

Using New Jersey's Construction Industry to Trigger Economic Renewal

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A recurring theme during the debate over the nearly \$800 billion economic stimulus package focused on the overall benefits to be gained from a strong infusion of funding into public sector construction. While it's generally accepted that a sudden gush of spending on transportation and building infrastructure projects will provide a short-term surge in employment and economic growth, some question whether it will have a positive impact over the long term.

Those who support this stimulus approach usually point to former President Franklin Roosevelt and how he used an alphabet soup of New Deal building and relief programs in the 1930s (the WPA, NRA, CCC, NYA, etc.) to jumpstart the economy and help release America from the grips of the Great Depression. They also refer to President Dwight Eisenhower's Federal Aid Highway Act of 1956 that created our 46,837 mile, coast-to-coast network of highways and put millions of Americans to work.

Contrarians, however, note the Depression lingered on for years, with mounting business failures and high unemployment figures, until the onslaught of World War II when intense war production activities finally helped America turn the corner. Without the extraordinary circumstances and job opportunities created by the war, they say Roosevelt's make-work programs would have yielded a barren crop.

Whatever your opinion, there seems little doubt that Roosevelt's New Deal initiatives did produce a burst of economic activity that restored a sense of optimism and confidence in Americans – a key factor in reversing any economic downturn. And, while public-works programs did not entirely eliminate high unemployment, they did stem what had been an ever-rising tide of joblessness. Over the course of the 1930s, unemployment numbers gradually fell from as high as 25 to 35% to a more manageable 15 to 20%.

And again, if statistics and historical trends are any indicator, there's no doubt that a healthy construction industry has always played a pivotal role in sustaining economic growth, both nationally and in New Jersey. This in addition to producing structures that increase productivity and improve our quality of life.

Construction Impact on the National Economy

According to the Associated General Contractors of America, the industry employed some seven million people in good-paying jobs in November 2008, a decrease of 900,000 (11.6%) from the peak reached in September 2006. In 2007, the annual pay for all US construction workers averaged \$46,800, or 5.5% more than the average for all private-sector employees.

Also in 2007, a total of 17.9 million jobs nationwide were supported by direct and indirect outlays associated with nonresidential construction spending. Direct nonresidential construction spending in the US totaled an estimated \$629 billion and contributed some \$1.4 trillion (10%) to the gross domestic product (GDP) of \$13.7 trillion. Meanwhile, US manufacturers shipped \$500 billion in construction materials and supplies and \$36 billion in new equipment. All told, direct construction spending provided some \$662 billion in additional personal earnings.

"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," observes Stephen S. Fuller, PhD, Director of the Center for Regional Analysis at George Mason University and a consultant for AGC of America.

"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," Fuller says. "For all of these reasons, investment in nonresidential construction should be a large component of any economic stimulus package."

Fuller said his work for AGC/A looked at nonresidential construction as a whole, but the results were very similar to an analysis he undertook for the NAIOP Foundation that focused on office, retail, distribution and industrial building construction. Other research performed for the Federal Highway Administration reported comparable figures for investment in federal-aid highway infrastructure.

"In a nutshell, my research found that an additional \$1

billion of investment in nonresidential construction supports or creates 28,500 jobs and adds \$3.4 billion to the GDP and \$1.1 billion to personal income,” Fuller continues. “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, and half of the gain is diffused through the entire economy, as workers and owners in the supplier and construction industries spend their added income on a wide range of goods and services.”

Construction Strength in New Jersey

The construction industry’s strong impact on New Jersey’s economy mirrors, if not exceeds its impact on the nation’s economic health. The industry as a whole employed 161,000 workers in New Jersey in December 2008. The annual pay of New Jersey construction workers was \$57,500 in 2007, or 7.3% more than the average for private-sector employees.

A total of 242,000 jobs in New Jersey were supported either directly or indirectly by nonresidential construction spending, which totaled an estimated \$13.9 billion in 2007. Direct construction spending contributed some \$32.5 billion (7.0%) to the state GDP of \$465.5 billion. Finally, direct construction spending added \$9.9 billion in additional personal earnings for New Jersey residents working in the state.

