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The Socio-Economic Impacts of Construction Unionization in Massachusetts

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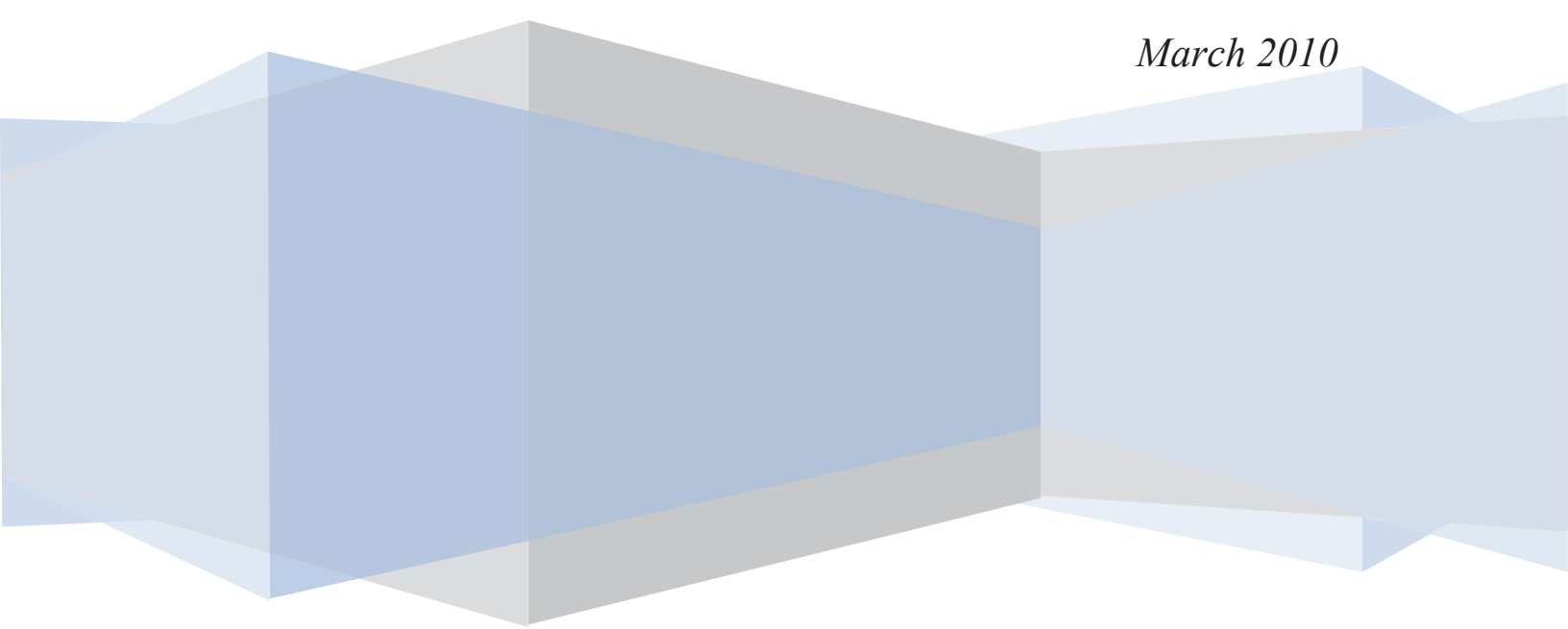


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EXECUTIVE SUMMARY

This study examined the socio-economic and fiscal impacts of construction unionization on the state of Massachusetts, and explored the role of union pension funds in promoting job creation and economic development in the state. The construction industry is among the top ten largest employment sectors in the Massachusetts' economy, generating 149 thousand jobs annually, including administrative positions and an approximate total of 120,000 construction production jobs. This industry is highly unionized, with Building Trades unions representing over 73,000 members, or more than 60 percent of the construction workforce, according to data from the U.S. Department of Labor.¹

This research finds that unionization in this key industry not only increases the incomes of union workers but also yields economic benefits that ripple through the economy of the state. These benefits include, but are not limited to, the positive economic impacts of higher union wages, as well as the stimulating effect of real estate investments of union pension funds. Using both quantitative and qualitative approaches, this study estimated the economic and fiscal impacts of construction unionization and explored the less easily quantifiable costs that non-union contractors shift to the unionized sector and to taxpayers in general. Key research findings follow.

