Policy Memorandum

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ECONOMIC IMPACT ANALYSIS: Proposed Bond Funded Capital Spending

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Issue

The Governor has proposed to issue $1,347,250,000 in bonds in order to finance spending on road construction, school buildings, and other construction projects. This note estimates the effect of this capital spending program on the Georgia economy.

Analysis

The proposed capital spending will generate employment and income as the firms hired to implement the construction projects begin the actual construction. In addition, this direct increase in employment and income will result in additional impacts, i.e., multiplier effects, as the construction firms purchase inputs and the workers purchase goods and services. Using IMPLAN, we calculated the total economic effects on the state's economy of the $1.347 billion in spending. These effects are:

	Direct Effect	Total Effect
Economic Activity	$1.347 billion	$2.369 billion
Income	$477.0 million	$864.0 million
Employment	12,381 workers	25,408 workers
Tax Revenue (state and local)		$83.7 million

These calculations assume that the sale of bonds does not reduce current spending. For example, if the state bonds reduce capital funds available for investment by businesses located in the state, then that would reduce or eliminate the economic impact of the state program. However, this outcome is unlikely since the bond market is a national market and the proposed magnitude of the capital projects is a very small part of the total market.

Eventually the bonds will have to be paid off, and that will require either an increase in taxes or a reduction in state government spending. This will result in a reduction in economic activity in the future. If the capital program was financed through current taxes, the current economic impact of the capital projects on the state would be essentially zero, since the taxes would reduce spending by households and businesses, thereby offsetting the stimulative effect of the capital spending. Thus, the effect of the proposed capital spending is to increase economic activity now as spending occurs, and to reduce economic activity in the future as the bonds are paid off.

The impact on the state's economy will not happen instantaneously. First, the actual capital spending will occur over time. Thus, the timing of direct effects depends upon the timing of the capital expenditures, i.e., how quickly the projects are initiated and completed. Second, the multiplier effects take time to work, and the timing of these effects is dependent on the timing of the capital spending. There is no feasible way of accurately estimating the timing of the economic impact. Thus, we are unable to determine the total economic effect after, say, one year, or how long it will take for the full economic effects of the projects to be felt.