Center for American Progress

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Meeting the Jobs Challenge

How to Avoid Another Jobless—or Job-Loss—Economic Recovery

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Introduction and summary

The U.S. economy is now in "recovery" in the eyes of most economists. Gross domestic product grew at a 2.8 percent pace in the third quarter of 2009—the first growth in five quarters—and is expected to grow again in the fourth quarter. But the challenge of sustained job creation remains ahead of us.

The economy is still shedding close to 200,000 jobs per month and we have yet to have a month with net job growth since the Great Recession began in December 2007. Indeed, there are increasing indications that even if the economy continues to grow it will not do so at a pace fast enough to absorb quickly the 16 million people now out of work and searching for a job. Slow job creation in and of itself could stall the nascent recovery. Consumer spending accounts for about 70 percent of U.S. GDP and unemployed workers are unable to be the customers that businesses need to see before they hire and invest. Dampened consumption from unemployment drags down economic growth

Congress and the Obama administration understand this danger. Since January, they have taken significant steps—most notably the $787 billion American Recovery and Reinvestment Act—to get the economy back on track. In addition, the Federal Reserve eased credit conditions and continues to keep interest rates low to encourage investment. The actions of Congress, the administration, and the Fed are to be applauded. The fact that we are now emerging out of a Great Recession and not mired in a second Great Depression should not be taken for granted.

The ARRA economic recovery package provided a much-needed boost to economic growth in the third quarter and saved or created upwards of 1 million to 1.5 million jobs.[1] Even though we haven't seen net job growth, saving jobs is just as important as creating them amid a sharp economic downturn. For every worker not laid off, there are fewer unemployed adding to the historically high six unemployed workers vying for every job opening. Recovery dollars will continue to pump up demand and add jobs to the economy as the remaining $553 billion is spent in 2010.[2]

The recovery package included a variety of mechanisms for getting the economy back on track, among them:

- Aid to the unemployed, which boasts the biggest bang for the buck in terms of spurring economic demand
- Aid to state and local governments to help them avoid layoffs and maintain services
- Tax cuts for most families, which help to boost spending
- Investments in infrastructure, which are still ramping up and coming on line, as these projects take longer to get up and running
- Investments in a green economy, which not only creates jobs but also paves the way for long-term economic sustainability.

The economic effects of ARRA dollars, however, will start to diminish beginning in the middle of 2010—well before we will be fully out of the woods. Economists now predict economic growth of only about two percent for 2010 given the policy efforts already in place. This is a clear indication that without additional action on the part of Congress and the Obama administration, the U.S. economy could easily slip into an extended jobless recovery—or see the recovery stall altogether.

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Jobless recoveries were exactly what happened following the last two recessions. When the economy improved in the early 1990s after an eight-month-long recession, and then again in the early 2000s after the equally short-lived recession from March to November 2001, job creation did not immediately follow. In the early 1990s and early 2000s, the unemployment rate did not peak for 15 months and 19 months, respectively, after those two recessions were declared over by the National Bureau of Economic Research.

Today, the current economic recovery could result in an even longer period of job losses and slower job creation compared to the past two recessions. The nearly two-year-long Great Recession began with the collapse of the U.S. housing bubble and ensuing financial crisis, which led to a recession that was deeper and more protracted than other kinds of recessions.[3] Even now, we continue to see global financial markets subject to debt-related shocks that could potentially upend this economic recovery by hampering access to credit. On top of this, the massive deleveraging going on in households across the United States is putting sharp limits on the potential for consumption to grow quickly.

This all suggests a need for additional actions—some of which will require additional government spending. Such a suggestion, however, will no doubt trigger concerns about contributing to federal budget deficits. But the path to fiscal probity is not through excessive frugality in 2010, but rather in wise action to get the economy back on track in the short term so that we can see deficits, as a percentage of GDP, begin to decline.[4]

In fact, government spending in 2010 that gets people back to work would be the best thing for restoring fiscal balance in the coming decade. There are costs—both for the government and society more broadly—to high unemployment. It adds to government expenses as more families need assistance from all levels of government, including unemployment benefits and food stamps, help with health care bills, and help coping with a home mortgage foreclosure. And unemployed workers do not have earnings on which they owe taxes, a trend which has contributed to this year's rise in the deficit. While tax revenues fell by 17 percent in 2009, spending increased only a bit more—18 percent.[5]

This is why constraining the 2010 federal budget deficit should not be a high priority. But the money spent in 2010 will, of course, have to be paid back eventually. Although not all job creation options have substantial price tag, for those that do, one way to address these concerns is to legislate the ways we will pay for job creation as we legislate job-creation provisions. Despite the challenges of this strategy, putting in place mechanisms to pay in the future for what needs to be spent now combines the necessary immediate boost with needed fiscal rectitude over the long run.

In short, the challenge is to sort out the best role government can play to pave the way for sustained economic growth and job creation.

This paper provides a list of suggested policy steps that Congress and the Obama administration can take and suggestions for how to pay for it. It is not intended to be a "plan" but rather a set of options that, in our judgment, can contribute substantially to putting our nation's labor market back on track. In this report we describe in detail each option we present and, where available, provide a cost estimate and a so-called "multiplier" to represent the amount of economic activity we estimate will be generated for each dollar of expenditure. A table in Appendix A lists all the provisions and the available multipliers, but briefly here is a summary of our recommendations.

Directly boosting employment and reducing unemployment

In the first section of the report we present options that would directly create or save jobs or reduce unemployment. The options we believe would create jobs the most quickly and reliably would do so by:

- Providing federal funds to states, localities, and schools to reduce job losses and maintain valuable services
- Targeting new job creation in sectors with special investment needs, including national service employment, private- and public-sector employment in child care, and after-school programs, and elderly and disabled care alongside more training for health professionals
- Creating community jobs such as those undertaken by nonprofit groups to help distressed individuals or communities
- Creating jobs in needed infrastructure investment, including foreclosed homes and schools
- Reducing the numbers of unemployed by encouraging early retirement to reduce unemployment through social security, job sharing, and saving primary- and secondary school teachers' jobs by offering early retirement

Support for those hardest hit

The second section of the report describes ways to help those who are most in need, which is the right thing to do and good for the economy. Channeling funds to the unemployed has a direct impact on communities as unemployed workers spend these funds. This not only helps the unemployed and their families, but helps the overall economy since without aid, unemployed workers who are rendered destitute, have no income, and no assistance from the government are not active consumers contributing to economic recovery.

The economic hardships faced by communities hit hardest during the Great Recession also threaten long-term social and economic damage. They threaten the cohesiveness of neighborhoods and institutions such as schools and churches. These things matter from an economic perspective—saving a neighborhood is less costly than restoring it both financial and social terms.

Doing more to ensure that families in need get the assistance they need not only boosts local economies by pumping money into them and helps the national economy by spurring economic demand, but also helps families until job creation starts back up. So in the second section of the report we recommend the following options to spur support for those hit hardest by the Great Recession:

- Extend the unemployment compensation provisions for the long-term unemployed contained in the ARRA recovery package, which are expire at the end of 2009, to at least the end of 2010.
- Ensure that the unemployed have access to health care by extending the federal program that subsidizes health insurance coverage for the unemployed.

