
- ▶ Average construction wages for payroll workers dropped by 5% since 2003 while citywide average wage increased by 9%.
- ▶ CPS hourly wages for all construction trades workers: 19% decline from 1990 to 2006.

# PREVAILING WAGE (PW) MODEL HAS MANY ADVANTAGES OVER AN UNDERGROUND ECONOMY

- ▶ People who don't mind the underground economy are fond of bashing prevailing wage for allegedly driving up costs
- ▶ This view ignores several important factors, besides the fact that companies paying PW get stuck with some of the costs shifted from law-breaking companies and any company that fails to provide employee health insurance.
- ▶ PW means a more skilled and more productive workforce. Since unit costs are what's important, it's not clear that PW is more costly when all associated costs are internalized and quality and productivity factors are taken into account.
- ▶ PW requires an apprenticeship system that provides workers with career-building skills and the safety training needed in a dangerous occupation.
- ▶ In an economy that's squeezing out middle class jobs, PW provides workers, including those without a college education, a path into the middle class with retirement and health security.

# SHOULD WE RAISE UP THE UNDERGROUND ECONOMY, AND IF SO, HOW?

- ▶ Yes, we should curb the underground economy because to tolerate it means that employment practices and real wages will only worsen, not only in construction but more broadly.
- ▶ NYC government should work with the State to enforce labor standards and use various leverage points to improve working conditions and ensure compliance with tax laws and social insurance requirements.
- ▶ The City and the State should require prevailing wage for all affordable housing contracts and for any construction project benefiting from city and state government subsidy or zoning or other land use action. Taxpayers get better value with PW. Playing field leveled among contractors.
- ▶ PW is an effective anti-poverty program, and an obvious way to address New York's widening income gap between the rich and the poor.

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