Govt. Spending and Its Effect on Construction Jobs

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An enduring story of the current recession has been the nation's construction swoon, which has industry leaders and government officials alike in a daze about how to correct a grievous loss of construction jobs. With the industry's jobless rate hovering around 17 percent and no instrument in sight to lower it, it's little wonder that two-thirds of surveyed industry leaders believe the dilemma will continue at least another year.

Yet from the crucible of this recession, some painful lessons about job creation may have been learned. There is a fresh conversation about the comparative value of government versus public sector jobs and perhaps a new understanding of "job creation."

Spending and Employment

There have been no shortage of efforts to spur construction — and construction hiring — but they have been manifestly unsuccessful. The most prominent was the American Recovery and Reinvestment Act. The so-called stimulus bill was a $787 billion spending initiative, with approximately $100 billion of that earmarked for construction.

The Obama administration and supporters in Congress promoted the bill as a relative quick fix for the industry because emphasis was placed on "shovel-ready jobs." This referred to projects that already were cleared by the various pre-construction agencies and lacked only funding. What wasn't funded early was expected to continue to keep contractors cranking up their equipment for years to come.

It hasn't worked as well as hoped.

In response to a recent Associated General Contractors survey, only 28 percent of contractors and industry suppliers and distributors said the stimulus was "very or somewhat effective." Nearly half — 47 percent — said it "neither helped nor hurt" and 11 percent said it had a negative impact. The rest didn't have an opinion.

This lukewarm response to the stimulus within the industry reflects a generally negative view of the overall stimulus among all Americans. This is significant because the perception of middling success or failure of the stimulus makes it less likely that leadership will spend billions more on another one.

Consequently, when President Obama this late summer proposed a $50 billion "bold new vision" — notably not called a "stimulus" — for transportation infrastructure including highways, railways and airports, the reaction was muted. Industry associations generally praised the initiative but added that what really was needed was passage of a multi-year successor to the so-called SAFETEA-LU highway bill that expired a year ago and has been extended periodically to keep funds flowing.

One prominent dissenter to the president's proposal was Florida Republican Rep. John Mica, the ranking minority member of the House Transportation and Infrastructure Committee. He is the probable committee chairman should the House majority switch to Republican after November's elections.

"I will not support another tax-and-spend proposal while billions of transportation and infrastructure funds sit idle," Mica said Sept. 7.

“While proposing to spend more on infrastructure in another stimulus effort may sound like the administration is doing something about jobs, in fact only 32 percent of the infrastructure funding approved 18 months ago in the first stimulus has been spent,” he said. “Projects continue to be bogged down by bureaucracy and red tape.”

A less harsh view is that, while many projects are not in progress, most are on the verge of starting. John Horsley of the American Association of State Highway and Transportation Officials, which is “highly supportive” of the administration’s new plan, estimated that 90 percent of stimulus-funded transportation projects are under contract.

Employment Bang for Bucks

What has become apparent in all this conjoining of spending and jobs is that there does not seem to be a strict correlation between money spent and jobs created. Many assertions are made about the linkage, but they are all pretty shaky, except in the abstract. Economists argue that, theoretically, a pool of money of a certain size will create a certain number of jobs. In reality, no such hard-and-fast cause-and-effect relationship seems to exist.

The U.S. Department of Commerce has estimated that each $1 million expended on road construction produces 63 jobs — 13 crewmembers at the job site, 13 vendors and 37 in related service industry positions. Interpolating that number, it follows that $1 billion would create 63,000 jobs, more or less. A $50 billion infrastructure spend, therefore, would create more than 3 million jobs, which would be a healthy rebound indeed.

Top-end projections aside, the numbers plugged in at the lower end have to be skeptically received. There seems to be no agreement on a formula, which suggests that the root numbers aren’t well founded. The numbers, incidentally, all reflect the consensus that spending on construction results in hiring of work crews, hiring at supporting companies and hiring elsewhere in the economy as a consequence of the expenditure of money by the first two categories of employees. The three categories of benefits are commonly referred to as direct, indirect and induced.