Impacts of the Union-Wage Premium

The increase in union workers' aggregate earnings that derive from the union wage premium (or union-non union wage differential) has a stimulating effect on the economy of Massachusetts.

- Union workers earn an average of \$13 more per hour than non-union workers in the Massachusetts construction industry. When benefits are included, unionized construction workers earn an average of \$28.35 more per hour than non-union workers.
- This union wage premium of \$13 per hour results in an increase of \$930 million in the aggregate earnings of unionized construction workers. When non-wage benefits are included, the total increase in the aggregate earnings of unionized workers amounts to \$2.02 billion.

- The increase in aggregate earnings of unionized construction workers has a multiplier effect on the total incomes of Massachusetts families. As union workers enjoy higher income levels, their ability to spend in goods and services in their communities also increases. This process results in \$1.74 billion of increased income for all state residents.
- The union wage premium has a positive effect on state tax revenues as well. As unionized construction workers and other workers in the economy are able to afford more goods and services, sales tax revenues of the state increase by \$23.8 million. Additionally, state personal income tax revenues increase by \$92.3 million.
- The total economic impact of the union wage premium amounts to \$1.8 billion.

Impact of Total Earnings of Unionized Construction Workers

The overall earnings of union construction workers generate economic benefits to the state and its communities.

- Total union earnings in the Massachusetts construction industry amounted to \$2.3 billion in 2007, excluding non-wage compensation.
- The impact of these earnings on the total income of Massachusetts' families amounted to \$4.3 billion.
- The impact on state revenues amounted to \$59 million in sales taxes and \$228.6 million in income taxes.
- The total economic impact of union earnings on the economy of Massachusetts amounted to \$4.6 billion in 2007.

Real Estate Investments of Union Pension Funds

The investment of union pension funds in real estate development projects creates additional employment opportunities in the construction industry and increased overall income in Massachusetts, while producing competitive returns for retirees and beneficiaries. This research identified \$1.56 billion of Building-Trades pension fund investments in real estate development projects in Massachusetts.

Social Costs Imposed by the Non-Union Construction Sector

There is significant, but not easily quantifiable, cost shifting from non-union contractors to taxpayers as a result of the low wages and limited benefits paid to non-union workers. Despite state legal requirements for employees' health benefits coverage, the coverage provided to non-union workers is mostly inadequate or virtually non-existent.

Misclassification of workers and workplace fraud, which are characteristic of the underground economy, are pervasive in the non-union construction sector and continue to undermine workers' standards of living as well as employers who abide by the laws and regulations. They also result in millions lost in state income and payroll taxes. In March of 2008, Governor Deval Patrick signed Executive Order 499 establishing a Joint Task Force on the Underground Economy and Employee Misclassification. This Task Force has made important inroads in increasing enforcement efforts against employers who engage in fraudulent employment practices.

This present study found that in addition to the problem of misclassification of workers as independent contractors, there is the widespread practice by non-union contractors to misclassify workers in lower paid occupations and categories (e.g. bricklayers misclassified as laborers, and journeymen misclassified as apprentices).

Existing research has found that union training programs are more effective than non-union programs in terms of enrolling apprentices and producing journey-level workers. The quality of the training has important implications for workers' productivity as well as for decreasing occupational injuries. OSHA records for the Massachusetts construction industry reveal that 88 percent of the violations between 2004 and 2009 were committed by non-union contractors.

Conclusions

Unionization of the Massachusetts construction industry results in direct and indirect benefits for workers, their communities, and the economy of the entire state. The union wage advantage is a key factor for increasing workers' spending power and stimulating the overall economy; and joint pension funds contribute to the economic development of the communities in which workers live and work. By contrast, many non-union contractors engage in cost-saving practices that involve the avoidance of labor and tax laws and undermine workers' incomes, labor standards and the tax base. As challenges to enforce labor laws in this industry persist, unionization remains as one of the most effective vehicles for empowering workers to monitor employers' compliance with labor laws.

INTRODUCTION

This study examined the impacts of construction unionization on the economy of Massachusetts, with a focus on the economic impacts of union earnings, and on the real estate investments of joint pension funds. This research also explored whether there are social and economic costs resulting from the operations of non-union contractors in this industry.