Creating the conditions for a strong and sustained economic recovery

The economic recovery following the recession in 2001 was the weakest in the post-World War II era in terms of job gains and income growth, leaving the typical family worse off in terms of income in 2007—the year the most recent recovery peaked—than they were in 2000, at the prior economic peak following the 1990s expansion. The reason: the George W. Bush administration and a conservative-led Congress pushed through tax cuts for the exceedingly wealthy that did not trickle down to create broad-based economic growth and job creation while also failing to supervise our financial sector amid an explosion of ill-considered lending.

This time, a progressive administration and Congress understand that health care reform, prudent regulation of the financial sector, improving education, and addressing the long-term issue of climate change and energy independence will, together, pave the way for a more vibrant economy in the medium to long run. Integrating these goals into our short-term goals of job creation where possible should continue to be a priority.

This third section of the report presents two options that focus on one of those pillars of our future economic growth, the clean-energy transformation of our economy, through:

- A "green bank," or more specifically a Clean Energy Deployment Administration that would finance new green-energy projects and home and building green retrofits to boost energy savings and job creation
- A new $30 billion federal revolving loan fund, as outlined in the Investments for Manufacturing Progress and Clean Technology Act now before Congress, to help small and midsized component parts manufacturers retool their plants and retrain workers to serve the growing global market for low-carbon energy technology.

Tax provisions to spur job creation

Tax cuts are not as direct, fast-acting, or reliable a way to create jobs or spur growth as the other options presented above. Nevertheless, as a politically viable means of encouraging job creation in the private sector with a minimum of administrative overhead, they are sometimes the best option. They also can, in some cases, be designed to pay for themselves over a period of time.

In the fourth section of the report we recommend several tax provisions to spur private-sector jobs growth, specifically:

- A deficit-neutral partial tax moratorium on income taxes in 2009
- A two-tier residential and commercial building retrofit program featuring a "cash for clunkers" program for household appliances and a "home star" certification program for deep energy efficiency retrofits for entire residential and commercial buildings
- An expansion of currently effective industrial retrofit measures that provide tax credits for investment in clean energy manufacturing
- A one-year extension of the current fix to the Production Tax Credit for renewable energy to ensure that this important tax credit continues to have impact, and that includes manufacturers of significant components such as wind turbines and blades to extend its benefits to cover domestic manufacturing supply chains
- A job-sharing tax credit that would encourage employers to reduce hours rather than laying off workers
- Changes to the Low Income Housing Tax Credit to revive the stalled credit market and spur investment in shovel-ready and much needed affordable housing projects

Paying for it

This last section of the report suggests how the options offered above that have price- tags associated with them could be paid for. Specifically, we suggest that Congress:

- Tap the remaining $317.3 billion in the $700 billion Troubled Asset Relief Program enacted by Congress at the height of the financial crisis in late 2008 to pay down the federal deficit.[6]
- Tax the U.S. financial services industry to raise an additional $150 billion a year

The detailed analysis in the pages that follow demonstrates that Congress and the Obama administration could enact job-creation measures in 2010 to ensure today's nascent economic growth becomes a strong and sustained recovery—one that boosts new job creation across the economy, invests in the cutting-edge industries and services of the 21st century, and ensures broad-based income growth and security for the largest number of Americans.

Directly boosting employment and reducing unemployment

The options we present in this section we believe would create jobs the most quickly and reliably. They involve the most direct public policy tools available to Congress and the Obama administration to preserve public employment, increase private employment closely associated with public spending, and create incentives in public programs to reduce the numbers of unemployed. They include:

- Funds to states, localities, and schools to reduce job losses and maintain valuable services
- Targeted job creation in sectors with special investment needs, including expanded national service employment, increased employment in child care, afterschool, and elderly and disabled care programs, and additional training for health professionals
- Creating community jobs
- Creating new infrastructure jobs through targeted investments
- Reducing the numbers of unemployed by encouraging early retirement to reduce unemployment through social security, job sharing, and saving primary- and secondary school teachers' jobs by offering early retirement

Let's consider each of these options in turn.

Funds to states, localities, and schools to reduce job losses and maintain valuable services

Additional aid to states, local governments, and school districts is, in many ways, the most efficient and effective way for the federal government to quickly increase the demand for labor. When these governments face budget deficits, layoffs are not far behind. The *Wall Street Journal* reports that tax collection fell by 11 percent across the 44 states analyzed in the third quarter of this year over year-earlier figures.[7] All but two states had or still have shortfalls for fiscal year 2010, totaling $190 billion. Fiscal problems are continuing into 2011 and the combined shortfall for 2010 and 2011 is estimated to be at least at $350 billion.[8]

The aid to states contained in the $787 billion American Recovery and Reinvestment Act was clearly helpful, but it only addressed about 30 to 40 percent of the gap faced by state governments. As a result, at least 42 states cut services and 30 states raised taxes in

2009.[9] These actions are not helpful as the private sector tries to build on today's nascent economic recovery.

State and local governments shed almost 160,000 jobs between November of this year and November 2008. Nearly 80 percent of the job losses at the local level came in just the last four months, and 80 percent of those cuts were in the field of education.[10] Simply put, schools are laying off teachers, public universities are trimming their staffs, and community colleges are cutting back. These cutbacks are one of the most unfortunate outcomes of the fiscal crisis precipitated by the Great Recession and constitute not just lost jobs now but also eventually worse educational outcomes for tens of millions of students across the country—consequences that will have long-term negative affects on the economy.

Schools are laying off teachers, public universities are trimming their staffs, and community colleges are cutting back.

Additional aid to state and local governments and school districts boasts clear advantages over many of the alternatives. First, the added resources will immediately and directly boost employment in a very hard hit sector. Distinct from the private sector, job cuts are being forced exclusively by impossible budget situations, not by a lack of demand for services. Ameliorating those budget dilemmas will result in more jobs. Second, additional aid will prevent further cuts to state and local education systems—investments that will pay dividends far beyond the current recovery.

There are a number of ways that Congress can deliver additional assistance to state and local governments. Congress could direct additional resources to struggling states by extending the increased Federal Medical Assistance Percentage enacted under ARRA into 2011. FMAP is the share of Medicaid costs paid for by the federal government, which when increased, frees up state funds for other expenditures. However, the higher FMAP is set to expire at the end of 2010—right in the middle of most states' fiscal year. As a result, many states, expecting a large drop-off in federal support, are planning accordingly, restricting services and laying off public employees. Alternatively, or in addition, Congress could provide funding through a state stabilization fund as was also done under ARRA.

Still, assistance from the federal government is unlikely to be sufficient to meet the needs of state governments. Helping states surely helps local governments and school districts as it manifests in smaller cuts in the substantial state-level support of schools and other local functions, but it doesn't address the lost tax revenues faced directly by local governments and school districts and the expanded recession-driven demands for their services.