The benefits of a strong construction industry can go well beyond the dollars and cents it provides in earning and spending power. As Michael McGuinness, Chief Executive Officer of the NAIOP NJ Chapter, asserts, the commercial real estate industry:

- Creates jobs and brings work places close to families;
- Increases state and community tax bases;
- Cleans and reclaims blighted, disused and contaminated areas, returning properties to productive use; and
- Creates healthy and accessible work environments that meet tenants’ needs with green and sustainable technology and materials.

History of Success Against Economic Downturns

A strong injection of public sector construction spending has regularly been used to offset periods of flat private sector spending that usually accompany economic downturns. Major transportation and building infrastructure projects (many funded by the Transportation Trust Fund) in the 1980s, 90s and early in this new century, helped New Jersey residents and businesses successfully navigate mini-recessions without suffering crippling job and economic losses.

Renowned Rutgers University economists James W. Hughes and Joseph J. Seneca attribute much of New Jersey’s post-World War II economic success to three

successive waves of “sustained public investment in leading-edge transportation infrastructure.”

The first wave occurred in the 1920s and 30s when New Jersey began establishing one of the finest state highway systems in the country, which included such innovations as the first divided highway and the first cloverleaf interchange in the nation. New Jersey’s surging post war economy relied on this system.

New Jersey then created a series of nation-leading toll roads – the Turnpike’s main section was completed in 1952 and the Garden State Parkway’s entire length was completed by 1955. According to Hughes and Seneca, these second-wave transportation initiatives facilitated the state’s economic growth through the 1960s and 70s.

The third wave had two phases. The first was the federal Interstate Highway System, begun in 1956 and not fully completed until the 1990s. However, many of its key pieces were in place by the end of the 1970s and served to accommodate the commercial office building boom of the 80s and 90s and the new knowledge-based industries based in these offices.

Phase two involved creation of NJ Transit in 1979. The agency’s rail, bus and ferry operations were pivotal to economic development in urban areas and other locations along the Hudson River waterfront.

Devastation In This Crisis

Hughes and Seneca caution, however, that much of New Jersey’s groundbreaking transportation and building infrastructure is more than 50 years old and in desperate need of repair and renewal. “Other competitor states, mindful of New Jersey’s economic success, based on its historic transportation advantages, are now furiously upgrading their systems,” they note. “If we don’t, our economy will be increasingly at risk.”

Economists’ concerns are borne out by statistics that show the recession is having a disproportionately severe impact upon the construction industry nationwide and in New Jersey. Ken Simonson, chief economist for the AGC of America, says billions of dollars in public and private construction contracts have been cancelled or delayed, causing AGC/A member firms to experience an abrupt and steep slowdown.

“American construction workers have suffered far more than their share of unemployment, accounting for 747,000, or more than one-fifth of the job cuts and an unemployment rate of 18.2% in January 2009,” Simonson contends. “In the past 12 months alone, nonresidential builders and specialty trade contractors, along with heavy and civil engineering construction

firms, have had to layoff 309,000 workers, or nearly 7% of their workforce.

“The \$1 trillion a year, seven-million strong workforce in the construction industry is in danger of shredding up to 30% of its nonresidential workers, if current market conditions persist,” said Simonson. “Unless things change, we estimate an additional 1.25 million construction workers could lose their jobs this year and tens of thousands of construction businesses will cease to exist.”

New Jersey’s Recovery Plan

To reverse this disturbing trend in New Jersey, where the construction workforce has shrunk by 16,000 (9.0%) since April 2006, Governor Jon Corzine has launched a broad-based economic recovery program that focuses on public infrastructure spending. In July 2008, the governor signed legislation authorizing the Economic Development Authority to issue an additional \$2.9 billion to finance school improvement projects in Schools Development Authority (SDA) Districts (former Abbott districts), and another \$1 billion to leverage construction dollars for non-SDA school districts.