The methodology used to estimate the economic impacts of union earnings is based on similar efforts to estimate the economic impact of prevailing wage laws and union wages on local and regional economies. Belman and Voos (1995) found that a repeal of the prevailing wage law in Wisconsin would result in a net loss of state revenues in the amount of \$6.8 million per year. Similarly, Kelsay, Wray and Pinkham (2004) used regional input-output multipliers (RIMS II) to estimate total economic losses of between \$318 million and \$348 million annually, which would result from the repeal of the prevailing wage law in Missouri. The Economic Roundtable (2007) estimated that union workers earn an average of 27 percent more than non-union workers in Los Angeles County (California), and found that this union wage advantage has a stimulating effect on the overall economy of the county.

This present study used RIMS II multipliers to estimate the economic impacts of the union wage differential in the construction industry of Massachusetts. These economic impacts occur first as workers receive payment for their labor (direct effect), then as purchases of supplies, materials and services (indirect), and finally as the increase in demand for consumer/household goods and services resulting from increased spending by workers (induced). An average union wage premium was calculated using data provided by 26 Building Trades local unions and district councils representing 91 percent of union members in the state. The data provided included employment (hours worked), earnings, and wage and benefits rates for union and non-union workers. These data were supplemented with information and statistics obtained from the Massachusetts Department of Labor, Division of Occupational Safety, and the U.S. Bureau of Labor Statistics, as well as with data collected through interviews of employers and union representatives.

Previous studies (Hagerman, Clark, and Hebb; Pozdena, Josephson, 2006, 2009) found that targeted investments of joint union-management pension funds can not only yield competitive risk adjusted returns to investors and beneficiaries, but also produce collateral social benefits such as jobs and affordable housing in the communities where union workers live and work. This present study collected data from local pension fund administrators as well as fund

managers and consultants to identify real estate development projects financed with union pension funds in Massachusetts.

In assessing the social and economic costs of the operations of non-union contractors, this study focused on factors affecting wage and benefits paid to non-union construction workers as well as training and workplace safety issues. This work involved interviews of employer and union representatives and analysis of OSHA data. The findings are consistent with previous studies on the impact of low-wage contractors (Waddoups 2004; Petersen 2000), and on comparisons between union and non-union apprentice training programs in Massachusetts (Argyres and Moir 2008).

The sections that follow elaborate on the study findings and provide additional details on the methodology and sources.

ECONOMIC IMPACT OF UNION CONSTRUCTION WAGES

This study uses an input-output approach to estimate the economic impact of union wages, including their effect on the incomes of Massachusetts families and on state government revenues. In order to estimate these impacts, it was first necessary to determine the union wage differential, or how much more construction workers make because they belong to a union. Then, economic impact estimates were produced for the union wage differential, as well as for the overall total earnings of union workers (the union wage pool).

Earning multipliers (RIMS II) for Massachusetts were obtained from the Bureau of Economic Analysis of the U.S. Department of Commerce to estimate the indirect and secondary (induced) effects of the union wage premium and the union-wage pool. The data used for this analysis are for the entire union construction workforce in 2007, and include employment, earnings and wage rates provided by Building Trades local unions and district councils, as well as data obtained from various industry and government sources. These sources included the Massachusetts Department of Labor; interviews of unionized contractors and union representatives; the U.S. Department of Labor and the American Community Survey (Census Bureau).

IMPACT OF UNION WAGE DIFFERENTIAL

Average differentials between union and non-union wages and benefits were estimated using data provided by unions as well as data from government sources for four local unions that did not participate in this study. The data for the non-union wages and benefits were obtained from a survey of Building Trades unions, in-depth interviews of unionized contractors, and from McGraw Hills' ENR.

The average union-nonunion wage rate differential was estimated at \$13 per hour excluding fringes. The average union-nonunion wage and benefits differential was estimated at \$28.35 per hour. These differentials were multiplied by the total of 71,598,810 union hours worked in 2007, to obtain the total increase in the incomes of unionized construction workers that results from the union wage premium.

Thus, the union wage premium of \$13 per hour results in \$930 million of direct income for Massachusetts unionized construction workers and their families. When fringes are included, the wage-benefit premium of \$28.35 per hour results in \$2.02 billion added to union workers' incomes. These are the

direct impacts of the union-non union differentials on incomes in Massachusetts. The indirect and induced effects follow.

For the state of Massachusetts, the earnings multiplier provided by the U.S. Bureau of Economic Analysis is 1.871, which indicates that for every new dollar earned by union workers in construction there is an additional \$.87 dollar earned by families in all other sectors of the economy. Based upon the direct income gains of \$930 million derived from a union wage premium of \$13 per hour, the total income gains for all Massachusetts families amount to \$1.74 billion. This includes direct and indirect/induced impacts of the union wage premium.