Consequently, increasing funding through existing funding streams that are dedicated to local governments and education should be considered as part of the effort to stabilize employment at the state, local, and school district levels to ensure that important services—and adequate levels of staffing—are maintained at all levels. Mark Zandi of Economy.com estimates that the multiplier for aid to the states is 1.41[11] and the Congressional Budget Office estimates it to be 1.0 to 2.5.[12]

Targeted job creation in sectors with special investment needs

The federal government could spur the creation of millions of mostly private-sector jobs by directing additional federal money into youth and young adult employment, child care, afterschool programs, and in-home health services for the elderly and disabled, and training for those serving America's youngsters, oldsters, and disabled. These jobs, which are largely provided by nonprofit groups and small businesses, are paid for by programs that are currently being cut by state and local governments.

These programs also serve needs where there is almost always more demand than supply. Indeed, the Bureau of Labor Statistics projects that these kinds of jobs will be among the fastest growing in the years to come.[13] Investing in these jobs will help pave the way for long-term economic growth by saving and then creating new jobs with long-term career paths and steady personal income growth.

Federal dollars invested in these sectors will quickly turn into jobs saved and created—and at a lower cost per job than other possible avenues. The reason: They require relatively little federal money per job and often have long-term economic benefits, such as boosting educational performance and reducing long-term health care expenditures by shifting away from institutional care and toward home- and community-based care and by filling important employment shortages.

The multiplier for this spending would be the same as for aid to the states more generally, in the range of 1.0 to 2.5.[14] These jobs saved and created fall into the four broad categories outlined directly below.

Expand national service employment

Young people are experiencing by far the highest levels of unemployment. Eighteen- to 19-year-olds have an unemployment rate of 25.6 percent, and 20- to 24-year-olds are suffering an unemployment rate of 15.6 percent. High unemployment can push a young worker off the career path by denying her the opportunity to develop and accrue the basic job skills necessary to succeed in life.

Investments in national service programs such as AmeriCorps, VISTA, YouthBuild, and the youth service and conservation corps could create full-time positions for young people. These investments would in most cases be paid for jointly by public and private resources. Investing $625 million in supplemental fiscal year 2010 funds for these programs could create 42,000 new jobs. An additional $830 million in fiscal year 2011 could create 60,000 more jobs. Most of these jobs would be in non-profit organizations, as our colleagues Melissa Boteach, Joy Moses, and Shirley Sagawa demonstrate in their recent paper, "National Service and Youth Unemployment Strategies for Job Creation Amid Economic Recovery."

Increase private and public sector employment in child care and afterschool programs

Jobs are disappearing as states reduce access to subsidized child care. Maine, Arkansas, and Vermont, for example, have changed eligibility standards, while Florida and New Hampshire have increased parent co-pays. In 2008, 400,000 children nationwide were on waiting lists for services and many more were eligible.[15]

Options for funding jobs in this area include increases in the federal Child Care and Development Block Grant program and expanded eligibility for children to enter the Head Start program. These two funding streams are currently relatively small, but they could handle significantly more than they currently receive.

The Child Care and Development Block Grant program was funded at $5 billion in fiscal year 2009, which ended in September this year, plus $2 billion in ARRA funding in 2009. This program could handle another $10 billion in the coming fiscal year. Head Start received $7.1 billion in fiscal 2009 and was allocated $2.1 billion through ARRA, but could quickly absorb another $2.2 billion.

Additional resources could help bolster employment in afterschool programs as well. The 21st Century Community Learning Centers could easily accommodate a doubling of funding at an additional cost of about $1 billion in fiscal 2010.

Boost private- and public-sector employment in elderly and disabled services

The federal government could boost employment by providing additional home- and community-based services for the elderly and disabled, while encouraging states to restructure programs away from expensive institutional care models. Nearly 100,000 individuals are on waiting lists for community-based services. In-home health care for the elderly and physically disabled and community-based care for people with developmental disabilities are distinct policy areas, but both rely on similar funding streams.

Options for funding jobs in these areas focus on Medicaid, a joint federal- and state-funded government health care program for low-income Americans and the disabled. Medicaid state plans, waivers, and demonstrations—such as the Home and Community Balanced Incentives Act, S. 1256, which would increase Federal Medical Assistance Percentages for home and community-based care services—could be funded at higher levels. Some of the additional funds would be offset by reduced institutional care, but that would relieve pressure on other funding streams, resulting in net job creation in the current environment of severely constrained state and local spending.

Make additional investments in training for health professionals

Even before the expected passage of a sweeping health care reform package by Congress later this year or in early 2010, there already exists demand in excess of supply for a broad range of health care professionals. Boosting targeted health care workforce policies that can be easily expanded will provide an immediate surge of necessary well-trained health care workers.

There are two immediate steps Congress could take to address the nation's massive nursing shortage. There are currently 116,000 registered nurse positions unfilled at U.S. hospitals, and 100,000 vacant jobs in nursing homes. Lack of nursing faculty and financial assistance are major bottlenecks to increasing the number of nurses. More than 50,000 qualified nursing school applicants were rejected in 2008 largely due to faculty shortages.

The federal government's Health Resources and Services Administration nursing programs provided loan, scholarship, and programmatic support to 51,657 student nurses and nurses in fiscal year 2008. Increasing funding for workforce programs would provide training for nursing faculty and make nursing training financially viable for more nursing students and nurses seeking advanced practice training. These steps would help fill jobs that we know are currently vacant and pay long-term dividends by helping to meet one of our critical health care needs—a severe shortage of health care professionals. More than 30,000 new faculty and students are realistic in a one-year timeframe.

Create community jobs

Congress could implement a new program designed to directly employ people through nonprofit organizations who would work to improve conditions in economically distressed areas. The program could be designed so that funds are distributed through a formula such as a block grant, a competitive bidding process, or some combination. Regardless of the funding distribution method, restrictions on the use of funds would have to include a prohibition against using the money to displace or subsidize current workers.

A direct effort to spur employment at the local and community level, specifically targeted at the most needy areas, would have several positive benefits beyond an immediate creation of jobs. Income generated from community-based jobs will stimulate the local economy and drive demand. These investments also have longer-term benefits, among them:

- Job opportunities that foster participants' readiness to work and impart job-related skills that will make participants in these programs more employable once the economy has turned around, sustaining long-term local economic development

- Strengthened social and economic infrastructure in hard-hit communities by filling gaps in public services and providing the resources and manpower to rebuild community institutions

- Expanding the capacity of community-based nonprofit groups to contribute to a more productive, stable national economy.

Areas of activity for these newly hired workers could include some of the other options in this section such as child care, Head Start, and cleaning up foreclosed homes, or the areas could be expanded to supporting programs aimed at hunger alleviation or fixing playground equipment.

The Economic Policy Institute offers a detailed $120 billion, three-year plan that focuses resources in ways similar to those suggested here.[16] The Center for Community Change and the AFL-CIO have also described and embraced this idea. The multipliers for this kind of spending would be in the range of 1.0 to 2.5.[17]

Jobs in needed infrastructure investment

Although the American Reinvestment and Recovery Act included substantial investments in infrastructure, with much of the funding yet to be spent, there are two other areas of infrastructure spending where there is substantial need and relatively quick implementation is possible. The first would involve efforts to generate new jobs by refurbishing foreclosed homes. The second would focus on rebuilding and improving our nation's school buildings.

