

Potential State Revenue Raised By Cracking Down on Wage Law Violators

Wage and hour enforcement can be done in private civil suits without agency staff involvement, so one key is to strengthen damages owed to workers to make it attractive for both employees and their lawyers to bring such suits. By increasing civil suit penalties, wage law enforcement can be increased without increased executive branch spending.

On the other hand, any spending by the executive branch is likely to generate far more revenue than is spent. The costs of failure to enforce state laws costs state governments billions of dollars each year, so any costs associated with stepped up enforcement will more than pay for themselves. A few examples from state-specific studies:

- **New York:** A study, [The Cost of Worker Misclassification in New York State](#), by Cornell researchers Linda H. Donahue, James Ryan Lamare, and Fred B. Kotler, found that failure to enforce various laws for mislabelled "independent contractors" were costing the state over \$175 million between 2002 and 2005. Another [study by New York's Fiscal Policy Institute](#) estimated that off-the-book wage payment violations the state was losing \$26 million in unpaid income taxes in the construction industry alone.
- **Massachusetts:** A [2004 Harvard Law and Public Health Department study in Massachusetts](#) estimates losses of \$12.6 to \$35 million to that state's unemployment insurance system, a loss of \$91 million in state income tax revenue, and \$91 million in unpaid workers' compensation premiums in just the state's construction industry.

The amount that states have raised with increased enforcement is remarkable:

- A **California Joint Enforcement Strike Force on the Underground Economy** was created over a decade ago; a [2005 state labor department report](#) found that in one year, various agencies investigating labor and pay reporting violations collected over \$100 million in citations and assessments-- actual revenue collected for the state due to increased workplace enforcement.
- In **New York**, in a [dramatic sweep of 117 employers](#), a new state joint task force of state labor, tax and worker compensation agencies found that 2,078 employees had been illegally misclassified as independent contractors, with \$19 million in wages not reported to the state-- with \$1 million owed to the state in unemployment insurance payments alone. This was just the initial investigation that is expected to lead to far more enforcement actions and payments to state coffers.

The bottom line is that increased wage and workplace enforcement is a potentially very large revenue generator for states.