Center for American Progress

Jobs for Today, Jobs for the Future

Proposals for Sustained Employment Growth and Broad-based Economic Prosperity

John D. Podesta December 3, 2009

The U.S. economy is officially now in "recovery"—our nation's gross domestic product grew by 2.8 percent in the third quarter of 2009, and growth seems to be continuing—but we still face the challenge of how to create American jobs. Since the start of the Great Recession in December 2007, we have not seen net job growth in a single month. There are increasing indications that even if the economy continues to grow it will happen too slowly to absorb quickly the 16 million people out of work and searching for a job. This in and of itself could stall the nascent recovery, as unemployed consumers are unable to consume at the level businesses need to see before they will hire and expand.

Congress and the Obama administration made enormous strides toward a solution to this problem, most notably by passing the American Recovery and Reinvestment Act earlier this year. At the same time, the Federal Reserve has eased credit conditions and continues to keep interest rates low to encourage investment. These actions should be applauded. The fact that we are now emerging out of the Great Recession and not mired in a second Great Depression should not be taken for granted.

But sustained job creation is a long-term problem that cannot be solved with short-term solutions alone. The Federal Reserve believes it may take years before unemployment numbers come down to acceptable levels. Focusing only on short-term and emergency job creation, year after year, will put us in a position of ignoring the long-term investments we need to get our economy back on track. A combination of short- and long-term strategies will begin to ease the unemployment burden on the 16 million people now out of work and on our economy, and will truly allow this country to move forward on a more stable and sustainable economic path.

In short, we must act today to create jobs now and avoid the specter of another "jobless recovery," but we also must act today to create jobs for next year, the coming decade, and beyond.

The Center for American Progress proposes a wide-ranging set of policies to create jobs. These proposals include:

- Directly increasing employment through programs such as the National Service Corps and targeted assistance to states and cities.
- Providing tax incentives intended to spur job creation in the private sector.
- Supporting the growing ranks of job seekers and communities that have been hardest hit by the current recession.

But our focus goes beyond short-term job creation strategies. If we are to move beyond the lingering pain of the Great Recession into truly sustainable, long-term economic growth, we will need to make sustainable, long-term investments.

First and foremost, this means investing in low-carbon, low-waste solutions to our current energy and climate crisis. Investing in renewable and efficient energy solutions moves our country toward greater energy independence and environmental stability. These investments will create jobs across a range of occupations and sectors—from innovation and manufacturing to installation and maintenance.

A comprehensive clean energy investment agenda has the potential to create 2.5 million jobs over the next 10 years while putting the United States on a path toward greater climate stability, energy security, and economic prosperity.

There is much we can do immediately as part of an economic recovery strategy. The Obama administration and Congress should prioritize the following policies to drive job creation in the near term while making structural changes to create the next generation of jobs in the clean energy economy.

The Green Bank

America's long-term competitiveness depends on our continued ability to invent and commercialize new technologies. Right now, we are ceding the race to develop and commercialize new clean-energy technologies to our economic competitors. Germany, Spain, China, and India are making aggressive, strategic investments to develop, deploy, and export new technologies from electric vehicles to solar panels. By recognizing the relationship between clean-energy investments and sustainable economic growth, these countries are laying the foundation for long-term job creation and economic leadership in the 21st century.

The United States is at risk of being left behind. But we know from experience that an initial seed of public funding can enable the launch of a vibrant new industry led by private investment. That is why CAP has proposed a "Green Bank" to provide financing to clean energy and efficiency projects.

Two design elements are critical to ensuring the Green Bank can leverage the investments necessary to develop vibrant clean-energy markets here in the United States. First, the Green Bank should focus on projects that are beyond the pilot stage but have not yet been commercialized. Targeted funding at this stage will help the next generation of clean-energy technologies traverse the so-called "Valley of Death" that has long prevented good ideas from moving from the drawing board to the marketplace.

Second, although the Green Bank should work in close concert with the Department of Energy, it should operate independently and with significant autonomy. A Green Bank operating as a private-public partnership with agency oversight would allow for maximum flexibility and long-term stability to ensure broad private sector participation and confidence.