The Department of Housing and Urban Development (through the Federal Housing Administration), Fannie Mae, and Freddie Mac are expected to gain control of about 250,000 homes every year during the course of the current foreclosure crisis. Many of these homes will either not be sold quickly or will be sold to speculators. Both contain risks to the housing stock—as vacant homes often suffer from significant deterioration through theft and vandalism.

There is, however, an opportunity here to address long-term affordable housing needs, energy efficiency, and job creation. Properties can be rehabilitated subject to energy efficiency standards and then pooled into geographically concentrated portfolios that would be sold off as rental units with an affordability requirement. The Laborers' International Union of North America estimates that an investment of just $7,500 per house in energy retrofits on HUD-owned portfolios would generate more than 50,000 residential construction jobs each year.

Modeled in part after the Neighborhood Stabilization Program first proposed by CAP, this new program recognizes that the highest and best use of many foreclosed properties is as rental units rather than put up for sale one property at a time to potential homeowners. By rehabilitating and greening these properties and then finding tenants for the homes in the portfolio, the final purchasers can acquire rental portfolios that are already generating cash flow on the one hand and have reduced operating costs on the other. A forthcoming

Center for American Progress report will provide more details regarding this proposal for strategic disposition of HUD and GSE properties.

In addition, close to a third of our public schools have one or more temporary buildings housing an average of 160 students each, according to the National Center for Education Statistics. This is true for more than half of all schools in California, Florida, Hawaii, Louisiana, New Mexico, North Carolina, Texas, Utah, and Washington. The American Society of Civil Engineers estimates that it will cost between $127 billion and $268 billion to bring facilities to a good condition.

A one-time $20 billion investment in this area would immediately create hundreds of thousands of jobs and provide a substantial boost to local economies. Such an infusion could be put toward existing maintenance and repair needs, which would help eliminate years of deferred maintenance. It could also be used for green construction, upgrading energy efficiency, and modernizing thousands of schools around the country.[18]

The multipliers for this investment would be 1.57 according to Mark Zandi and 1.0 to 2.5 according to the Congressional Budget Office.[19]

Reducing the numbers of unemployed

The best way to lower the numbers of unemployed Americans is, of course, to create jobs. There are, however, other options. Unemployment can be reduced, for example, by creating openings for the unemployed by encouraging early retirement. This is common practice in negotiated layoffs where workers are represented by unions. Rather than lay off greater numbers of younger, less-well-paid workers, there is an agreement to offer retirement to fewer, more senior, better-paid workers.

Another way to reduce unemployment is to encourage employers to reduce the hours of a greater number of workers instead of laying off a few workers. Policies that encourage this and help the workers receive compensation for their reduced earnings could decrease unemployment even though no new full-time-equivalent positions would be created. Three options we present here include steps to:

- Encourage early retirement to reduce unemployment through the Social Security system
- Encourage job sharing through the tax code
- Save primary and secondary school teachers' jobs by offering early retirement to senior teachers

These steps have strong multipliers as well. Mark Zandi estimates that increased aid to the unemployed has a multiplier of 1.61,[20] which the Center considers a proxy for the benefits of reducing the number of unemployed, as we explain in the table outlining these multipliers on page 33.

Encourage early retirement to reduce unemployment through the Social Security system

Congress can partially address the problems of excess labor supply and the challenges faced by older unemployed workers by allowing workers in 2010 to collect their full Social Security benefits one year early, at age 65. This would encourage people who are nearing the end of their career to retire now, creating job openings for those who are seeking employment and reducing the unemployment rate.

One strength of this idea is that its cost is directly related to its effectiveness. If 1 million 65-year-old workers retire and are replaced by other workers—or were unemployed before retirement—then it would reduce the unemployment rate by more than half a percentage point, but the cost would be high. This level of participation is extremely unlikely, but the cost is less if fewer workers take advantage of the offer. Some workers who would have retired early anyway would receive a windfall, but the cost for this group is relatively small. This option would likely cost much less than $10 billion, making reasonable assumptions regarding benefit eligibility and take-up rates.

The cost would be reimbursed to the Social Security Trust Fund by the federal general fund. To limit the costs beyond 2010 this option should include the stipulation that the retiree's benefit would, in the second year of retirement—which would have been the first year—be essentially the same as what the recipient would have received in that year if the provision had not been enacted.

An additional benefit of this program is that it would allow those who are age 65, unemployed, and finding it particularly difficult to find employment to leave the ranks of the unemployed and enter retirement. There would also be offsetting cost savings from reduced unemployment payments

Encourage job sharing

The unemployment insurance system allows workers to receive benefits if their hours have been reduced, not just if they lost their job, but this program is currently not widely used. The "short-term compensation" program allows workers to receive partial unemployment benefits to compensate for reduced work hours. This program helps employers to retain valuable employees and workers do not have to bear the full cost of reduced hours as some of their lost wages are compensated for. Only 17 states, however, have opted into the termed "short-time compensation" program within their unemployment insurance system.

The challenge is that the programs rules are not clear and the program is not widely known. The short-term compensation program was established as a temporary program in 1982 and made permanent in 1992. However, there were discrepancies in the 1992 legislation that created an "administrative muddle" about what exactly states are allowed to do.[21] The 1982 legislation required that any employer who participated must continue health insurance and retirement benefits, and that the program must have the consent of bargaining representatives in unionized shops. The 1992 legislation, however, did not include those provisions, which has led to a lack of clarity about the program requirements.

Congress should promote nationwide implementation of this program by encouraging the Department of Labor to provide clear guidance on the program. Congress could adopt a technical amendment as part of an extension of the federal Emergency Unemployment Compensation program or another vehicle. Enactment of an amendment would send a clear signal that states should adopt short-time compensation laws as an option for employers. Mark Zandi estimates that the multiplier for this kind of program would be relatively high, at 1.69.[22]

Save primary and secondary school teachers' jobs by offering early retirement

Statutory and contractual requirements generally lead to a "last-hired, first-fired" pattern of reduction in teachers. This pattern does not maximize the number of jobs retained because teachers' pay is tightly linked to their levels of experience. In rough figures, a district needing to cut $800,000 will cut 20 teachers earning $40,000 in salary and benefits rather than 10 senior teachers earning twice as much.

One tactic to combat this usual pattern of reduction in force is to provide an incentive for a limited number of senior teachers to retire. Districts could offer a one-time incentive for immediate retirement. If, for example, four senior teachers respond to the incentive, the district could retain four junior teachers and free up resources to retain or hire additional teachers. The one-time nature of the incentives makes an early retirement policy a useful vehicle for a broadly applied federal infusion of funds with the goal of preserving jobs in financially strapped school districts.

Congress could provide funding for school districts willing to offer such an "early retirement" option while committing to retaining overall teacher staffing levels. The funds should be targeted to areas with the highest unemployment levels.

