

Testimony of

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On behalf of

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Ensuring an Effective Economic Recovery Package

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The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,000 of America's leading general contractors, and over 12,000 specialty-contracting firms. Over 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. AGC contractors are engaged in the construction of the nation's commercial buildings, shopping centers, factories, warehouses, highways, bridges, tunnels, airports, waterworks facilities, waste treatment facilities, dams, water conservation projects, defense facilities, multi-family housing projects, site preparation/utilities installation for housing development, and more.

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Thank you, Chairman Oberstar and Ranking Member Mica, for this opportunity to testify on Infrastructure Investment: Ensuring an Effective Economic Recovery Package. I am testifying on behalf of the Associated General Contractors of America (AGC), a national trade association representing more than 33,000 companies, including 7,000 of America's leading general contractors, 12,000 specialty contractors, and 13,000 service providers and suppliers. AGC is the voice of the construction industry. We strongly believe that investing in America's infrastructure will create jobs and revitalize small businesses.

My name is Stephen Fuller and I am the Dwight Schar Faculty Chair and University Professor and Director, Center for Regional Analysis, at George Mason University in Fairfax, Virginia. In 2008, I produced a study for AGC that estimated the impact of nonresidential construction on employment, personal earnings and gross domestic product (GDP) for the nation as a whole and for each state. AGC's fact sheets for the U.S. and each state are being submitted for the record along with this testimony. I have done similar research for the NAIOP Foundation of the National Association of Industrial and Office Properties and for the National Stone, Sand and Gravel Association.

My analysis shows that investment in nonresidential construction adds significantly to jobs, personal income, and GDP—far beyond the hiring that takes place in the construction industry itself. In addition, well-chosen investments add to the nation's productive capital stock and can improve the country's economic competitiveness, reduce energy use, and cut emissions of pollutants. For all of these reasons, investment in nonresidential construction should be a large component of an economic stimulus package.

My work for AGC looked at nonresidential construction as a whole. However, the results were very similar to those in my reports for the NAIOP Foundation, which focused strictly on office, retail, distribution and industrial building construction. Research performed for the Federal Highway Administration (FHWA) reported comparable figures for investment in federal-aid highway infrastructure.

In a nutshell, my research found that, when there are sufficient unused labor, capital and materials, an additional \$1 billion of investment in nonresidential construction supports or creates 28,500 jobs and adds \$3.4 billion to GDP and \$1.1 billion to personal income. Only about one-third of the benefit accrues directly to the construction industry. Roughly one-sixth goes to industries that supply materials, services and equipment to the construction project. Fully half of the gain is diffused through the entire economy, as workers and owners in the construction and supplier industries spend their added income on a wide range of goods and services.

Current Conditions in Construction

Clearly, the condition today is that there is sufficient slack in the economy to create new jobs, rather than merely displacing workers in other sectors. The Bureau of Labor Statistics (BLS) reported earlier this month that private-sector employment declined in 2008 by 2.8 million workers, the largest absolute drop since 1945. Construction employment has tumbled by 899,000, or 11.6%, since peaking in 2007. While residential construction has shed the most workers, nonresidential construction has also lost more than 300,000 jobs in the past year.

Spare capacity abounds in construction supply industries as well. Employment has declined for six straight months in architectural and engineering services. The Federal Reserve reported on

January 16 that industrial production of construction supplies slumped 14% in 2008. Suppliers of construction equipment have gone from long lead times on deliveries a few months ago, to laying off idle workers now.

AGC asked contractors to answer a short survey in December about current conditions. Of 236 respondents, 169, or 72 percent, said they had laid off workers in the past 12 months as a result of the downturn. The typical response was a 30 percent reduction in workforce.

Impact of the Stimulus Bill on Construction

The American Recovery and Reinvestment Act, as introduced in the House last week, would provide funding for more than \$130 billion of construction-related activity, according to AGC's analysis. The bill would fund \$55 billion of building investment (including \$10 billion for residential buildings), \$44 billion of transportation projects, and \$17 billion for water and environmental infrastructure. In addition, much of the bill's \$28 billion of energy and technology funding would be used for construction.

Assuming that these funds would be disbursed ratably over two years, nonresidential construction spending would rise by approximately \$65 billion a year under the bill. An investment of \$65 billion per year in nonresidential construction would support or create roughly 620,000 construction jobs, 300,000 jobs in supplying industries, and 930,000 jobs throughout the economy.

In addition, other elements of the Act would add to demand for nonresidential construction. For instance, tax provisions that would stimulate construction include liberalization of rules for state and local bonds, new bonds for investment in "recovery zones," and a variety of new or extended energy tax credits. States would also receive fiscal assistance that would enable them to avoid cutbacks in construction that would otherwise occur at a time when more than 40 states are facing deficits that must be closely in fiscal 2009, 2010, or both.

Taking all of these items into account, it appears that the Act would generate close to the 678,000 construction jobs by the fourth quarter of 2010 that were estimated by economic advisers to President Obama in a paper the transition office released on January 10. That paper assumed a stimulus package totaling \$775 billion, slightly less than the estimated \$825 billion in this bill.

Construction Capacity to Handle the Stimulus

Although these amounts are large compared to previous federal funding, they are modest compared to the lists of "shovel-ready" projects compiled by several associations of public officials. They are also far less than the available capacity of the construction and materials industries, especially since the Act would spread investment across many types of structures.

