

Statement of  
**The Associated General Contractors of America**

presented to the

Committee on Ways and Means  
U.S. House of Representatives

for a hearing on

Economic Recovery, Job Creation and Investment in America

October 29, 2008



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 7,500 of America's leading general contractors, and over 12,500 specialty-contracting firms. More than 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. Visit the AGC Web site at [www.agc.org](http://www.agc.org).

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The Associated General Contractors of America (AGC) is submitting these comments for the record of the hearing on "Economic Recovery, Job Creation, and Investment in America." AGC would like to express its appreciation to the Committee for conducting this important hearing. AGC believes that investing in America's infrastructure will create jobs and lead to economic recovery.

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AGC urges this Committee to recommend to the full House economic stimulus activities that would have an immediate positive impact on economic activity. Specifically, AGC strongly encourages the Committee to make recommendations on provisions that would immediately boost construction activity. The construction industry employs more than 7 million people and represents more than \$1 trillion annually in economic activity, including \$500 billion in materials and \$36 billion in new equipment. There is excess capacity throughout the construction industry. With additional investment, the industry will create jobs, contribute to economic recovery, and build a world class infrastructure to improve the nation's overall quality of life.

### **State of the Economy**

When budgets are tight, private and public investment at all levels is cut. At the state and local level, budgets have declined significantly because of the decline in incomes, sales, and home values, resulting in lower personal and corporate income, sales, and property tax collections. The recent financial crisis has also hampered the ability of state and local governments and public agencies to borrow short term, delaying or eliminating various infrastructure improvement projects. According to Municipal Market Advisors, a consulting firm that specializes in municipal bonds, \$100 billion of new infrastructure projects have been delayed because of the constricted credit markets. In addition, volatility in construction materials prices, driven by inflation, has reduced the purchasing power of public works dollars. As a result, fewer contracts are going out to bid, which means less work for contractors and fewer jobs for their employees.

### **Construction Inflation Data**

Construction materials continue to drive up the cost of our product. AGC's economic research shows that the Producer Price Index (PPI) for construction rose 45 percent from December 2003 to September 2008. This compares to a 19 percent increase in the Consumer Price Index (CPI). Indexes for highway and street construction and other heavy construction—activities under the jurisdiction of this Committee—are more dramatic. They rose 76 percent and 60 percent, respectively, over the same period. The PPI reflects the increase in the cost of basic building materials including steel, cement, asphalt, aggregate, and other materials. Diesel fuel price increases also impact this cost as construction activity is energy intensive. Recent dramatic drops in the price of oil and scrap steel have barely been reflected so far in the cost of asphalt, concrete, rebar or steel for bridges.

### **Impact on Employment**

The impact of fewer contracts being bid is reflected in increasing nationwide unemployment numbers. Heavy and civil engineering construction employment peaked in June 2007 and has steadily decreased over the past 16 months. There was more than a 6 percent decrease in these jobs over that period,

which equates to 62,000 construction employees. Swift enactment of an infrastructure spending package would enable these skilled workers to be rehired promptly.

AGC's Chief Economist is projecting a decline of as much as 9 percent in non-residential construction activity in 2009, which is in line with the 10 percent decline projected by McGraw-Hill Construction economists. Moreover, AGC's economist reports that an additional loss of 10-15 percent nationwide is possible if the economy does not turn around. That could add another 100,000 or more lost jobs to the 62,000 lost over the last 16 months.

### **Broader Economic Impact**

This decline in the construction market also has broader implications for the economy—for equipment manufacturers, materials suppliers, and so on. AGC member companies have been forced to shelve or trim down plans for expansion and reduce their usual annual investment in equipment. Companies have already canceled some planned purchases for next year and are putting many others on hold until they see what funding is going to be available for new work. In fact, the Census Bureau reported on November 4 that factory orders fell 2.5 percent, seasonally adjusted, in September and 4.3 percent in August. This suggests that economic uncertainty is causing businesses to refrain from making new purchases.

### **Leading Economists Support Infrastructure Investment**

An infusion of federal infrastructure funding would have a direct stimulus effect by putting more contractors and their employees back to work and many leading economists agree that infrastructure investment does have a powerful stimulating effect on the U.S. economy.

Mark Zandi, Chief Economist for Moody's Economy.com has found that the "boost to GDP from a dollar spent on building new bridges and schools is estimated to be a large \$1.59." He argues that "if infrastructure projects can be identified that could be started quickly then this could prove to be an efficacious form of fiscal stimulus."

Lawrence Summers, former Secretary of the Treasury, further argues that "there is reason to believe today that a significant amount of stimulus can be delivered with reasonable rapidity...If one looks at the several hundred million dollar infrastructure commitment that was made after the bridge collapse in Minneapolis about a year ago, 86 percent of the money had not just been obligated, but had been spent within a 9 month interval. The sense that there is a backlog that can be moved rapidly is reinforced by the extensive anecdotal evidence of projects [that] have been slowed partially through the process of construction, or that are ready to let, but have been held back for budget reasons..."