Support for those hardest hit

Assisting those who have been hit hardest by the Great Recession is both the right thing to do and good for the economy. Those who have been hit hard are unable to contribute to the economy as consumers because they scrape just to get by. Providing needed relief to people who are suffering great economic hardship as they await opportunities to rejoin the workforce is one of the most effective means for spurring economic demand. People in these positions, by force of circumstance, spend what they receive.

There are a number of key provisions that aid unemployed and vulnerable Americans that expire at the end of December this year and should be extended. Directing funds toward the unemployed should continue to be a key goal because these benefits not only help workers avoid hardships but also provide the "biggest bang for the buck" in terms of economic stimulus and pave the way for a more robust economic recovery.

Assisting those who have been hit hardest by the Great Recession is both the right thing to do and good for the economy.

The key pieces of the ARRA economic stimulus package that need to be extended by December 26, 2009 are:

- The 20- to 33-week federal program of Emergency Unemployment Compensation until December 2009, with a phase-out through August 2010 for those who qualify in 2009
- The state option to change their laws to qualify for an additional 13 to 20 weeks of fully federally funded Extended Benefits, normally funded 50 percent by the states
- The additional $25 a week in benefits to unemployed workers
- The suspension of federal income taxes on the first $2,400 individuals receive in jobless benefits in 2009
- The 65 percent federal subsidy of the health care premiums for unemployed workers who qualify for COBRA continuation coverage

There are early indications, however, that the take up for the COBRA continuation coverage might be extremely low. Therefore, moving forward, Congress should reconsider allowing states a temporary option to offer unemployed workers Medicaid coverage, with the federal government matching 100 percent of the costs of benefits and administration. This provision was contained in the version of the American Recovery and Reinvestment Act passed by the House of Representatives earlier this year but was left out of the final legislation enacted by the House and Senate and signed into law by President Obama.

Extending unemployment benefits for another year may not, however, be sufficient, especially for the hardest-hit areas of the country. Therefore, Congress should explore fixing the automatic trigger system, and then use this fix to set the timing for when extended benefits expire rather than setting one national expiration date. The automatic trigger system, which is designed to automatically extend unemployment benefits to the long-term unemployed if a state develops high unemployment, does not work—states do not turn off quickly enough. President Obama's fiscal year 2010 budget calls for fixing these triggers and includes $21 billion over 10 years to meet this goal.

The administration has not laid out a specific plan, however, and Congress should do so. Adopting triggers that turn off extended benefits would benefit states that are the slowest to recover. Extending unemployment benefits to the long-term unemployed has a multiplier of 1.61 according to Mark Zandi[23] and 0.8 to 2.2 according to the Congressional Budget Office.[24]

Creating the conditions for a strong and sustained economic recovery

Creating jobs in the short term must be our priority, but our efforts should also pave the way for a strong labor market for years to come. The economic recovery of the 2000s was the weakest in the post-World War II era in terms of job gains and income growth, leaving the typical family worse off in 2007, the year the 2000s recovery peaked, than they had been in 2000, at the prior economic peak after the expansion of the late 1990s.

One of the key elements to our economy's future competitiveness will be how we adapt to the changing nature of the economics of energy. Retooling our economy to operate on a foundation of clean, renewable, and efficient energy will not only make U.S. businesses and workers more competitive in the long term, but these steps also will provide new demand for skilled workers in the U.S. economy today.

One of the key elements to our economy's future competitiveness will be how we adapt to the changing nature of the economics of energy.

The Recovery Act primed the pump for private investment in clean-energy technology, dedicating over $70 billion toward energy efficiency retrofits ($25 billion), renewable energy incentives ($6.4 billion), advanced manufacturing of next-generation automotive technology ($3.3 billion), and smart and sustainable infrastructure projects for transportation ($17.7 billion) and the electricity grid ($11 billion). The next step is to build on that success and expand the reach of these investments while continuing to create good jobs.

The job-creating, clean-energy proposals presented here build on the most effective efforts within the Recovery Act, and try to learn from that experience to concentrate investment in the areas that will be fast acting, easily administered, and concentrated in areas of expected job creation, while still moving the country forward for the long term.

A new "green bank"

A new "green bank," formally known as the Clean Energy Deployment Administration, or CEDA, is included—in slightly different forms—in both the House and Senate versions of the energy and climate bill under consideration in Congress. The goal of CEDA is to provide a flexible financing institution for a range of clean-energy projects in the United States that focuses on projects at the critical stage—sometimes called the "valley of death"—between a pilot project and commercialization. CEDA would provide a range of financing from loan guarantees to revolving loans to direct grants to help bridge this financing gap.

Ideally, this new green bank should be independent from the Department of Energy but working closely with DOE to give it significant autonomy and independent governance, while allowing it to still benefit from the scientific and other expertise of the full federal government. A private-public partnership operating with agency oversight would allow CEDA to have the flexibility and long-term stability to ensure broad private-sector participation and confidence. Locating the program outside DOE would also ensure that nontypical energy projects, such as biomass digesters and other projects typically associated with the Department of Agriculture, would be given fair consideration.

CEDA could be seeded with the $10 billion in existing loan guarantee funds currently situated at DOE, but this funding level should be matched with $10 billion in additional funds for a range of other options, among them tax credits, direct grants, or revolving loans. It is worth noting that the existing $10 billion for loans should be paid back and thus is scored at about $3.6 billion, rather than the full $10 billion. The Center for American Progress has provided a plan that develops the details and policy architecture to ensure that a green bank can fuel not only near-term recovery, but also sustained and sustainable long-term growth. The report "The Green Bank" by John D. Podesta and Karen Kornbluh lays out many of these suggestions.

Establish a fund to encourage green investments

A number of studies over the past five years highlight the fact that the United States is home to thousands of component manufacturing companies that are already making parts that are identical or substantially similar to the parts that make up many clean and efficient energy systems. These companies, many of which are small to midsize, are largely unable to raise the capital needed to invest in retooling their facilities or retraining their workers to take advantage of emerging clean-energy markets. Compounding this problem are supply chains in this emerging alternative energy sector that are fairly new and unorganized, which makes it difficult for small and midsized components manufacturers to demonstrate their creditworthiness to potential lenders

The Investments for Manufacturing Progress and Clean Technology Act, or the IMPACT Act, introduced by Sen. Sherrod Brown (D-OH) and currently before the Senate Commerce Committee, would provide resources to these kinds of companies through a $30 billion manufacturing revolving loan fund that would provide funds for them to become more energy efficient, retool facilities, and retrain workers to produce clean-energy products. The legislation would also provide new funding to the Manufacturing Extension Partnership program run by the Department of Commerce's

National Institute of Standards and Technology, which gives technical assistance to manufacturing companies hoping to become more efficient and competitive.

The cost for this program would be about $30 billion and an additional $1.5 billion for the Manufacturing Extension Partnership. However, this is a loan program and so monies should be flowing back to the states, with interest once the funds have been authorized. The Apollo Alliance estimates that the Investments in Manufacturing Progress and Clean Technology Act would generate more than $100 billion in revenue for clean-energy businesses while creating 680,000 direct manufacturing jobs and nearly 2 million indirect jobs over five years.[25]

Tax provisions to spur job creation

Tax cuts are not as direct, fast acting, or reliable a way to create jobs or spur growth as the other options presented in this paper. Nevertheless, as a politically viable means of boosting jobs growth in the private sector with a minimum of administrative overhead, they are sometimes the best option. They also can, in some cases, be designed to pay for themselves over a period of time.