Using that premise, a U.S. Department of Transportation study earlier this decade concluded that 47,000 jobs are created by the expenditure of $1 billion. That is 16,000 fewer jobs than the previously mentioned Department of Commerce’s formula would produce but is the number that some presidential candidates relied on in formulating position papers during the 2008 campaign.

However, there are other numbers. An Association of Equipment Manufacturers policy statement declares that 35,000 jobs are created from each $1 billion. Yet posted elsewhere on the AEM Web site is a jobs statement by AEM President Dennis Slater; he cited a DOT study in declaring that 30,000 jobs result from a $1 billion expenditure.

Two decades ago, the Bureau of Labor Statistics said a billion dollars would create 24,000 jobs for a year. Last year, Alex Carrick, a Canadian economist, concluded that $1 billion created 20,000 jobs. Dipping slightly lower is the Heritage Foundation think tank; in 2009, it cited another U.S. DOT report in which researchers concluded that a mere 19,500 jobs would arise from expenditure of $1 billion.

Ronald Utt of the Heritage Foundation said the widely varying numbers are all misleading because they are based on a false premise. Utt argued in a background paper at the time the stimulus package was being debated that unless the $1 billion “appears out of nowhere as if it were manna from heaven,” the net creation of jobs is closer to zero. That’s because each $1 billion in funding is taken from somewhere else in the economy, thus robbing that area of its funding with a resulting slowdown in work and hiring. When the $1 billion is “new money,” that is, borrowed money, the offsetting loss of jobs elsewhere is merely deferred until payback time.

In sum, precisely how much employment results from massive spending packages is not at all clear. Furthermore, it should be noted that none of the formulations stray into the locution of “jobs saved or created,” an Obama administration construct that is almost impossible to prove or disprove.

Private Sector Versus Public Jobs

Not all jobs are created equal. For example, some make-work construction positions are funded just to get money into the economy, as was the case with the Works Progress Administration of the Franklin Delano Roosevelt era. How far government should tiptoe down that path is the question, for at the far end of the path nothing of real value is created besides a paycheck. Example: Paying someone to dig a hole and then fill it again is in itself not of much lasting value. So the debate among Keynesian economists and their conservative counterparts is partly about how much value should be expected in return for a government wage.

The wider dispute is about government jobs versus private sector employment. President Obama said in 2009 that 3 million new jobs would be created through the stimulus bill, “more than 80 percent of them in the private sector.” Senate Minority Leader Mitch McConnell was not impressed. He reportedly responded to the president with a question: “Well, do we really want to create 20 percent of the jobs in the public sector? That would be 600,000 new government jobs.”

John Palatiello is president of the **Business Coalition for Fair Competition**, an organization of businesses, associations and taxpayer groups. The coalition argues that billions of dollars — $27 billion, to be exact — would be saved were designated government employee functions opened to competitive bidding. Palatiello said the best government policy always “recognizes that real economic growth and job creation is in the private sector, and emphasizes that government should not compete with its citizens but should rely on the private sector to the maximum extent possible.”

The Obama administration has not been open to this idea. Rather, it has modified guidelines so that more kinds of work can be reserved for government agencies. It probably is no coincidence that, since the inauguration of the current administration, private sector employment has decreased by 3.3 million and government employment has risen by some 34,000, according to the business coalition.

Palatiello’s group is leading the charge to reduce the federal payroll through outsourcing of thousands of jobs. Specifically, it has called for the administration to declare a moratorium on government insourcing.

In August, Palatiello talked to Daniel Gordon, the administrator of the Office of Federal Procurement Policy. Gordon told him the federal government only insources under three circumstances:

1) When an activity is so inherently governmental in nature that it should not have been contracted out in the first place;

2) When activity is so critical in nature that the agency has no in-house capability to adequately award, manage and oversee the contract; or

3) When a detailed cost analysis has been performed and the agency can unequivocally quantify the savings that would be achieved.

