



THE UNDERGROUND ECONOMY

FACT SHEET

The Underground Economy or “invisible cash economy” is an umbrella term used for various fraudulent activities within different blue-collar professions, including wage theft, tax fraud, and human/labor trafficking.

THE UNDERGROUND ECONOMY IN ALASKA

A study conducted by the Alaska Public Interest Research Group (AkPIRG) analyzed Alaska Department of Labor data from 2012-2018 to estimate recent labor violations including wage claims, collections, child labor law violations, and workers' compensation. According to the findings, the Department of Labor collected **\$2,124,833.50** in stolen wages from businesses representing approximately 0.5% of the workforce. This percentage (0.5%) is noticeably divorced from the proportion of workers experiencing at least one form of wage theft, which studies of low-wage industries estimate to be 66%. Moreover, a 2021 report from the Economic Policy Institute highlighted that Alaska's Department of Labor and Attorney General's Office managed to recover an additional **\$1,125,834** in stolen wages between 2017 and 2020. Collectively, these two reports reveal that the state has collected over **\$3 million** since 2012, underscoring the persistent and widespread nature of wage theft, which largely remains underreported due to a lack of adequate tools and resources.

WHAT ABOUT THE UNDERGROUND ECONOMY IN ALASKA'S CONSTRUCTION INDUSTRY?

Numerous studies have consistently demonstrated that the construction industry is not immune from the challenges posed by the underground economy. According to a 2023 report by The Century Foundation, Alaska faces a significant issue, with **14.6%** of construction workers either misclassified or receiving off-the-books payments. This alarming statistic implies that an estimated **2,309-4,498** Alaskan construction workers have been deprived of **\$4.7 million** in unpaid overtime wages. Additionally, the state itself has suffered a financial setback, losing **\$23.3 million** due to these illicit practices, which not only jeopardizes the financial well-being of individual workers and hurts responsible contractors, but also deprives the state of essential revenue that could otherwise support crucial areas such as public safety, infrastructure, healthcare, and education. Finally, reported evidence from comparable and neighboring states also emphasizes the urgent need for proactive measures to address this issue, as taxpayers unwittingly subsidize unscrupulous contractors, exacerbating the challenges faced by the construction industry and compromising the public's investment in vital services.

Federal Tax Losses from the Underground Construction Economy

- North Carolina \$333 million
- Tennessee \$115 million
- Texas \$1.06 billion
- Washington \$315.4 million

State Tax Losses from the Underground Construction Economy

- Illinois \$19.5 million
- Indiana \$24.9 million
- North Carolina \$134 million
- Pennsylvania \$200 million
- Tennessee \$14 million
- Washington \$59.8 million

Estimated Misclassification Rates within the Underground Construction Economy:

- 14 percent in Maine (2005)
- 38 percent in Austin, Texas (2009)
- 11–21 percent, includes unreported workers, in Tennessee (2010)
- 16.8 percent in Indiana (2010)
- 14.2 percent in Washington (2023)

**Numerical values and figures were taken from numerous studies, see endnotes.*

WHO IS MOST IMPACTED?

BUSINESSES

Law-abiding responsible contractors who play by the rules cannot compete against violators, thereby creating a race to the bottom.



WORKERS

Workers are cheated out of their wages, work in unsafe conditions, and do not have adequate protections related to workers' compensation insurance and benefits.



PUBLIC

The public loses out on stolen, unreported revenue that can fund public safety, infrastructure, healthcare, and education.



THE UNDERGROUND ECONOMY

FACT SHEET

From a nationwide perspective, the construction industry's clear dependence on subcontractors and labor brokers has created a loophole, allowing many employers to shirk their responsibility for ensuring fair wages. This evasion has resulted in significant losses for workers, with \$1.9 billion in unpaid overtime and \$5.0 billion in outstanding workers' compensation premiums left unresolved with insurers in the year 2021.