The union wage premium has positive effects on state tax revenues as well. Because of their higher income, construction workers and other workers in the state are able to afford more goods and services, thereby increasing sales taxes collected by the state. The sales tax rate in Massachusetts was 5 percent in 2007, and the taxable sales tax base was approximately 27.4 percent (Bruce and Fox). Given these, the State of Massachusetts received sales tax revenues of \$23.85 million derived from the construction union wage premium.

In addition, the higher wages paid to unionized construction workers result in higher taxable income for the state as a whole. This increases the revenues derived by the state of Massachusetts from income taxes. The Massachusetts income tax rate is a flat rate of 5.3 percent for all income brackets. Based on this, the gains in state income tax revenues derived from the union wage premiums amounted to \$92.27 million in 2007.

The total economic impact of the union wage premiums on Massachusetts' incomes and state revenues amounted to \$1.85 billion.

CALCULATION OF IMPACT OF THE UNION WAGE PREMIUM

(Direct, indirect and induced impacts, plus state revenues)

	Total Earnings due to Union Wage Premium*	Earnings Multiplier for MA	IMPACT ON INCOMES	
Impact on Incomes = Total Earnings due to Union Wage Differential x Earnings Multiplier	\$930,560,441	1.871	\$1,741,078,586	
	Impact on Incomes	Sales Tax Base as % of Personal Income for MA	MA Sales Tax Rate**	IMPACT ON STATE SALES TAXES
Impact on State sales taxes= Impact on Incomes x Sales tax coverage x Sales tax rate	\$1,741,078,586	27.4%	5%	\$ 23,852,777
	Impact on Incomes	MA Income Tax Rate***	IMPACT ON STATE INCOME TAXES	
Impact on State Income Taxes = Income Impacts x MA Income Tax Rate	\$1,741,078,586	5.3%	\$92,277,165	

(*) Earnings are for all union construction workers, based on data provided by Building Trades unions and data obtained from the MA DOL, U.S. BLS, and Census Bureau.

(**) Five percent was the sales tax rate effective in 2007. It was raised to 6.25 percent in 2009.

(***) Massachusetts has a flat income tax rate.

IMPACT ON INCOMES	\$1,741,078,586
SALES TAX COLLECTIONS	\$ 23,852,777
INCOME TAX REVENUES	\$92,277,165
TOTAL ECONOMIC IMPACT	\$ 1,857,208,528

IMPACT OF TOTAL UNION EARNINGS

Total union earnings (or the total union wage pool) were estimated using actual hours and earnings provided by unions and government data (including prevailing wages and hours worked). For 2007, total union earnings in the Massachusetts construction industry amounted to \$2.3 billion excluding non-wage compensation, and to \$3.5 billion including benefits.

These total direct earnings of unionized construction workers resulted in a total increase of \$4.3 billion in the income of all Massachusetts' families. Additionally, the state gained \$59.09 million and \$228.6 million in sales and income taxes respectively as a result of the total increase in incomes of workers in construction and in all other sectors. The total economic impact of

the earnings of union construction workers on Massachusetts amounted to \$4.6 billion.

CALCULATION OF IMPACTS OF UNION WAGE POOL
(Direct, indirect and induced impacts, plus state revenues)

	Total Union Earnings*	Earnings Multiplier for MA	IMPACT ON INCOMES	
Impact on Incomes = Direct Union Earnings x Earnings Multiplier	\$ 2,305,625,996	1.871	\$ 4,313,826,239	
	Impact on Incomes	Sales Tax Base as % of Personal Income for MA	MA Sales Tax Rate**	IMPACT ON STATE SALES TAXES
Impact on State sales taxes= Impact on Incomes x Sales tax coverage x Sales tax rate	\$ 4,313,826,239	27.4 %	5%	\$ 59,099,419
	Impact on Incomes	MA Income Tax Rate***	IMPACT ON STATE INCOME TAXES	
Impact on State Income Taxes = Income Impacts x MA Income Tax Rate	\$ 4,313,826,239	5.3 %	\$ 228,632,791	

(*) Earnings are for all union construction workers, based on data provided by Building Trades unions and data obtained from the MA DOL, U.S. BLS, and Census Bureau.