“Since the Great Depression, infrastructure investment by government has always served as an economic stimulus,” says Kris Kolluri, CEO of the SDA. “The new \$3.9 billion funding will help us build 53 new schools by 2013, which, during these tough economic times, is a large and meaningful investment.”

In November 2008, Governor Corzine announced plans to move forward on \$2.8 billion in transportation projects through December 2009, designed to create and support 26,000 jobs to stimulate New Jersey’s economy. The total jumps to 45,000 when indirect jobs are added.

According to the Economic Policy Institute, each \$1 billion of infrastructure spending – through its “multiplier effect” on the economy – creates up to 47,000 additional jobs and \$6 billion in additional Gross Domestic Product.

In testimony before the House Appropriations Committee in December, Governor Corzine explained his reasoning. “We can put people back to work by committing to a significant investment in our infrastructure. Not only will this policy create jobs – it will lay the groundwork for decades of economic growth and prosperity.

“Our state has already committed \$5.7 billion towards the largest transit project currently under design – a new mass transit tunnel under the Hudson River,” he continued. “This project will create 6,000 construction jobs annually for 10 years, and over 40,000 permanent jobs. Projects like the mass transit tunnel mirror the

transformative public works programs of the New Deal – programs that helped bring us out of the Great Depression.” It’s estimated the new jobs will provide some \$2 billion in annual personal earnings.

During his 2009 State of the State Message in January, Governor Corzine further emphasized the importance of a vibrant construction industry to New Jersey’s economic health. “We are creating jobs by accelerating public investments in roads, bridges, school construction, and a new mass transit tunnel under the Hudson,” he affirmed

Construction Figures Big in US Stimulus

At the federal level, the \$787 billion economic stimulus package (The American Recovery and Reinvestment Act) recently signed into law by President Obama relies heavily on construction spending to jumpstart the economy and spur employment. It’s an affirmation of the President’s campaign pledge to “Rebuild America” and create or retain millions of jobs by “making the single largest investment in our national infrastructure since the creation of the federal highway system in the 1950s.”

The package, which includes Davis-Bacon requirements, allocates roughly \$140 billion in total transportation, mass transit, and building infrastructure spending – the total increases to nearly \$150 billion when funding is made available for school construction. It’s estimated the \$150 billion that would go for construction projects will create or save more than 1.85 million jobs throughout the economy, including 660,000 construction jobs.

According to the AGC’s Simonson, not only will the measure increase the GDP by almost half a trillion dollars and personal earnings by more than \$160 billion, it could also be the difference between success or failure for thousands of construction businesses and millions of construction workers.

Based upon the still wildly varying estimates being offered at the time this article was being prepared, New Jersey could receive anywhere from \$4 to \$6 billion from the stimulus package. One of the more optimistic predictions put forth by Governor Corzine has the figure reaching \$10 billion over the next 27 months when money to be parceled out under distribution formulas and competitive grants is factored in. Regulations for securing those additional funds have still not been formulated.

Included within New Jersey’s share is some \$652 million in highway and bridge project funding ... \$524 million in mass transit funding ... \$253 million in Title 1 construction funding for poor school districts ... and \$205 million to address backlogs in clean water and drinking water infrastructure needs. Under

preliminary estimates, funding dedicated to transportation and building infrastructure purposes as part of New Jersey's share could reach nearly \$1.5 billion.

One economist contends that every additional \$1 billion in nonresidential construction spending in New Jersey will create or sustain 18,000 jobs, add about \$2.4 billion to the state's GDP, and increase personal earnings by about \$712 million. Some 6,100 of these jobs would be onsite construction jobs located within the state; 2,900 jobs would be directly or indirectly associated with construction supply materials and services; and 9,000 jobs would be created when construction, supplier and service providers spend their incomes.

Those who question the long-term value of public spending on infrastructure projects would do well to remember the vast "multiplier effect" that such funding has across the broad economic spectrum. Simply stated, money invested in public construction projects generates a significantly greater return - in terms of jobs, business growth and stability, increased earnings and spending power, and an improved quality of life - than is ever spent on such projects.