In this section we present eight possible tax options to boost job creation. Specifically:

- A deficit-neutral partial tax moratorium
- A "cash for clunkers" program, this time for retrofitting residential and commercial buildings
- Industrial and commercial retrofit incentives
- An Advanced Energy Manufacturing Tax Credit
- An extension of renewable energy tax credits
- A job-sharing tax credit
- Reform the Low Income Housing Tax Credit
- Increase and target the New Markets Tax Credit

Let's consider each of these eight job-creating tax options in turn.

A deficit-neutral partial tax moratorium

Most U.S. taxpayers are hurting one way or another these days. If they're not unemployed or have seen their compensation drop, they most likely have a lower net worth than they did just a few years ago as their housing values and retirement accounts have lost value. This is no doubt a major cause of reduced demand in the economy this year.

One way to spur job creation is to create demand in the economy so that businesses have customers and hire people and make investments in response to that demand. And one way to create demand is to put money into people's pockets so they have the money to spend. Expanding unemployment benefits does this particularly well by targeting funds at people who are likely to spend. Most people, however, are not unemployed, but they are cautious about spending—both because of declining asset values and perhaps lower earnings and also because of the fear of future job loss. Policymakers can encourage these consumers to open their wallets through policies such as the Making Work Pay tax credit in the Recovery Act, which increased take-home pay for most Americans.

Another approach to promoting spending by those who have income would be to offer a partial tax moratorium to taxpayers below a certain income level. Personal income taxpayers could be offered the opportunity to pay $2,000 less in their 2009 federal income taxes but would be required to pay the sum back over the next three years. This idea has the virtue of costing very little overall for federal budget purposes since it is simply deferred taxes.

Although it is too late to change the 2009 tax forms, this option could still be used because it is voluntary. A very simple supplemental form that would allow for the recalculation of the last few lines of the tax form—the lines where taxes owed and taxes paid through withholding are summed up—could be designed and made available over the Internet. That form would allow for the subtraction of up to $2,000 from the total tax line (line 60 on the 2009 1040). Then the amount of the refund or payment would be recalculated accordingly (lines 72-76).

Another approach to promoting spending by those who have income would be to offer a partial tax moratorium to taxpayers below a certain income level.

Although having the form available only over the Internet would to some extent limit the reach of this proposal, since it is voluntary there would be no problem of improper calculation of taxes. This option should be made available only to those with incomes below $150,000 to target it where it would be the most effective.

Tax forms for 2010 and beyond would have a line for repaying the owed amount. The implementation of this provision would not be substantially different than a variety of other tax items that get carried over into future years.

Although it is impossible to know for sure, it's likely that many taxpayers who would bother to do this would be people who wish to spend the $2,000 as opposed to saving it—thus the positive impact on the economy would be greater than a universal tax cut. And over the next four years there would not be as substantial a contribution toward paying down the federal deficit. Plus, there would be an increase in demand and jobs created.

"Cash for clunkers," this time for retrofitting residential and commercial buildings

Investing in home energy efficiency can generate jobs while saving consumers money. Demand for more efficient home appliances boosts manufacturing and creates more installation jobs. Home retrofits offer high labor content, wide geographic impact, and high visibility at the community level. Energy efficiency can also be implemented with low per-project capital investments, and few technology barriers, using existing skilled workers in the hard-hit building and construction trades, and providing significant benefits to both local retail and domestic manufacturing industries.

The lasting legacy of these kinds of investments would be an ongoing stream of measurable consumer savings and environmental, energy efficiency, and energy security benefits. The fundamentals of retrofits are strong, but programs must be designed to balance the need for speed, simplicity, effectiveness, and accountability.

A two-tier program should be launched to create jobs and transform the market for energy efficiency. The first tier would promote immediate investment in energy efficiency, through super-efficient appliances and simple home improvements. The second tier implemented in parallel would increase consumer awareness of comprehensive whole-home energy audits and retrofits, which create substantial and sustained numbers of good jobs in the construction and manufacturing sectors.

Cash for clunkers for appliances

The simplest, quickest, and most easily measured and managed strategy to improve energy efficiency would be to establish a consumer-focused point-of-sale program to provide tax credits for the purchase of super-efficient products, akin to the successful cash for clunkers program enacted earlier this year for aging automobiles. This has clear benefits in operating through existing distribution channels such as big-box retail chains, and providing no ambiguity in administration. This "cash for clunkers for appliances" program could be constructed as a direct rebate or through a tax incentive by expanding existing consumer tax credits for energy efficiency under Section 25C of the tax code.

Under current tax law, homeowners can receive a tax credit covering 30 percent of material costs for certain energy-saving home improvements. This benefit should be increased to cover 50 percent of appliance costs, or 60 percent of the costs of energy-saving enhancements to the building envelope like duct sealing or attic insulation—improvements that are directly related to the purchase of more energy efficient heating and air conditioning systems. In addition, enhanced tax credits or rebates should apply to the costs of labor as well as materials for both homes and commercial buildings, to provide the greatest incentive for job creation.

The cap on this program should be raised from the current $1,500 per household to $3,000 or $4,000 for qualifying super-efficient appliances and deeper investments in building systems. But the list of investments covered under the tax credit should be expanded to include common energy-consuming goods such as refrigerators, dishwashers, washing machines, and driers, as well as major home energy systems such as hot water heaters and heating, ventilation and air conditioning systems, advanced light-emitting diode lighting systems, insulation, air sealing, ductwork, window and door replacement, and comprehensive energy auditing.

To make this tax credit workable, it should be made transferable from homeowners to contractors, utilities, or financial institutions, and ideally made refundable as well. A simple third-party inspection would also need to be incorporated into the program to ensure that the credit is leading to quality work and real energy savings. The CAP paper "Rebuilding America" by Bracken Hendricks and Benjamin Goldstein discusses these and other job-creating incentives in greater detail.

"Home Star" whole building deep energy efficiency retrofits

From both an energy and jobs perspective the greatest benefits of efficiency come from the implementation of a so-called "whole home" approach, which includes strong measurement and verification standards alongside energy efficiency improvements. This strategy establishes a baseline of energy use, identifies the most cost-effective energy-saving investments for a given property, and implements a retrofit plan accompanied by measurements to ensure proper installation and guarantees that energy savings potentials are realized.

The "Home Star" approach can achieve very deep cuts in energy use and lower energy bills in American homes.

This approach can achieve very deep cuts in energy use and lower energy bills. It offers homeowners and the public the greatest certainty that savings are realized, and it also prioritizes labor-intensive and job-creating strategies. The certainty over measurable energy savings are essential for the orderly development of future markets for utility-based demand reduction programs, carbon emission credits, and a range of critical policies that will be entering the market for energy efficiency in the coming years. This approach would implement the actual structure that is emerging in this new market for energy efficiency retrofit products and services, hastening the creation of hundreds of thousands of sustained new jobs over the long term.