(**) Five percent was the sales tax rate effective in 2007. It was raised to 6.25 percent in 2009.

(***) Massachusetts has a flat income tax rate.

IMPACT on INCOMES	\$ 4,313,826,239
SALES TAX COLLECTIONS	\$ 59,099,419
INCOME TAX REVENUES	\$ 228,632,791
<u>TOTAL ECONOMIC IMPACT</u>	<u>\$ 4,601,558,449</u>

TARGETED INVESTMENTS OF UNION PENSION FUNDS

Another important benefit to the Massachusetts economy resulting from construction unionization is the investment of joint labor-management pension funds in real estate development projects. This investment creates additional employment opportunities in the construction industry and increased overall income for Massachusetts' residents, while producing competitive returns for retirees and beneficiaries. This research has identified \$1.56 billion of Building-Trades pension fund investments in real estate development projects in the state.

Existing research shows that targeted investments of union pension funds, including investments in real estate development projects (Hagerman et al; Pozdena and Josephson 2006, 2009), yield competitive risk-adjusted returns to their investors and beneficiaries, while producing collateral social benefits such as jobs, increased supply of affordable housing, infrastructure, and an increased tax base. This process is facilitated by institutional fund managers such as the AFL-CIO Housing Investment Trust, J-for Jobs (ULLICO), Intercontinental RE Corp, and others, which operate as pooling vehicles for individual unions' pension funds. These fund managers impose strict union labor requirements on the projects they finance. This ensures both well paying jobs with high safety and productivity standards, as well as continued investment in and revitalization of the communities where union workers live and work.

Through data collection and interviews with pension fund administrators, this present study identified six major funds management institutions, which are the most frequently used pooling vehicles for Massachusetts Building Trades pension funds. The information presented in this report is not intended to represent the entire universe of funds investing in the state, but provides an estimate of the magnitude and extent of union pension fund investments in this type of projects.

The below table shows that these six fund managers invested a total of \$1.567 billion in 57 construction projects in Massachusetts between 2002 and 2009. These projects involved new development and existing construction improvement projects; as well as a wide variety of property types ranging from low income housing to high tech facilities, upscale hotels and other commercial real estate. Although exact employment figures were not available for all projects, it is estimated that these investments generated thousands of new construction jobs.ⁱⁱ

Union Pension Funds Real Estate Investments
In Massachusetts, 2002-2009

Fund/Investment Manager	Description	Number of Projects 2002-09	Project Examples	TOTAL INVESTMENTS (In \$ Millions)
AFL-CIO Building Investment Trust	Pooled real estate fund serving pension plans with union beneficiaries. Founded in 1988. It requires union labor for building construction and maintenance. Net assets: \$1.7 Billion	2	Battery Wharf: mixed use, including housing, hotel and retail.	\$ 355.70
AFL-CIO Housing Investment Trust 2002-09	Open-end, commingled investment company established in 1981. All projects financed by AFL-CIO HIT must be built by 100% union labor. Net assets: \$3.47 Billion.	14	Franklin Hill, Dorchester: 24 affordable rental units; Back of the Hill, Jamaica Plain: renovation of 125 affordable housing units for low-income elderly.	\$ 92.95
ASB Capital Management, LLC	Institutional investment management firm providing equity, fixed income and RE investment management. It manages the ASB Allegiance RE Fund, an open-end, commingled fund. ASB mandates the use of union labor on all new construction and tenant improvement work. ASB has more than \$6.5 Billion in assets, including \$2.7 Billion in RE.	4	The Peninsula: a two phase residential development project in Boston; Station Landing: mixed-use project in Medford.	\$ 285.30
Intercontinental Real Estate Corp.	Registered Investment Advisor managing private equity RE investments and providing RE services. Established in Boston in 1959. The company has developed real property assets valued in excess of \$6 billion, across all property types	29	226 Causeway Street: redevelopment of warehouse into mixed-use asset, including six stories of office space and six new stories of residential apartments (108 units).	\$ 120.91
J for Jobs / ULLICO Investment Company 2002-09	Formed in 1977, J For Jobs is a commingled pension account fund managed by ULLICO-RE Investment Group. It has \$3.8 Billion in commercial and multi-family development financing.	5	Smithsonian Institution Astrophysical Observatory, Cambridge: office/R&D; The Clarendon, Boston: multi-family, for sale.	\$ 566.50
Multi-Employer Property Trust (MEPT) and Multi-Employer Hotel Partners, L.P. (MEHP)	Open-end, commingled real estate equity fund. Founded in 1982. Projects must be built and maintained with union labor. Net assets: \$4.29 Billion.	3*	801 Massachusetts Ave., Boston: seven-story office building.	\$ 145.98
TOTAL		57		\$ 1,567.33

