



Repercussions From the Elections Begin

By Ken Simonson

The repercussions from November's elections have just begun. The 107th Congress reacted to the election in at least two ways that are important to construction. First, Congress passed a long-stalled federal backstop for terrorism insurance, as President Bush had urged in campaign appearances. A survey by the Real Estate Roundtable earlier this fall found that \$15 billion of construction projects that had been cancelled or delayed by cost or lack of terrorism insurance. It remains to be seen how many of these projects will be revived, since the insurance may remain unaffordable for some projects, and the economic climate has worsened for many since they were halted.

Second, Congress voted to continue funding at the previous year's level for highways and other federal construction, along with all other spending. With control of the Senate about to shift, Republicans were unwilling to let a lame duck, Democratically-controlled Senate decide spending levels for 11 separate appropriations bills. Instead, Congress adopted another "continuing resolution" that keeps federal spending unchanged through January 11, when the 108th Congress will have to decide on funding levels for the rest of the fiscal year. For the highway program, the extension means a \$31.8 billion annual rate, far higher than the \$23 billion in the President's budget or \$27.7 billion initially approved by the House Appropriations subcommittee. Adoption of the \$31.8 billion rate may

also help set a higher floor for the 6-year reauthorization of the highway and transit authorization law, "TEA-21," that expires September 30. Increases in spending beyond that level will depend in large part on the level of receipts that flow into the Highway Trust Fund.

However, the election also contained a message regarding tax increases for Trust Fund spending. Voters in several state and local referendums decisively rejected increases in sales or fuel taxes to pay for transportation funding. Similar dynamics are occurring nationwide as nearly every state is encountering new, larger deficit estimates but also resistance to taxes. That makes cuts in state-funded construction likely.

In contrast, voters approved a record volume of bond issues, mainly for construction. The Bond Buyer reported two days after the election, "Voters approved nearly 86%, or \$40.5 billion of the \$47.2 billion in bond authorizations considered on ... the highest approval rate since 1998... about 70%, or more than \$32.7 billion, would finance education facilities," including a record-setting \$13 billion school bond issue in California. Other bond winners included \$1.6 billion for the Hetch Hetchy water system in California, \$1 billion for local water systems in Michigan, and scattered park and transportation plans.

Meanwhile, opinions on the state of the economy run the gamut. The Business Roundtable (BRT) recently completed a survey of 150 CEOs of the company's largest corporations. John T. Dillon, the organization's chairman, and CEO of International Paper, noted, "Our nation's economic recovery has not been strong or sustained, and the BRT's survey shows that CEOs do not expect the situation will improve significantly in 2003." In particular, the survey showed that only 19% of the CEOs expect higher capital spending in 2003, while 24% expect a decline; 60% expect a decline in employment.

Federal Reserve Board Vice Chairman Roger Ferguson, however, gave the hopeful view: "The underlying structure of the U.S. economy... seems fundamentally sound... real investment in equipment and software, while not rising at the torrid pace of 2000, appears to have bottomed out and may be increasing. Moreover, the longer-term prospects for economic growth in the United States continue to look favorable... I expect that the economy will pull out of this period of weakness and that the natural resilience of the economy and the stimulative effects of monetary and fiscal policy will show through more clearly over the coming year."

Editor's Note: This series on the economy and its impact on the construction industry is published monthly in Interface. This month's column was prepared by Kenneth D. Simonson, Chief Economist for the Associated General Contractors of America (AGC). Before joining AGC, Simonson spent three years as senior economic advisor in the Office of Advocacy of the U.S. Small Business Administration and 13 years as vice president and chief economist of the American Trucking Association. Simonson may be reached at simonsonk@agc.org.