Such a program, however, is more complex both to administer and verify than simple rebates. That's why a program for promoting whole home energy retrofits should be launched in conjunction with a point-of-sale stimulus incentive such as our proposed cash for clunkers for appliances. Establishing a whole home retrofit pilot program would build capacity within the industry for measurement and verification, educate consumers, and take near-term steps to transform the residential market for home energy efficiency over time. It is critical for the long-term success of these efforts that a more sustained commitment be launched through such a pilot simultaneously with any appliance-based program to get the greatest jobs benefits today while building an industry that can sustain substantial new jobs and investment over the coming decade.

This "Home Star" program could offer a transferable tax credit to homeowners for 50 percent of retrofit costs, including labor and materials. The incentive should be indexed to the level of energy efficiency improvement, providing $4,000 for a 20 percent energy efficiency improvement, and $1,500 for each additional 5 percent efficiency gain up to

100 percent energy savings. This benefit could gradually decline to levels proposed in the Retrofit for Energy and Environmental Performance program contained in the current energy bill now before Congress. The REEP program could also be extended to cover commercial property and small businesses for even greater job creation.

Total cost of this combined program would be around $10 billion over the next year, but program costs are highly scalable. Such a program would create jobs in the construction, manufacturing, and retail sectors. In the CAP report, "Rebuilding America," we calculate that a sustained program to retrofit 40 percent of America's homes and small commercial buildings would create 625,000 sustained jobs for the next 10 years and drive half a trillion dollars of new capital investment into America's built environment.

Industrial and commercial retrofit incentives

The U.S. manufacturing sector is suffering the most from the Great Recession. An industrial retrofit program aimed at helping small and midsize manufacturing companies—with fewer than 500 employees—purchase efficient HVAC and similar energy systems would bring down their energy bills while providing a market for a number of U.S.-made goods.

Unlike the residential sector, the industrial sector is not included in most of the building retrofit policy proposals now before Congress or enacted as part of the Recovery Act. Providing incentives, such as rebates or tax credits, to companies that purchase a range of technologies including HVAC systems, combined heat-and-power systems, and industrial lighting systems—all of which are manufactured in the United States—would create jobs in the construction sector in the short term, provide new markets for manufactured goods, and ultimately increase firm competitiveness by driving bills down.

Industrial combined heating-and-power systems cost in the range of $30,000 each; industrial HVAC systems cost about $10,000 apiece. Any tax benefits enacted by Congress for industrial customers should mirror those permitted for residential customers, with a 50 percent rebate on allowable materials and labor. For each $1 million of investments in energy efficiency between 11 and 14 direct construction jobs are created depending on the complexity of the retrofit.

For commercial and industrial HVAC and other mechanical systems, the depreciation schedule for new capital investments should also be designed to match the life of the asset rather than the life of the property, to create further investments in manufactured energy technology and increase demand for U.S. workers.

Advanced Energy Manufacturing Tax Credit

Section 1302 of the American Recovery and Reinvestment Act authorized $2.3 billion to be spent on the Manufacturing Tax Credit created under section 48C of the Internal Revenue code. This provision provides an investment tax credit to cover 30 percent of new, expanded, or re-equipped advanced energy manufacturing projects, including wind and solar, advanced batteries, and other clean technology. This investment under ARRA supports development of 200 to 300 projects—each leveraging 70 percent of their investment from the private sector—thereby driving $7.7 billion in new domestic investment in clean-energy manufacturing as a result of this program.

But there is even greater demand for this program. The initial solicitations for this funding under ARRA attracted proposals totaling close to $25 billion in potential investment, more than 10 times the authorized funding. Expanding this program would create and preserve jobs, while positioning U.S. workers to be more competitive in the emerging clean-energy market.

Extension of renewable energy tax credits

The Production Tax Credit is an important tool for driving continued growth and investment in a domestic renewable energy industry. This tax incentive provides a credit to renewable energy producers that can be used by investors in wind farms or other major projects. But with the collapse of the appetite for tax credits as part of the Great Recession—other companies don't need to purchase these tax credits from young and unprofitable alternative energy companies because they, too, lost money over the course of the recession—the effectiveness of the Production Tax Credit, which had been a useful tool for project finance of wind and solar projects, dramatically declined.

In the Recovery Act, the Production Tax Credit was modified to offer grants in lieu of tax credits in order to provide 30 percent of eligible project costs. This temporary fix to the policy has helped restart investment in alternative energy projects. There is evidence this strategy has worked tremendously well. In 2008, investments in alternative energy projects had collapsed due to shrinkage of Production Tax Credit-driven tax equity investments to $2.5 billion that year from an anticipated $8 billion the previous year. With the fix in ARRA, the first four months of 2009 alone saw investment rebound to $3.6 billion, more than the entire year's investment in 2006, and a major rebound for the industry.

Because of these reforms, in 2011 over a gigawatt of new wind projects are already slated to come on line, the equivalent of several midsized coal-fired power plants. With wind turbines typically ordered 9 to 18 months ahead of project development, clean-energy manufacturing workers need sustained project developments of this magnitude to stabilize the industry. In the wind power industry, where 53 percent of turbine investments flow to domestic manufacturers, and 63 percent of project costs are U.S. based, this is a solid investment in domestic job creation.

Extending the cash grant fix of the Production Tax Credit for another year through 2011 would help stabilize this critical industry and preserve domestic manufacturing jobs. The one-year extension of the Production Tax Credit in 2008, which extended the credit to businesses and individuals who installed the systems, cost $5.5 billion. In addition, manufacturers of component parts could be added as qualified recipients of this tax incentive, to drive the benefits further up the supply chain and increase incentives for domestic manufacturing.

Job-sharing tax credit

A tax credit could be used to promote reducing employees' hours in lieu of laying off workers. Under this option, workers who have their hours reduced at companies that do not reduce total employment would not see a pay cut. As suggested by the Center for Economic Policy Research, this credit would go to the employer in return for employee compensation not being reduced despite the reduced hours—with the credit capped to skew the benefits to lower-paid workers while containing the costs.[26]

Although the employer doesn't have any direct financial incentive to forego layoffs in favor of reducing hours—the employer gets the same dollar value out of either the tax credit or paying lower compensation costs by laying the worker off—for employers that wish to maintain the morale of their workforce and avoid the costs of rehiring when business improves this does create a cost-free—to the employer—way to accomplish those two objectives.

To the extent the job-sharing tax credit does not actually change employer behavior, the funding would still work to maintain the wages of employees whose hours have been reduced—benefiting the economy in much the same way as enhanced unemployment compensation (as described above).

If the average tax credit is $2,000, then an outlay of $42.9 billion in tax credits would lead to 1.3 million jobs.[27] The multiplier effect would be similar to the short-term compensation program at 1.69.