Proposals for a similar entity—called a Clean Energy Deployment Administration, or CEDA—have been included in both the American Clean Energy Security Act passed by the House and the American Clean Energy Leadership Act pending in the Senate. The Obama administration should work with the Congress to build off these proposals and implement an independent Green Bank, that is focused on pre-commercial technologies. The Green Bank could be funded through the existing DOE loan guarantee fund, remaining funds from the Troubled Asset Relief Program or new appropriations.

The Bank, in turn, should use a variety of financing mechanisms, including loan guarantees, credit enhancement, and other appropriate tools to stimulate private-sector lending and investment in projects that cannot access commercial financing on economically feasible rates and terms. Germany's KfW Privatkundenbank works in this way to fund a variety of renewable energy, infrastructure, and efficiency projects.

The Green Bank will create only a small number of jobs today. But tomorrow's jobs will come from today's innovations. The Green Bank is critical to organizing both the public and private capital required to advance promising technologies from innovation to commercialization. It is essential to ensuring the United States will be a global leader in clean energy. And it is a lynchpin for launching a new clean-energy market that will create the next generation of employment opportunities while encouraging sustainable economic growth.

But an opportunity also exists to create jobs over the near term. To do so, the Obama administration should implement a specific financing program, potentially administered by the Green Bank, to reduce risk for lenders and drive down the cost of capital to spur private investment in energy-efficiency projects that aggregate retrofit demand from multiple residential or commercial buildings. Such an initiative could be funded using a special appropriation of $10 billion to provide a combination of grants and credit subsidies to banks or utilities that commit to projects where multiple buildings would be retrofitted at the same time, and where the program's design allowed for building owners to pay no upfront costs, instead repaying retrofit costs through energy savings.

Cash for Caulkers

Undertaking large-scale, energy-efficiency projects in both the residential and commercial building sectors is the best way to create jobs quickly, and has the added benefit of lowering consumer energy bills. "Cash for Caulkers," otherwise known as the HOME STAR program, would use a tax credit or rebate program to encourage homeowners to buy more efficient home appliances, insulation, and other energy efficient products and services, thereby stimulating U.S. manufacturing and retail sectors. At the same time, HOME STAR would lay the groundwork for a residential energy-efficiency market transformation and provide incentives for homeowners to do whole-building efficiency projects, which can create good construction jobs and substantially reduce consumer energy bills.

The HOME STAR legislation builds upon existing legislation and initiatives that have widespread support from industry, environmental groups, and labor. It is based on the Retrofit for Energy and Environmental Performance legislation that is currently in the American Clean Energy and Security Act and the Senate Building Efficiency Title of the Energy Bill. Incentives are based on either the number of installed measures (SILVER STAR) or the predicted energy savings (GOLD STAR), which creates an incentive for deep retrofits of buildings starting at 20 percent improvements for total energy use, and rising. HOME STAR also includes a cap that prevents the incentive paid from exceeding 50 percent of the actual cost of projects. The legislation now before Congress would authorize the allocation of funds for direct consumer incentives for energy-efficiency products and installation on their existing homes, and for state programs to deliver quality assurance.

A near-term, energy-efficiency jobs plan should minimize strains on existing capacity, complex oversight, and opportunities for fraud or abuse. It should maximize six elements:

- **Job creation,** emphasizing domestic investment and job quality.
- **Speed to market,** avoiding complex rulemaking or new legislation.
- **Simplicity in administration,** using existing channels and authorities.
- **Enforceability,** preventing fraud and abuse with real deterrence.
- **Accountability,** to ensure measureable energy and job quality outcomes.
- **Compatibility** with long term goals and developing markets.

The HOME STAR program could also stimulate homeowner demand through low-cost consumer financing programs that dramatically reduce initial costs and barriers to entry. HOME STAR would include a variety of financing mechanisms, including options that would allow building owners to pay nothing or very little upfront, such as tax credits to contractors or retailers that would allow them to sell products and services at a steeply discounted rate. Opportunities to increase the scale of financing for energy-efficiency retrofits include:

Reduce interest rates on retrofit loans

Building on Fannie Mae's existing unsecured energy loan system, the Obama administration and Congress should fund a program to "buy down" interest rates on unsecured home energy loans that finance the purchase of large energy equipment. American homeowners replace energy equipment such as heating ventilation and air conditioning units, windows, and hot water heaters at a rate of 3 million to 4 million units per year. Shifting this large existing market toward more energy-efficient products is a quick and effective way to improve efficiency.