The Census Bureau reported on January 5 that nonresidential construction spending in November 2008 totaled \$742 billion at a seasonally adjusted annual rate. (Seasonal adjustment is a statistical technique to remove normal variation due to weather, holidays and other regularly recurring factors. Annual rate means the monthly total has been multiplied by 12 to allow comparison to full-year totals.) Thus, a \$65 billion increase would equal less than 9% of current spending levels, well below the nearly 12% drop in construction employment or 14% decline in

output of construction supplies that has occurred.

AGC's December survey showed that contractors could put the stimulus program to work quickly with many projects completed in less than one year. Roughly 85% of respondents would begin work within a month after a contract award, 30% within days. In addition, 73% of respondents said they would purchase new equipment if markets improved.

Additional federal infrastructure funding would have a direct stimulus effect by putting more contractors and their employees back to work. Properly directed spending would also improve economic efficiency and make the country more competitive in the long term. With an estimated \$1.6 trillion needed to improve the nation's infrastructure over the next five years, the spending in this bill could easily be increased without exhausting either the capacity of the construction and supplying industries or the nation's need for additional infrastructure.

State-by-State Impacts

The impacts cited above show the benefit to the national economy from \$1 billion of nonresidential construction investment. I also provided AGC with estimates for each state. To derive these results required a two-step process.

First, nonresidential spending and employment had to be broken out by state. The Census figures show only national totals. BLS produces state estimates for total construction employment but does not distinguish between residential and nonresidential employment at the state level. Therefore, to allocate employment, I used the average of three series for 2007: total construction employment (from www.bls.gov/sae), value of nonresidential construction starts (compiled by Reed Construction Data and provided to AGC for this study), and value of industrial, office, warehouse and retail construction starts (compiled by McGraw-Hill Construction and provided to me for my report to the NAIOP Foundation).

Second, the "multiplier" effects on indirect and induced jobs, personal earnings and GDP in each state came from the Bureau of Economic Analysis' RIMS II regional economic model. In addition, AGC divided jobs in each state between direct construction jobs, indirect supplier industry jobs, and induced jobs throughout the economy by applying the percentage split used in the FHWA study (34% direct, 16% indirect and 50% induced). These percentages appear reasonable to apply to total nonresidential spending, given that FHWA's estimate of total jobs (28,000 per billion of federal-aid highway spending) is so similar to what I found (28,500). AGC also included information in each state fact sheet from BLS on the change in construction employment from the peak month in that state to October 2008, as well as average annual earnings in construction, compared to all employees.

The state impacts vary but are somewhat less than the impact on the U.S. economy. The difference reflects the fact that \$1 billion spent on construction in a state supports jobs outside the state as well as in it. The impacts vary from state to state based on how many construction firms and workers come from out of state, how much production capacity exists in the state, and how much of the induced spending is likely to occur in-state. However, each state also benefits from construction spending that occurs in other states. Thus, the national estimates reflect the total that occurs in all states from \$1 billion spent in any state.

Summary

My research shows that at a time of unemployed workers and excess production capacity, each \$1 billion of spending on nonresidential construction would support approximately 28,500 jobs, increase GDP by \$3.4 billion, and add \$1.1 billion to personal earnings. In addition, well-chosen projects add to the nation's productive capacity and economic competitiveness while reducing energy use and emissions of pollutants.

The American Recovery and Reinvestment Act as introduced in the House would add roughly \$140 billion in spending over two years for nonresidential construction in a variety of worthwhile categories at a time when the industry has lost 900,000 jobs and production of construction supplies has plummeted. Thus, there is sufficient capacity to absorb the added demand. On behalf of AGC, I urge that the Committee support passage of the Act.



The Construction Industry in the United States

The Economic Impact of Stimulus Investment in the United States:

- An additional \$1 billion in nonresidential construction spending would add about \$3.4 billion to the Gross Domestic Product (GDP), about \$1.1 billion to personal earnings and create or sustain 28,500 jobs.
 - 9,700 of these jobs would be on-site construction jobs located in the state of investment.
 - 4,600 of these jobs would be direct and indirect jobs associated with construction supply materials and services. The majority of these jobs would be located within the state of investment, but there would be some out of state jobs supported.
 - 14,300 of these jobs would be created when construction, supplier and service providers spend their incomes. These jobs would be based in the state of investment and throughout the economy.

Construction Employment:

- In 2007, a total of 17.9 million jobs were supported by the direct and indirect outlays associated with nonresidential construction spending.
- The construction industry (residential plus nonresidential) employed 7 million workers in November 2008, a decrease of 899,000 (11.6%) from September 2006 when construction employment in the United States peaked.

Nonresidential Construction Spending:

- Nonresidential construction spending in the United States totaled an estimated \$629 billion in 2007.
- This direct construction spending contributed a total of \$1.4 trillion (10%) to the GDP of \$13.7 trillion.
- In 2007, U.S. manufacturers shipped \$500 billion in construction materials and supplies and \$36 billion in new equipment.
- Direct construction spending added \$662 billion in additional personal earnings.

Construction Industry Pay:

- In 2007, annual pay of all construction workers in the United States averaged \$46,800, 5.5% more than the average for all private sector employees.

Small Business:

- The United States had 805,400 construction firms in 2006, of which 91% were small businesses employing fewer than 20 workers.

Source: Ken Simonson, Chief Economist, AGC of America, simonsonk@agc.org, from Prof. Stephen Fuller, George Mason University, and U.S. Government sources

For additional information, including impact on each individual state, visit www.agc.org/stimulus.