1.1 to 2.1 million

construction workers in the U.S. were either misclassified as independent contractors or paid-off-the-books

\$701.4 to \$725.1 million

revenue shortfalls was experienced by State unemployment insurance programs in 2017 due to payroll fraud in the construction industry

Furthermore, a report from Polaris, a nonprofit anti-trafficking group, unveiled data collected from Polaris-operated hotlines spanning from December 2007 to December 2016 and included construction as one of the top 25 industries where labor trafficking commonly takes place. The report specifically identified over **144 instances of human trafficking and 405 instances of exploitation associated with the construction industry.**

It's clear that to tackle the adverse effects of the underground economy, policymakers and the public need to acknowledge the pressing need to implement strong measures to protect the rights and well-being of blue-collar workers. This requires a comprehensive strategy encompassing enhanced regulatory frameworks, heightened awareness, and bolstered support systems. Such measures are crucial for effectively addressing the pervasive issues within the underground economy, especially within the construction industry in Alaska and beyond.

ENDNOTES*

- Carre, Francoise and Randall Wilson, The Social and Economic Costs of Misclassification in Construction. Center for Social Policy Publications (2004).
- Carre, Francoise and Randall Wilson, The Social and Economic Costs of Misclassification in the Maine Construction Industry. Center for Social Policy Publications (2005).
- Kelsay, Michael P. et al, The Economic Costs of Employee Misclassification in the State of Illinois. Report by the Department of Economics, University Missouri-Kansas City (2006).
- Workers Defense Project, Building Austin, Building Injustice: Working Conditions in Austin's Construction Industry (2009).
- William Canak and Randall Adams, Misclassified Construction Employees in Tennessee (2010).
- Michael Kelsay and James I. Sturgeon, The Economic Costs of Employee Misclassification in the State of Indiana. Report by the Department of Economics, University Missouri-Kansas City (2010).
- Build a Better Texas: Construction Working Conditions in the Lone Star State, Workers Defense Project and Community Engagement at the University of Texas at Austin, (2013).
- Yvonne Yen Liu and Daniel Flaming, Sinking Underground; The Growing Informal Economy in California Construction (2014).
- Polaris, The Typology of Modern Slavery Defining Sex and Labor Trafficking in the United States (2017).
- Veri Di Suvero, Wage Theft: Wage Claims in Alaska. Alaska Public Interest Research Group (2019).
- Russell Ormiston, Dale Belman, and Mark Erlich, An Empirical Methodology to Estimate the Incidence and Costs of Payroll Fraud in the Construction Industry (2020).
- Ihna Mangundayao, Celine McNicholas, Margaret Poydock, and Ali Sait, More than \$3 billion in stolen wages recovered for workers between 2017 and 2020. Economic Policy Institute. (2021).
- Briar, C., & Krnacik, K, The underground construction economy of Washington State: Size, cost, and government enforcement efforts. Washington State Institute for Public Policy (2023).
- Laura Valle Gutierrez, Russ Ormiston, Dale Belman, and Jody Calemine, Up to 2.1 Million U.S. Construction Workers Are Illegally Misclassified or Paid off the Books. The Century Foundation (2023).



ADDRESSING WAGE THEFT IN ALASKA'S CONSTRUCTION INDUSTRY

HOUSE BILL NO. 186

In Alaska, the construction industry plays a vital role in our state's economy, employing hardworking individuals who contribute to the growth and development of our communities. While many employers treat their workers fairly, some engage in unfair practices that harm workers and the industry as a whole. Wage theft, in particular, remains a persistent issue, impacting countless workers who rightfully deserve fair compensation for their efforts. To address this problem, we propose the creation of a **Volunteer Labor Compliance Officer Program**, aimed at promoting compliance with Alaska's labor laws, educating workers about their rights, informing businesses of their responsibilities, and harnessing the power of community volunteers to ensure a fair and competitive construction industry.

CHALLENGE:

Wage theft persists across the State of Alaska, with numerous construction workers facing unfair labor practices. Such violations include **(1) Minimum Wage Violations, (2) Overtime Pay Denial, (3) Misclassification of Workers, (4) Off-the-Book Cash Pay, and (5) Human/Labor Trafficking**. These abusive practices not only harm workers but also undermine the overall health and competitiveness of the construction industry.