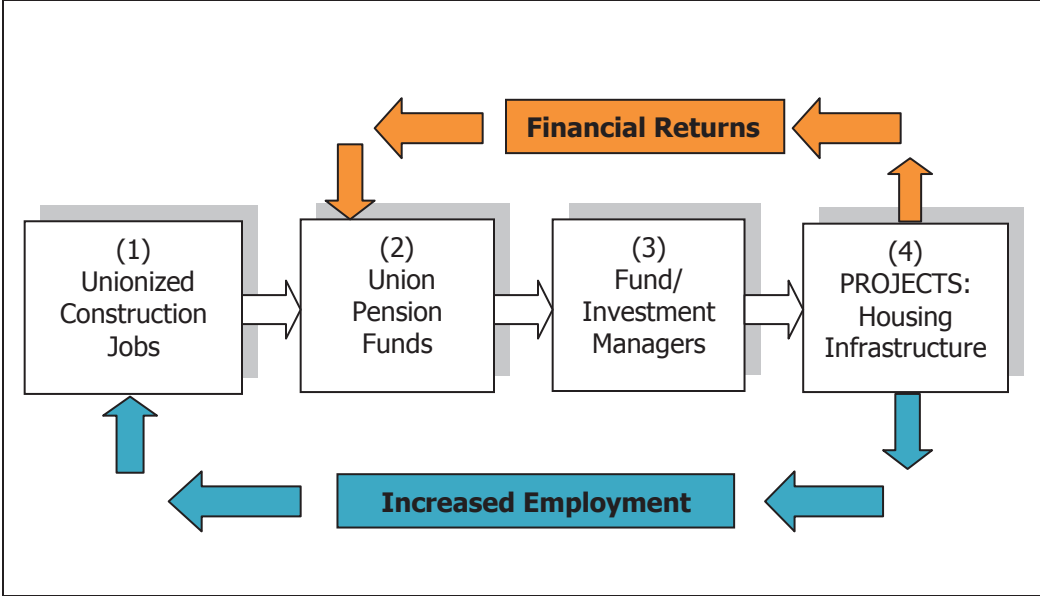
Source: Investment and funds management institutions.

Note: the above description of selected funds is not an offer or solicitation by these funds and should not be construed as such.

*. Data for 2002-2008

The below graph illustrates the process of union pension funds investment in real estate development projects. This process operates as a circular flow of pension funds invested in construction projects, generating millions of dollars worth of real estate development, returning gains to union pension funds, and creating more work for funds participating contractors and their employees. The increase in unionized work results in further contributions into benefit funds, triggering another round of investment.

**Flow of Pension Fund Investments
in Real Estate Development Projects**



(1) Activity in the unionized construction sector results in contributions paid to joint benefit funds.
 (2) Building Trades pension funds use investment managers and consultants (3), which pool the financial resources to invest in real estate development projects (4). The development projects generate a flow of financial gains for (2) the union pension funds and their beneficiaries; and create more unionized jobs (1), which results in more contributions paid into the pension funds (2).

SOCIAL AND ECONOMIC COSTS OF NON-UNION CONSTRUCTION

While employment in the unionized construction sector results in direct and indirect benefits to workers and their communities, employment in the non-union construction sector results in economic and social costs imposed on unionized employers and taxpayers in general. This cost shifting process occurs primarily because of the low wages and limited benefits paid to non-union construction workers. Additionally, there are economic and social costs associated with the lower quality of the training provided to non-union workers, and the consequent higher number of occupational injuries they endure, compared to union workers. These economic and social costs are not easily quantifiable, particularly when they result from labor practices that involve the underground economy. Workplace fraud and worker misclassification as independent contractors are practices that characterize the underground economy and are widespread in the non-union sector of the construction industry.

