



State of California

LITTLE HOOVER COMMISSION

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Commission Urges Leaders to Wage Stronger Campaign Against Underground Economy to Protect California Businesses and Workers

California businesses are losing ground to unscrupulous competitors who break the rules to gain an unfair advantage, the Little Hoover Commission stated Monday in a report calling on the Governor and Legislature to more effectively fight the state's underground economy. California workers also suffer when they are not paid a fair wage or are misclassified. All Californians are hurt when cheating goes unchecked.

The state loses an estimated \$8.5 billion or more annually in tax revenue, yet efforts to combat the underground economy are disjointed and under-resourced, the Commission found. It reported that the state's bureaucratic disorganization and neglect provide significant incentives to cheat, making the rewards of participating in the underground economy outweigh the risks.

"In 1985, the Little Hoover Commission sounded the alarm on the growing underground economy. Unfortunately, not enough was done. We're back again, saying that honest businesses and their employees deserve a fair shake," stated Little Hoover Commission Chairman Pedro Nava. "Business owners should know the state stands with them against cheating competitors. Workers should know they can stand up to bosses who violate their rights. Taxpayers should expect they will not pay more because some businesses don't pay at all."

In its report, *Level the Playing Field: Put California's Underground Economy Out of Business*, the Commission makes 15 recommendations to give competitive advantage to compliant businesses:

- **Accountability.** The Governor should designate a limited-term leader with authority to coordinate state efforts and eliminate barriers preventing a successful fight.
- **Enforcement.** The Commission calls for improved enforcement efforts to reduce the scale of the underground economy which has grown and thrived.
- **Education.** The state should develop new consumer education and outreach programs to reduce demand for underground economy goods and services. It also should better educate public officials on the harm caused by the underground economy and their role in curtailing it.

On Tuesday, March 10, 2015, Carole D'Elia, the Commission's executive director, will be discussing some of the findings and recommendations from the report as part of a panel on the underground economy task forces at a joint hearing of Assembly Budget Subcommittee #4 and the Assembly Revenue and Taxation Committee at the State Capitol in Room 126.

The Little Hoover Commission is a bipartisan and independent state agency charged with recommending ways to improve the efficiency and effectiveness of state programs. The Commission's recommendations are submitted to the Governor and the Legislature for their consideration and action. For a copy of the report, visit the Commission's website: www.lhc.ca.gov.