As these economists have stated, there are stimulative effects attributable to infrastructure investment. To maximize the speed with which the money is sent into the economy, funds should be directed through existing successful federal infrastructure investment programs.

### **Economic Stimulus Legislation – Ways and Means Committee Recommendations**

AGC greatly appreciates the action taken by the House in September in passing H.R. 7110, which would provide additional supplemental appropriations for a number of major federal construction programs to stimulate economic recovery through infrastructure investment and direct and indirect job creation. AGC strongly supports this additional investment and urges the Congress to reconsider this or other similar legislation as soon as possible in the upcoming weeks.

In addition to a substantial infrastructure investment component, AGC recommends the Committee consider the following tax provisions that would have a positive impact on construction industry and the economy as a whole:

### Depreciation Bonus and Section 179 Expensing Levels

AGC urges the Committee to extend the Economic Stimulus Act's capital investment incentives, including the depreciation bonus and increased Section 179 expensing levels. The Economic Stimulus Act enacted in February 2008 created a 50 percent depreciation bonus and increased the amount that small business can expense to \$250,000. These provisions were designed to incentivize business capital investment this year; however, the depreciation bonus expires at the end of 2008 and the higher Section 179 levels apply only to 2008 tax years. AGC urges Congress to extend these incentives for at least one year.

A survey of contractors conducted in summer 2008 found that the capital investment incentives included in the Economic Stimulus Act have had some positive impact on equipment purchasing. Approximately one-third of the survey respondents said that they purchased equipment in the first half of 2008 to take advantage of the depreciation bonus and/or the increased Section 179 expensing levels. The reason cited most often by the survey respondents for why their companies had not taken advantage of the incentives was that the economic slowdown had led to a considerable drop in construction work (and need for additional equipment). That is why increased infrastructure investment, combined with targeted tax incentives, is so important. The survey also found that more than three-quarters of contractors would be more likely to buy additional equipment in 2009 if the depreciation bonus and the increased Section 179 expensing levels were extended.

### Multi-Employer Pension Plans

The drop in the value of pension plan assets coupled with the current credit crunch has placed defined benefit plan sponsors in an untenable position. At a time when companies desperately need cash to keep their businesses afloat, the new funding rules require huge, countercyclical contributions to their pension plans. Consequently, many companies will divert cash needed for current job retention, job creation, and needed business investments and instead contribute the cash to their pension plans to fund long-term obligations.

Many AGC members contribute to multi-employer defined benefit plans. AGC urges Congress to enact temporary relief designed to moderate the effects of the aggressive funding targets contained in the Pension Protection Act. Such relief is necessary to avert devastating burdens and job losses arising from massive contribution increases and unavoidable benefit reductions that would be required to comply with those rules.

Specifically, AGC urges Congress to consider following three proposals:

1. An optional and temporary "freeze" of the plan's 2008 zone certification (with a special rule for plans with a plan year that begins in the last quarter of the year);
2. The use of actuarial value of assets for projecting the plan's zone status in future years; and
3. A five year extension in the remediation periods for both the Funding Improvement Period and Rehabilitation Periods from 10 to 15 years.

### 3 Percent Withholding Tax

Section 511 of P.L. 109-222 requires a 3 percent tax withholding on all government payments, which affects all government contracts as well as other payments, such as Medicare, grants, and farm payments. While this requirement is not set to go into effect until January 1, 2011, companies, as well as federal, state, and local governments are expending funds starting to prepare for implementation now. These are needless preparation expenses, particularly during rough economic times, for a requirement that most believe should never have been enacted and should be repealed. The Department of Defense, for instance, estimated that the costs to comply with the 3 percent withholding requirement will be in excess of \$17 billion over the first five years, which is far more than any estimated revenue gains. Moreover, \$17 billion is only a portion of the additional costs with which

governments and the private sector will be burdened. AGC urges Congress to include a repeal of the 3 percent tax withholding law in any upcoming stimulus package.

### **Concluding Remarks**

AGC members are ready to build, so we can create and sustain jobs throughout the country. Construction has always been an engine of economic stimulus and can play that role once again. Increases in infrastructure investment can be quickly put to work and will have a direct, immediate, and dramatic impact on the economy. Moreover, since some construction contracts take many years to complete, investments made today will provide economic growth through any prolonged period of economic downturn. Most importantly, however, the long-term economic benefits of infrastructure investment today should not be overlooked. Through additional investment in infrastructure, our nation would be well positioned to emerge from the economic downturn, rebuild our world-class infrastructure system, and ensure our continued economic prosperity well into the future.

At the same time, AGC members would benefit from extending tax incentives to purchase more equipment, especially if there is more work, and their businesses would benefit from some relief to their pension plan obligations and from the upcoming implementation of the 3 percent withholding tax.

Thank you for this opportunity to comment. AGC looks forward to working with the Committee to enact an economic recovery package that will create jobs in the construction industry and invest in the nation's infrastructure.