
Economic Impacts of State of Washington Contracting

Comments for the Joint Legislative Taskforce
on State Contracts

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Conceptual Approach

- Input-output model shows the direct impacts of “new money” coming into the state, and the multiplier effect resulting from payrolls and purchased goods and services inherent in the direct impacts
 - State contracts do not represent “new money” – we tax somebody to finance state services so we have to give a special interpretation to the use of an input-output model to determine the impact of state contracts.
 - Add up value of contracts by industry and run the model – this is an answer to the question “How many jobs are supported by the contracting the State does, assuming that if you didn’t let these contracts and you just stuffed the money into a closet – no investments, no direct state provision of services, no return of funds to the taxpayer.”
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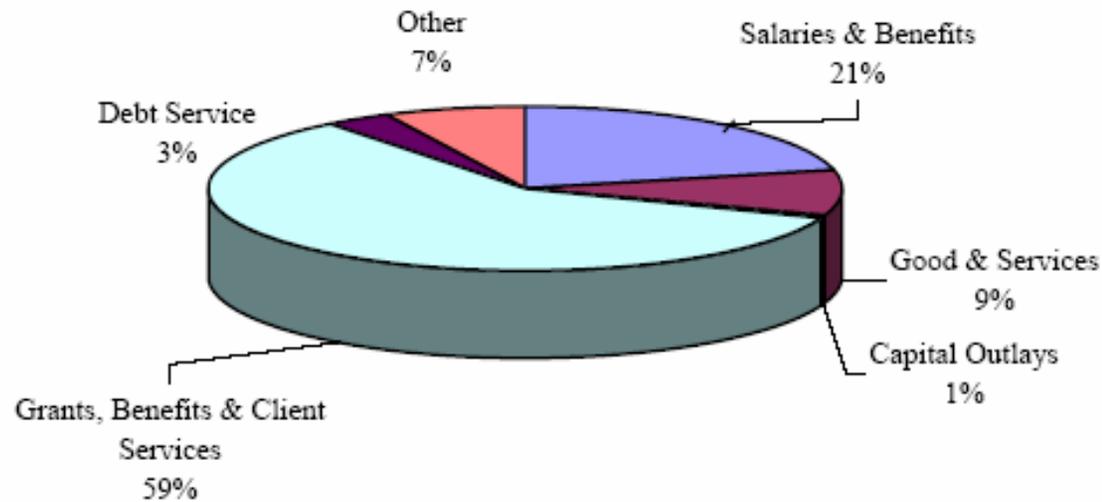
Major Caveats

- If there are more realistic alternatives to either contracting or stuffing the money in a closet, and this would include what private actors would do with any taxes not collected or investments made by the public sector. This would result in a net impact analysis
- However, we rely on government to do things private companies cannot or will not, given the incentives they face, do themselves. The private sector requires public goods such as roads or regulation to establish fair rules of competition or to compensate for externalities, in order to reach efficient results. Given a wise choice of activities by public policy makers, the taxes extracted from individuals and companies get put to a higher purpose, a use that increases welfare. Therefore we should either estimate that welfare increase and take it into account for a true net impact result. This would be a very significant analytical challenge, requiring rather elaborate CGE models – feasible but a huge task and I will not attempt any such thing today.

Add up value of contracts by industry and run the model ...

- Data sources:
 - State Auditor
 - Office of Financial Management
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**State of Washington
Expenditures by Object
For the Fiscal Year Ended June 30, 2004**



Expenditures totaled \$25.7 billion in FY 2004; 9% of that total is \$2.3B

Problem 1 – No data allocating these contract dollars by sector

1 Crop production	11 Textiles and apparel	21 Computer and electronic product	31 Information
2 Animal production	12 Wood product manufacturing	22 Electrical equipment	32 Finance and insurance
3 Forestry and fishing	13 Paper manufacturing	23 Aircraft and parts	33 Real estate
4 Logging	14 Printing	24 Ship and boat building	34 Professional services and management
5 Mining	15 Petroleum and products	25 Other transportation equipment	35 Educational services
6 Electric utilities	16 Chemical manufacturing	26 Furniture	36 Health services
7 Gas utilities	17 Nonmetallic mineral products manufacturing	27 Other manufacturing	37 Arts, recreation, and accommodation
8 Other utilities	18 Primary metals	28 Wholesale trade	38 Food services and drinking places
9 Construction	19 Fabricated metals	29 Retail trade	39 Other services
10 Food manufacturing	20 Machinery manufacturing	30 Transportation and warehousing	40 Labor income

Input Output Model Sectors

A Quote from an OFM Staff Person

- “The question you have asked, as you have already assessed, does not have a direct answer, since State contract data is not captured in that way nor are all types of State contract data available in a central location.”
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How Many Jobs Does This Support?

	Jobs per million dollars output	If the \$2.3B were spent entirely in the sector below:
Natural Resources	27.5	63,000
Manufacturing	213.5	31,000
Trade and Services	24.7	57,000

Multipliers from Washington Input-Output Table, 1997

Problem 2: ... nor are all types of State contract data available in a central location

Which of these categories constitute “contracts”?

■ **Client Services**

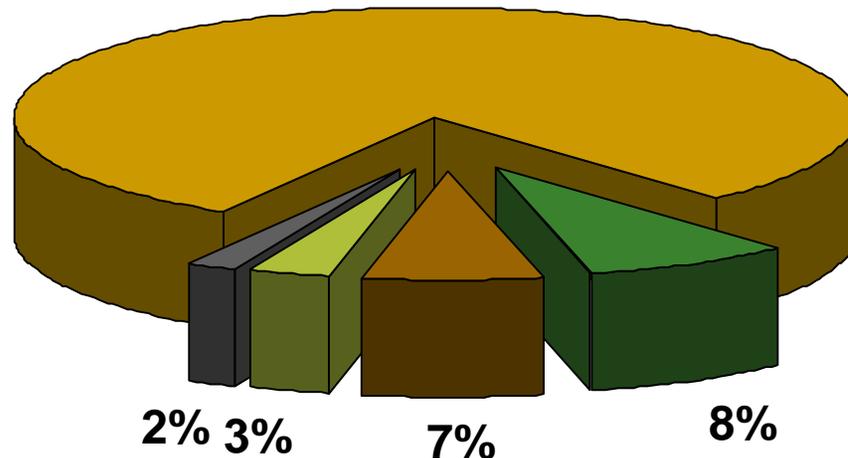
■ **Purchased Services**

■ **Highway Construction**

■ **Personal Services**

■ **Architectural & Engineering**

OFM's View of State Expenditures:
2003-2005 Expenditures Totaling \$16.4 Billion
80%



State Auditor – 1 year; OFM – 2 years; but does any pie slice above correspond to the State Auditor's notion of contracts??? NO: 20% of \$8.2B = \$1.6B < \$2.3B!

Conclusions

- It is possible to measure impact but there are several obstacles to getting a precise answer
 - Reconciling different views of “state contracts”
 - Classifying contracts by industry – may or may not be possible to classify historical contracts accurately
 - Budget allocations vs. actual expenditures – an important detail
 - Should alternatives to contracts be considered to get a net impact measure?
 - On a gross, not net basis, the answer is ***approximately*** 15,000 to 30,000 per billion dollars spent
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