

MR. BIDEN GOES (BACK) TO WASHINGTON: CONSTRUCTION INDUSTRY MAY BE A BIG WINNER

This article explores several reasons why President Joe Biden will be a positive force for the construction industry, at least in general.

ANIRBAN BASU AND JOSEPH NATARELLI

It is likely the case that no matter who was elected president of the United States, the early months of 2021 were destined to be grim ones for many nonresidential contractors. With project lending standards stricter than they were before COVID-19, many projects being postponed or cancelled, the future of commercial real estate remaining uncertain, more architects scrambling for work, and backlog lighter than it has been in years, many contractors will enter 2021 with a greater sense of uncertainty than they have had since the Great Recession and the period immediately thereafter.

There are several reasons to believe that President Joe Biden will be a positive force for the construction industry, at least in general. First and foremost, he has a track record of supporting faster economic recovery through federal initiatives, including stimulating infrastructure

spending. As vice president, Biden played a significant role in crafting the American Recovery and Reinvestment Act of 2009, which ultimately injected more than \$800 billion into the economy during an unsettling period, reserving a meaningful fraction of that spending on shovel-ready infrastructure projects.¹


There are also promises that have been made. During the 2020 presidential election, Biden repeatedly offered assurances that as president he would invest in the nation's infrastructure. According to campaign materials, his "Build Back Better plan ensures that — coming out of this profound public health and economic crisis, and facing the persistent climate crisis — we are never caught flat-footed again. He will launch a national effort aimed at creating the jobs we need to build a modern, sustainable infrastructure now and deliver an equitable clear energy future."²

If the new president can deliver on his promises, there are certain industries that stand to benefit disproportionately. Among these are:

- essential infrastructure like roads, bridges, mass transit, water systems,

ANIRBAN BASU is the chief construction economist at Marcum LLP and the CEO of the Sage Policy Group.

JOSEPH NATARELLI is Marcum LLP's national construction industry leader and office managing partner in New Haven, Connecticut.



FROM A PUBLIC POLICY PERSPECTIVE, SIMPLY HAVING THE FEDERAL GOVERNMENT TAKE MORE OF A LEAD IN INFRASTRUCTURE PLANNING AND FUNDING WILL LIKELY BE OF BENEFIT.

- schools, electrical grids, and broadband;
- electric vehicle charging stations;
- housing;
- clean energy; and
- the environment.

While one of the goals of such an initiative will be to accelerate economic recovery from the pandemic, there are also environmental and social justice themes embedded in each of these policies.³ With respect to infrastructure, the new president's team has indicated a desire to "create millions of good, union jobs rebuilding America's crumbling infrastructure...."⁴ While some will undoubtedly cheer such goals, those in the merit shop category are likely to be substantially less enthused.

There is also a promise to provide "every American city with 100,000 or more residents with high-quality, zero-emissions public transportation options through flexible federal investments with strong labor protections...."⁵ Admittedly, this sounds expensive, and it is not obvious what flexible federal investments would look like. In addition, merit shop contractors are likely to feel more than ambivalent about such policy stances.

With respect to housing, the Biden-Harris team has indicated a desire to upgrade "4 million buildings and weatherize 2 million homes over 4 years, creating at least 1 million good-paying jobs with a choice to join a union...."⁶ By now, the picture should be clear. For union contractors, such policymaking must sound wonderful, but to others, such policymaking is seen as more disastrous.

But all this suggests that there will be more money for public construction, including retrofits to existing structures like schools and government buildings. All things being equal, more money injected into infrastructure will help lift the fortunes of the construction segment during a period of softer private construction spending, although it appears certain categories of contractors have been targeted for greater gain than others.

Based on various pronouncements, there are segments that will likely experience less investment under a Biden administration *ceteris paribus*. The most obvious relates to fossil fuel segments like coal, natural

gas, and oil. The pandemic's impact on the global economy has already helped to flatten energy prices, limiting production growth and investment in the process.⁷ A new, more expensive regulatory regime is likely on the way, which could further decelerate investment and result in less construction in energy-rich areas of Texas, North Dakota, Alaska, Oklahoma, Pennsylvania, and West Virginia relative to what likely would have transpired had the presidential election turned out differently.

Policy papers, of course, fail to adequately predict the future. If all policy initiatives reached the point of implementation, the United States would already be home to universal health care, a balanced federal budget, and large cities as safe as Copenhagen. Accordingly, what likely matters more than stated policies are probable political outcomes. What is known is that Democrats and Republicans do not play especially well in the proverbial sandbox. Agreement and compromise represent exceptions rather than the norm.

But there is at least one thing about which Republicans and Democrats agree, and that is the need for stepped-up infrastructure outlays. Given the lack of consensus on many other economic issues and the need to accelerate the economic recovery, enhanced infrastructure outlays appear likely, with Republicans likely to attempt to chip away at requirements for union participation.

From a public policy perspective, simply having the federal government take more of a lead in infrastructure planning and funding will likely be of benefit. In an article published by *Engineering News-Record*, James K. Donaghy, executive chairman for STO Building Group, a New York construction services firm, emphasizes the need for funding and direction from the federal level. When asked what the new administration could do that would have the most impact for construction, he said, "A massive national infrastructure program addressing railroads, airports, highways and energy infrastructure — particularly sustainable energy including wind, solar, hydrogen, and nuclear — would definitely help construction."⁸

That seems like a platform around which many Americans could rally. Political

dynamics may permit positive public construction spending dynamics to be unleashed, positioning the United States to better compete with China and other nations along the dimensions of worker productivity and infrastructure resilience. Of course, it is conceivable that Washington, D.C. politics have become so toxic that even items upon which policymakers agree remain in semi-permanent limbo. ■

NOTES

¹ "Estimated impact of the American Recovery and Reinvestment Act on employment and economic output from October 2011 through December 2011,"

Congressional Budget Office (Feb 2012) (report). Available at: <https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/02-22-ARRA.pdf>.

² "The Biden plan to build a modern, sustainable infrastructure and an equitable clean energy future" (2021). Available at: <https://joebiden.com/clean-energy/>.

³ *Ibid.*

⁴ *Op. cit.* note 2.

⁵ *Ibid.*

⁶ *Op. cit.* note 2.

⁷ Isidore, C., "US gas prices end the year near a pandemic-era high," CNN Business (Dec 31, 2020). Available at: <https://www.cnn.com/2020/12/31/business/gas-prices-pandemic-high/index.html>.

⁸ "From the C-suite: What Joe Biden can do for construction," *Engineering News-Record* (Nov 23, 2020). Available at: <https://www.enr.com/articles/50797-from-the-c-suite-what-joe-biden-can-do-for-construction>.