The prevalence of these practices is largely explained by the non-union contractors' goal to outbid their unionized competitors on the basis of lower wages. This is particularly the case in private sector construction, where prevailing wage laws do not apply. Industry observers note that as the price of materials are widely uniform throughout the industry, companies can compete either by increasing productivity or by lowering labor costs. Labor cost-savings, however, can translate into costs being shifted onto taxpayers and society as a whole, when employers fail to pay appropriate levels of payroll taxes and workers compensation premiums; and as low-wage and unprotected workers are forced to seek public assistance for their basic needs.

MISCLASSIFICATION OF WORKERS

According to a study by Harvard University researchers, an estimated 14 percent of workers in the Massachusetts construction industry were misclassified as independent contractors instead of employees during 2001-03. This cost taxpayers \$7 million in lost income taxes and almost \$11 million in unpaid unemployment insurance tax and workers' compensation premiums (Carré and Wilson 2004).

This present study found that the misclassification of workers as independent contractors is prevalent among non-union contractors hiring carpenters, painters and laborers. The issue particularly affects immigrant workers of

Latino origin, who are often hired in crews of sub-contractors through foremen (or “jefes”), and can be paid as low as \$8 per hour.ⁱⁱⁱ

Of important note are the efforts of the Joint Task force on the Underground Economy and Employee Misclassification, which was established by Governor Deval Patrick through Executive Order 499 in 2008, to pursue coordinated enforcement actions against employers and businesses that avoid state labor, licensing and tax laws. The Task Force involves 17 state agencies, and in its first year of operation recovered more than \$1 million in unemployment insurance taxes, overdue tax collections, fees and fines. In a 2009 report the Task Force indicates that 21 percent of the 515 complaints received by the Task Force since its inception came from the construction industry. (Massachusetts Commonwealth, 2009)

In addition to the problem of misclassification of workers as independent contractors, there is the widespread practice by non-union contractors of misclassifying workers in lower paid construction occupations. For instance, bricklayers are misclassified as laborers in the non-union sector to avoid paying higher bricklayers’ pay rates. According to unionized contractors, laborers in the non-union sector often perform tasks that are designated for bricklayers. This practice is pervasive particularly in private construction, which unlike public construction, is not required to follow occupational guidelines and is not closely monitored by watchdog groups. The difference in pay between a bricklayer and a laborer can be up to \$25 per hour.^{iv} Electricians are also affected by this practice, as they often get misclassified as teledata technicians, which is an occupation receiving wage rates generally \$15 lower than the average rate paid to electricians. Lastly, another form of misclassification that non-union contractors practice to lower labor costs is the misclassification of journeymen as apprentices, and foremen as journeymen.

INADEQUATE HEALTH INSURANCE COVERAGE

Current state law in Massachusetts requires employers with more than ten employees to provide a fair and reasonable contribution to the health insurance premiums of their employees. However, employers and unions in the construction industry find many limitations in the application of this law, as they confront evidence that non-union contractors provide inadequate or no coverage to their employees. The most common practice undermining this legal requirement is the above discussed misclassification of workers as independent contractors. When workers do get the health care benefits, they often have to pay about 70 percent of their health plan costs and they are usually dissatisfied with the coverage or quality of the plans. Additionally, it is not uncommon for non-union contractors to lay off workers immediately before the workers reach the minimum number of hours required to receive health benefits.^v

APPRENTICESHIP TRAINING AND WORKER SAFETY IMPLICATIONS

The unionized construction sector in Massachusetts offers apprenticeship training programs run jointly by management and unions. In addition to these, there are non-union programs available in all but two of the 23 trades. Research by the University of Massachusetts compared the effectiveness of the union and non-union apprenticeship programs over a ten year period and found that union training programs are more effective in terms of enrolling apprentices and producing journey-level workers. Eighty two percent of the 6,433 apprentices actively enrolled as of October 2007 were enrolled in union programs, in contrast with only 18 percent enrolled in non-union programs. Additionally, union programs are more comprehensive, longer lasting and have significantly higher completion rates than non-union programs, which according to the study “fail to produce even a single journey-level worker.” (Argyres and Moir 2008)

The above mentioned research findings are consistent with information that this present study collected through interviews with unionized employers, who note that many non-union contractors, particularly small-size employers, have no training programs in place or do not enroll their apprentices in any type of training program. As a result, on-the-job training is the only form of training for many workers in the non-union sector.