Reform the Low Income Housing Tax Credit

The $9 billion annual market for Low Income Housing Tax Credits has dried up because Fannie Mae, Freddie Mac, and many large banks that are the biggest investors in these tax credits do not currently have any tax liabilities and are unlikely to have any in the near future. Until recently, the LIHTC program was the single most significant source of capital for creating or renovating long-term affordable rental housing for working families. It has brought in $7.5 billion to $10 billion each year in private investment, which resulted in 115,000 to 150,000 new or renovated rental units each year of late. Between 200,000 and 300,000 construction jobs annually are also at risk, along with tens of thousands of maintenance and management jobs.

Now, without the funds provided by the sale of the tax credits, shovel-ready projects across the country are missing a critical source of funding that makes possible getting construction and permanent financing for these deals. Meanwhile, demand for these affordable rental units continues to exist, despite vacant and foreclosed homes and vacancies in high-end rental units. The gap between area rents and rents affordable to lower-income families remains enormous, and vacancy rates in affordable units remain under 5 percent by most surveys.

Between 200,000 and 300,000 construction jobs annually are also at risk, along with tens of thousands of maintenance and management jobs.

Several consensus changes to the LIHTC program resulting from CAP's convening of key players in the LIHTC industry will make it able to once again attract private capital to these projects, enabling shovel-ready developments and renovations to begin and creating decent construction jobs—in addition to much needed affordable rental housing.

These changes include:

- Extending for another year the exchange program that lets state finance agencies exchange a portion of their LIHTC allocation for cash from the Treasury Department
- Expanding eligibility for the tax credits to many companies in underserved areas, which can bring in tens of thousands of new potential investors
- Adding a five-year carryback to encourage participation by investors otherwise deterred by the uncertainty of 10 straight years of positive taxable income

As noted, in recent years investors have funneled $8 billion to $9 billion in private investment to LIHTC projects, but in 2009 it is likely that only half that much will be invested. The proposals, if enacted and successful, might bring investment and public capital levels back up to the $7 billion level in the near term. While the proposals have not yet been "scored" for budgetary purposes, under almost any scenario the federal treasury will expend less for LIHTC investment than was contemplated in 2007 when the economic downturn began.

Moreover, if enacted, responsible estimates are that between 60,000 and 100,000 jobs will be created or preserved in the very near term annually by propelling forward construction projects that have been fully reviewed by state housing agencies with a 20-year record of reviewing LIHTC requests. Because the LIHTC process has such a long history and track record, it is one of the few stimulus programs that can gear up quickly and reliably around the country, while maintaining checks in place against waste, fraud, and abuse.

Increase and target the New Markets Tax Credit

Congress could increase 2009 allocations for the New Markets Tax Credit and reauthorize the program for 2010. The NMTC program provides a credit against federal income taxes for equity investments in designated Community Development Entities that use the equity to finance investment in low-income communities. The Treasury Department received applications for $22.5 billion in tax credit allocations, although it has only $5 billion in credits to allocate for 2009, including the $1.5 billion added by ARRA, indicating there is four times as much demand by investors for this tax credit than is currently authorized.

Retroactively expanding the New Markets Tax Credit allocation would immediately improve investment in communities that have been hit the hardest by the Great Recession. The additional allocations could also be specifically targeted to projects that have the greatest potential for immediate job creation, such as capital improvements and business expansions. The New Markets Tax Credit program is set to expire after this year. Congress could extend the program to ensure that the economic benefits do not lapse.

Funding job creation

Many of the provisions described in this report would cost the federal government substantial amounts of money. While these dollars would be well spent in the interest of creating jobs to spur the economy and in turn creating a strong economy that will ultimately be the path to lower federal budget deficits, the concern for the nation's longer-term fiscal situation is well placed. Thus there is substantial interest in ensuring that the costs of new job creation programs don't add to the federal debt in the long term.

The way to achieve this is either reducing future federal spending or tapping new sources of revenue in the future to pay for job creation today. Some of the ideas for offsetting the costs include:

- Using a portion of the estimated $300 billion remaining in the Troubled Asset Relief Program accounts that have yet to be tapped and may not be needed as well as amounts repaid to TARP for deficit reduction

- Adopt a tax on the highly profitable financial services industry to raise $150 billion a year, as suggested our recent publication, "Note to the Financial Industry: Time to Put Up or . . . Well Just Put Up." Such a tax could be put in place on a temporary basis to last until the costs of the job creation measures are recouped.

Enact other tax increases on a temporary basis to recoup the cost of job-creation measures. There are a variety of measures that have been suggested that would raise sufficient revenue to pay for a robust investment in job creation. One promising proposal is the Obama administration's effort to reform the taxation of multinational corporations.

Conclusion

Enacting policies to pave the way for economic growth and job creation is a top priority of Congress and the Obama administration. The plan we outline in this paper provides a menu of ideas that could boost employment in the short term, build on our goals for establishing long-term economic vitality, and pay for this investment over the long term.

If we do nothing, we risk not only missing an opportunity to get the nearly 16 million unemployed back to work quickly, but also harming our economy over the medium to long term. The deficit will rise regardless of whether Congress approves additional spending; the question is whether we will make the investments today to get the economy back on track or whether we will allow the scourge of unemployment to linger.

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Appendix

Multipliers used to estimate impact of proposals

Neither the Congressional Budget Office nor Mark Zandi provide a breakdown for the specific kinds of spending we propose, so we use their published multipliers for more general categories and apply them to our proposals.

	Congressional Budget Office	Mark Zandi
Directly Boosting Employment and Reducing Unemployment		
Funds to states, localities and schools to reduce job losses and maintain valuable services	We assume all direct job creation proposals use the multiplier for purchases of goods and services by the federal government of 1.0 to 2.5	General aid to state governments multiplier of 1.41
Targeted Job Creation in Sectors with Special Investment Needs		
Create Community Jobs		
Jobs in Needed Infrastructure Investment		Increased infrastructure spending multiplier of 1.57
Reducing the Numbers of Unemployed		Extending UI benefits multiplier of 1.61
Support for Those Hardest Hit	Use the multiplier for transfer payments to individuals of 0.8 to 2.2	Extending UI benefits or temporary increase in food stamps multipliers of 1.61 to 1.74
Making the Recovery Strong and Lasting		
"Green Bank" (the Clean Energy Deployment Administration)	The CBO includes the energy efficiency and loan programs in the purchase of goods and services category, with a multiplier of 1.0 to 2.5	Increased infrastructure spending multiplier of 1.57
Establish a fund to encourage green investments	1.0 to 2.5	
Tax Provisions to Spur Job Creation		
Deficit Neutral Partial Tax Moratorium	Use the tax cuts for low and middle income people multiplier of 0.5 to 1.7	Payroll tax holiday multiplier of 1.29
Cash for Caulkers	The CBO includes the energy efficiency and loan programs in the purchase of goods and services category, with a multiplier of 1.0 to 2.5	Increased infrastructure spending multiplier of 1.57
Industrial and Commercial Retrofit Incentive		
Advanced Energy Manufacturing Tax Credit		
Extension of Renewable Energy Tax Credits		
Job Sharing Credit		Temporary federal funding of work-sharing program multiplier of 1.69
Reform the Low Income Housing Tax Credit		Housing tax credit multiplier of .90
Increase and target the New Markets Tax Credit		Increased infrastructure spending multiplier of 1.57

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