Today, contractors offer unsecured home improvement loans for energy-efficient and renewable energy products, with a typical energy savings of 20 percent to 40 percent. But this market is small—approximately 5,000 loans per year—because interest rates are 10 percent to 15 percent—too high to be attractive for the typical homeowner. A program to "buy down" these loans would reduce the interest rate on a typical $7,000 loan from 12.99 percent to 6.99 percent at an approximate cost of $1,200 per loan. Loans would be a maximum of $20,000—typical loans are $10,000—with a 12-year term. In the meantime, the Obama administration should direct Fannie Mae—which oversees an existing energy loan program—to reduce its rates, which now range from 11.5 percent to 14.0 percent. This would also lower the cost of a buy-down program.

Recognize efficiency in underwriting criteria

The Obama administration should direct federally insured banks and government agencies involved in home mortgages to promote energy audits in connection with their real estate transactions. These entities should also adopt additional mortgage underwriting criteria that incorporate demonstrable energy, water, and transportation costs into underwriting. Such measures will ensure capital markets fully recognize and incorporate the economic value of energy efficiency into financial transactions.

A similar approach should be taken in the commercial real estate market. On October 30, the Federal Deposit Insurance Corporation, along with other financial oversight agencies, directed financial institutions to undertake prudent commercial real estate loan workouts and not adversely classify borrowers who are experiencing declines in the value of their underlying collateral real estate holdings. The Obama administration could work with members of the Federal Financial Institutions Examination Council and other agencies to recognize investments in commercial property energy-efficiency retrofits as a mechanism for increasing the equity stake in commercial real estate property experiencing declining value and refinancing difficulties.

CAP's Rebuilding America project demonstrates that retrofitting 40 percent of American homes and small commercial property—a goal taken from the city of Chicago—would create 625,000 sustained jobs over a decade, while driving $500 billion of investment into energy saving projects.

National Service

Investments in National Service programs such as AmeriCorps, VISTA, YouthBuild, and other youth corps programs can help the estimated 1.4 million to 5.2 million youth who are out of work earn their high school equivalency degrees while acquiring job skills and training through service. Many of these service projects are in conservation, urban construction, and human services, with a growing emphasis on clean-energy jobs. But they also include employment in other short-term positions that lead to careers in public service and the nonprofit sector more generally. Expanding access to these programs can help alleviate severe unemployment in low-income communities and are proven ways to put youth on the path toward long-term, family-supporting careers.

In CAP's recent report "National Service and Youth Unemployment: Strategies for Job Creation Amid Economic Recovery," we find that investing $625 million in supplemental fiscal year 2010 funds for AmeriCorps, VISTA and other youth corps programs could create 42,000 new jobs, while an additional $830 million investment in fiscal year 2011 could create 60,000 additional jobs. We suggest taking four steps to increase the job creation capacity of these programs in the near term.

- **Expand YouthBuild.** YouthBuild is moving aggressively into the green building field and has a proven track record of enabling hard-to-serve youth, including formerly incarcerated young adults, to complete their secondary education, go on to paid employment or postsecondary education and, perhaps most important, become active civically engaged members of their communities. YouthBuild is currently authorized and funded through the Workforce Investment Act.

- **Create a new dedicated funding stream for youth corps.** The reauthorization of the Workforce Investment Act presents an important opportunity to dedicate new funding to youth corps programs beyond YouthBuild to incorporate other career fields, such as human services and conservation.

- **Expand the AmeriCorps grants program.** Boosting AmeriCorps grants and accelerating modestly the expansion authorized in the Serve America Act would help greater numbers of young people participate at a time when the need has never been greater.

- **Expand VISTA.** Building on VISTA's proven success would create jobs while building the capacity of nonprofits that serve low-income communities. This requires no authorizing legislation, but might demand that the Corporation for National and Community Service increase national grants to larger organizations that will place the VISTAs with affiliates or local sites.

These policies, integrated into a broader job creation strategy, would begin to move America from a jobless recovery to a sustainable and prosperous recovery. There is no other choice.