The quality of the apprenticeship programs not only affects worker productivity but also has serious impacts on workers’ safety. While union apprentices are required to take safety courses and training on OSHA regulations, the majority of the non-union apprentices are not getting any type of training. Other factors contributing to a safer worksite in unionized settings include the use of a safety plan fitted for every project, and of in-house safety officers. Additionally, unionized contractors are required to provide safety equipment, while non-union contractors often do not provide this equipment or require workers to bring their own.^{vi} The inadequacy or lack of safety training in the non-union construction sector reflects in the number of violations recorded by OSHA. For the years 2004 through 2009, OSHA records for the Massachusetts construction industry reveal that 88 percent of the violations were committed by non-union contractors.^{vii}

CONCLUSIONS

The findings of this study reveal that unionization of the construction industry results in direct and indirect benefits for workers and communities in the state of Massachusetts. By contrast, the labor cost-saving practices of many non-union contractors can produce economic and social costs that are shifted onto workers and the entire state.

This study focused on the economic impact of the wage differential and used earning multipliers from the Bureau of Economic Analysis to estimate the indirect and induced effects of the incomes of union workers. Because unions raise wages of construction workers by an average of \$13 per hour, there is an infusion of \$930 million in the economy of the state. This generates a multiplier effect and results in \$1.74 billion of income for all Massachusetts' families, and in \$116 million of state revenues. Overall, the economic impact of the construction union wage-premium amounts to \$1.8 billion.

When accounting for health and pension benefits, unions raise the pay of construction workers by an average of \$28.35 per hour. Non-wage compensation is not spent as direct income, but it broadly benefits the economy and communities of Massachusetts. Health care coverage improves the overall health of the community, and pension plans not only provide economic stability for retirees, but also generate funds that are invested in real estate development projects, creating new employment opportunities in the state. This study identified \$1.56 billion of Building-Trades pension fund investments in real estate development projects in Massachusetts.

There are social and economic costs imposed by the non-union construction sector on workers, unionized employers and the taxpayers in general. These costs are difficult to quantify, and they mainly derive from the low wages and lack of benefits in the non-union sector. Worker misclassification and workplace fraud, which are characteristic of the underground economy, are pervasive in the non-union sector of the construction industry. Current efforts by the state to address these issues need to continue and possibly intensify to reverse the negative effects of these practices on workers' standards and on the overall economy. Worker misclassification, in particular, effectively undermines laws that require employer-based health care coverage.

Another issue affecting standards in the Massachusetts construction industry is the relative low quality of the non-union apprenticeship training programs, which can have negative consequences on worker's safety and might contribute to the higher number of occupational injuries in the non-union sector.

In summary, construction unions have positive impacts on the economy of the state, while the non-union sector is likely to produce social and economic costs resulting from low wages and limited benefits paid to non-union workers. Given the challenges to enforce labor laws at the worksite level in an industry structure such as that of the construction industry, unionization is still one of the most effective vehicles empowering workers to monitor employers' compliance with labor laws.

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LIST OF INTERVIEWEES

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Gill, Roger G., Administrator, Plumbers Local 12 Trust funds, Boston, MA

Donna Jewell, Executive Director, Mason Contractors Association of Massachusetts

David Keaney, President, National Electrical Contractors Association Central Massachusetts Chapter.

Susan Mailman, President, Coghlin Electrical Contractors, Worcester, MA

Thomas McCormick, Vice President Finance, Empire Masonry Corp., Walpole, MA

Michael Monahan, Business Manager, International Brotherhood of Electrical Workers, Local 103, Boston, MA

David Powell, Director of Labor Relations, Associated General Contractors (AGC) of Massachusetts.

George Prunier, President, G.N. Prunier & Sons Inc., Grafton, MA

Brian Richardson, Organizing Director, New England Regional Council of Carpenters, United Brotherhood of Carpenters & Joiners of America, Boston, MA

Thomas Schmitt, Principal, M.L. Schmitt Inc – Electrical Contractors and Engineers, Springfield, MA

Lee Smith, CFO, President, Hartland Asset Management, New York, NY

Endnotes

ⁱ U.S. Department of Labor, Office of Labor Management Standards, Form LM-2 for 85 Building Trades local unions.

ⁱⁱ Based on a job impact factor of 6 construction jobs per \$ million, the identified investment projects could create over 9,400 construction jobs.

ⁱⁱⁱ New England Regional Council of Carpenters (NERCC), Survey of non-union sites.

^{iv} Contractor interviews.

^v Contractor Interviews and NERCC Survey.

^{vi} Contractor Interviews.

^{vii} Authors' analysis of OSHA records.

