December 7, 2012

The President
The White House
Washington, DC 20500

The Honorable John Boehner
U.S. House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
U.S. House of Representatives
Washington, DC 20515

The Honorable Harry Reid
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
United States Senate
Washington, DC 20510

Dear Mr. President, Mr. Speaker, Minority Leader Pelosi, Majority Leader Reid & Minority Leader McConnell:

On behalf of the 33,000 members of the Associated General Contractors of America (AGC), I would like to urge you to enact legislation quickly to avert the fiscal cliff. The macroeconomic impacts of going over the fiscal cliff such as the Congressional Budget Office’s prediction that it has the potential to “spark a recession,” reduce GDP growth from 2.2 percent to 0.5 percent and cause unemployment to spike to over 9 percent by the end of next year are well documented. AGC members around the country have confirmed – through a nationwide survey conducted over the last two weeks – our fears that failure to act will have negative consequences for the construction industry. The survey can be found at www.agc.org.

The construction sector is already feeling the impact of the fiscal cliff, especially the weight of the potential threats of higher tax rates and cuts to federal construction spending. The majority of AGC’s members are small businesses organized as pass-through entities – they pay business taxes at the individual rates and so do many of their customers. While the political debate has been about taxes on the rich, that is an oversimplification of the true economic impact of raising rates on people who run construction businesses. The results of our nationwide survey show the potential for reduced job opportunities, reduced capital investment, layoffs and benefit reductions that will result from the possible tax increases that are part of the current debate over the fiscal cliff.

The survey went on to show that contractors have already begun preparing for the potential of higher tax rates, reduced federal construction spending and reduced economic growth. Many of the contractors responding to the survey were found to be small businesses with 51 percent employing 50 or less workers and 67 percent employing less than 100 employees; and 41 percent doing less than $10 million in revenue annually and 74 percent doing less than $50 million. Fifty-four percent of respondents have already taken action with regard to the fiscal cliff – typically by postponing hiring and capital investment. Of the 46 percent of the contractors who have not already taken action 63 percent plan to take action if tax rates rise. They also plan to reduce job opportunities, reduce capital investment, reduce employer contributions to health care and 401(k)s and reduce their workforce. Construction program cuts required by
Sequestration will have similar impacts according to the survey – AGC estimates the sequester will reduce construction spending by $6 billion.

As Congress and the administration consider difficult spending decisions – including the question of instituting indiscriminate, automatic cuts through sequestration – they must remember that America’s infrastructure is one of our greatest economic assets. Investments in transportation, water, military housing, veterans’ hospitals and other federal facilities are required to maintain existing systems, expand job opportunities and grow our economy. America cannot ignore or forego critical investments in our country that are necessary for economic growth and international competitiveness. For example, without sustained investment in our surface transportation infrastructure, U.S. businesses will pay an added $430 billion in transportation costs, household incomes will fall by more than $7,000 and our exports will fall by $28 billion come 2020. In addition, failure to invest aging drinking water and wastewater infrastructure systems will reduce U.S. GDP by about $36 billion annually over the next ten years. The cost of not addressing these and other infrastructure needs is too great to ignore.

Considering the majority of AGC members are small businesses, the uncertainty over expiring tax provisions will hinder long-term investment strategies. For contractors, high income taxes – whether corporate or individual – reduce a company’s cash flow, thereby reducing the amount of money to invest in their companies or hire more workers. AGC urges Congress and the administration to retain the current tax rates for all taxpayers. Retaining the current rates on all taxpayers will serve as a means of promoting investment, business development, and business expansion.

AGC recognizes the difficulties of moving a tax and spending reform package before the end of 2012. If an agreement is not reached quickly, we urge Congress and the administration to extend all tax policies for one year and delay the devastating cuts of sequestration. This will provide our industry – and the economy as a whole – a small level of certainty and stability until a comprehensive tax and spending reform package can be passed during the 113th Congress.

We look forward to working with you to ensure that our country continues to make the necessary investments in our vital infrastructure while making necessary reforms to our tax and spending policies.

Sincerely,

Stephen E. Sandherr

cc: United States Senate
United States House of Representatives