Gordon told Palatiello the agency would welcome any examples of jobs insourced in conflict with the guidelines. The first week of September, Palatiello obliged, providing Gordon with 17 examples. In all, the coalition believes that some 850,000 federal employees are doing work that might better be done by private sector employees.

The Construction Industry Round Table is a founding member of the coalition and fully supportive of the call to reduce insourcing. Round Table President Mark Casso cited several areas of commerce where contractors could do the job as well and more cost-effectively than government, including environmental clean-up, military base maintenance, civil works — and especially maintenance, repair and construction of roads, waterways and buildings.

“Moreover,” Casso said, “any assertion that insourcing saves money has been debunked, by no less that Defense Secretary Robert Gates, who on Aug. 9 admitted, ‘We weren’t seeing the savings we had hoped from insourcing.’”

This ongoing dispute with the federal government is separate from long-standing complaints of the construction industry about state jobs. The industry complains that state departments of transportation around the country have employees doing work that the private sector can do as well, including engineering tasks.

Jobs Variables

The Bureau of Labor Statistics projects a 19 percent growth in construction jobs over the next eight years, considerably more than most other major industries. Growth is expected pretty much across the board, including in the heavy and civil construction areas where construction and repair of highways and bridges clearly are needed. The Bureau also predicts a spurt of power transmission line construction.

These two areas of building — highways and power lines — illustrate a variable in construction spending. Some kinds of building work obviously are more labor intensive than other kinds.

Myrtle Beach, S.C., backers of a proposed Interstate 73 roadway point to a research economist’s estimate of jobs creation. Donald R. Schunk of Coastal Carolina University predicted last year that the proposed new roadway would have some 4,700 construction workers on the job on any given day in the Myrtle Beach region. If figuratively spread across the approximately 80 mi. of the South Carolina segment of I-73, that’s 55 to 60 people working per mile of new roadway.

Whereas large-scale power transmission lines require just 14 construction workers per mile of transmission, according to power industry researchers. However, the National Renewable Energy Laboratory estimates that 20,000 mi. of new lines are needed across the United States, particularly if the push for wind turbine-generated electricity in the West requires new lines running to the East Coast. With 14 people working each of those 20,000 mi., a sizeable number of construction workers would be packing lunches and heading off to the job.

Yet lobbyists don’t typically distinguish among different orders of construction labor. They lobby for an entire transportation bill, for example, as opposed to asking for targeted capital investment in bridges or runways or railways. While this probably is a good political approach, it does not address priorities among worthy projects, nor distinguish between needs and wants.

The American Society of Civil Engineers has laid a foundation for breaking the overall problem of infrastructure construction into smaller parts, issuing a national grade card that evaluates the condition of individual pieces of infrastructure.

Using the 2009 card, one can conclude that bridges, inland waterways, drinking water / wastewater systems, levees and roads are most in need of attention, each receiving a D- from the ASCE. While some other areas fared almost as poorly, they are judged to be in slightly better condition. The result of the grading process is that construction priorities are established.

The Round Table's Casso was asked if lobbying for individual pieces of capital might be more effective in this economic climate. The answer is yes and no.

"In truth, the Round Table does not make any precise distinction between and among infrastructure project types," he responded. "Rather, it focuses on the need for the federal government to target funds and attention to meaningful 'signature' projects or programs that can far exceed the mere investment of funds to impact a greater expanse of American society, its economy, and even its security.

"These types of 'major impact projects' can be beneficial short-term investments and have a lasting high return. As such, they should be the focus of at least a portion of future expenditures managed by the federal government."

Casso's organization is working on a "white paper" outlining the request to focus on "meaningful transportation projects." It also will call for reform of grant programs so that obvious areas of highway congestion can be targeted and consistently funded until real correction is achieved. This approach is the opposite of spreading the money around just to be fair to each congressional district and Congress to date has shown little inclination to adopt it.

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