CURRENT STATE:

A recent report from The Century Foundation found that **14.6%** of construction workers in Alaska are either misclassified or paid off-the-books, signifying that an estimated **2,309-4,498** Alaskan construction workers have been deprived of **\$4.7 million** in unpaid overtime wages. Moreover, the state itself has suffered a financial setback, losing **\$23.3 million** due to these illicit practices. Compounding the issue, the Alaska Department of Labor grapples with resource constraints, evident in the challenges faced in filling Wage & Hour staff positions. This limitation makes it even more difficult to address the surge in wage theft claims, highlighting the broader implications of the issue at hand.

SOLUTION:

We propose the creation of a statewide **Volunteer Labor Compliance Officer Program** to address these challenges. This program will serve multiple purposes:

PROVIDE TECHNICAL SUPPORT

Contractors and subcontractors will receive technical guidance to ensure proper worker classification and adherence to Alaska's labor laws



EDUCATE WORKERS

Workers will be educated about their wage-related rights, ensuring awareness of their entitlements.



LEVERAGE VOLUNTEERS

Authorized volunteers will be trained to interview workers at worksites concerning wages, benefits, and hours, reducing the burden on government resources and fostering labor law compliance.

Implementing this program will alleviate state budget pressures while enhancing labor law enforcement in Alaska's construction industry. This initiative aims to create a fairer, more competitive environment, benefitting both workers and employers and strengthening our state's economy.



VOLUNTEER LABOR COMPLIANCE OFFICER PROGRAM

HOUSE BILL NO. 186

FREQUENTLY ASKED QUESTIONS NOVEMBER 2023

1. WHAT DOES THIS LEGISLATION DO?

The proposed legislation will create a volunteer labor compliance officer program for the construction industry and be housed within Alaska's Department of Labor. Qualified volunteer labor compliance officers would be empowered to assist the department in inspecting construction job sites, conducting labor compliance investigations, and reporting any violations of state labor law to the department.

2. HOW CAN AN INDIVIDUAL BECOME A VOLUNTEER LABOR COMPLIANCE OFFICER?

Interested individuals would have to first apply to Alaska's Department of Labor and Workforce Development and meet several qualifications. These qualifications are: (1) At least 5 years of verifiable construction experience, (2) Completed a 10-hour or more construction safety class approved by the Occupational Safety and Health Administration (OSHA), (3) Completed the volunteer labor compliance officer orientation provided by the department, and (4) Provided proof of workers' compensation insurance coverage.

2. CAN A VOLUNTEER LABOR COMPLIANCE OFFICER BE A STATE EMPLOYEE?

NO. A volunteer labor compliance officer inspects sites, conducts investigations, and reports violations. They cannot issue citations or enforce state labor laws. They cannot also represent third parties such as unions, labor groups, or contractors while performing their duties. If a volunteer labor compliance officer is found to exhibit a conflict of interest they will be removed from the labor compliance officer program.

3. HAVE OTHER JURISDICTIONS ADOPTED SIMILAR POLICIES?

YES. Multnomah County in Oregon recently adopted a labor compliance program to provide support for workers and construction contractors on wage theft prevention and ensure workers are paid a fair wage.

4. HOW HAVE SIMILAR PROGRAMS BENEFITED OTHER JURISDICTIONS?

Multnomah County officials have attested to the favorable outcomes resulting from their labor compliance volunteer programs. These initiatives have proven to be a cost-effective means of preventing fraud, misclassification, and wage theft. It has also helped expand the capacity for oversight, allowing the County to cover a larger number of projects and ensure compliance. Lastly, the County has expedited the reporting and response to labor violations, thereby reducing delays in addressing issues and mitigating potential harm.

5. WILL THIS PROGRAM HOLD THE STATE LIABLE FOR INSTANCES OF SEXUAL HARASSMENT OR OTHER ILLEGAL BEHAVIORS?

The proposed legislation is NOT intended to cause harm to the State of Alaska or the Department of Labor. We believe one simple solution to protect the state and department is by requiring volunteers to sign an Affidavit of No Damage and Hold Harmless Agreement as an additional qualification requirement.