Center for American Progress Action Fund

Spurring Job Creation in the Private Sector

Three Elements that Any Jobs Plan Should Include

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Introduction

When President Barack Obama announces his jobs plan in September, it should be a plan that matches the scale of the problem. With millions unemployed and job creation sluggish, this is not the time to be timid.

In particular, the president needs to offer much more than proposals that conservatives in Congress might support—tax cuts that wouldn't be nearly as effective as the alternatives. The president's proposals also will have to go well beyond simply extending provisions such as payroll tax cuts that are set to expire. With millions of unemployed Americans, the plan needs to be one that will improve the economy, not just tread water. And the plan needs to create jobs fast, not just lay the groundwork for jobs in the future.

In short, the plan should be a sharp contrast to the economically nonsensical agenda his political opposition is passionately arguing for. The idea that simply slashing government programs and taxes is the key to economic success is a tried and failed strategy. The tax system we have now is a tax system inherited from President George W. Bush. We've seen the results. Economists across the political spectrum agree that spending cuts in a weak economy run counter to everything we know about getting a country out of an economic hole. President Obama should not meet halfway those who only offer economic incoherence. He should take them head on.

The president's plan should be designed to boost private-sector job creation. All of us, from everyday Americans and small business owners to the chief executives of corporations and investors on Wall Street, want private-sector job growth. We all know it's the key to a sound and sustained recovery. And there is plenty of money in the private sector to create millions of jobs. Corporate America is experiencing record profits in the trillions of dollars.[1] The problem is that not enough of that money is going back into our economy in the form of new hires or new investment. So if we all agree that's what we need and there's the money to do it, why isn't it happening? What is the missing catalyst that will spur businesses to start hiring?

What's missing is demand for the goods and services that businesses provide. Businesses are not going to create a new supply of jobs and investment unless there's demand for what they sell. And the consensus is growing that this is what government needs to do—create the catalyst that will spur demand so business will have the need and confidence to create jobs and invest. Concern that the federal government will instead pull even further back as a source and instigator of demand is helping to spark volatile swings on Wall Street, and downward revisions on the outlook for economic growth from international financial institutions and business economists. Even a Republican billionaire bond trader such as Bill Gross of PIMCO has argued that "[c]apitalism in its raw form can't pull us out of this hole."[2]

Does the president need to show how the nation is going to pay for his plan to create jobs? Of course. The plan should include specific mechanisms to pay for the job creation proposals in the 10-year budget window. The Center for American Progress has shown in several reports how this is possible.[3] But economists of all points of view recognize that reducing the federal budget deficit too quickly would be counterproductive to getting the economy going and addressing the nation's fiscal challenges—as well as to the central issue of job creation.

In this issue brief we offer three ideas that should be part of any plan to get our economy back on track so our nation's job creation engine can re-engage. Our proposals are:

- Investing in our nation's infrastructure through existing channels and a new infrastructure bank

- Speeding the housing recovery by reducing the flood of foreclosed homes on the market

- Supporting the retrofitting of homes and businesses to make them more energy efficient

These are not the only things that need to be done. The lack of jobs is a huge problem for the country and these three proposals alone will not solve it. But a credible plan to make substantial progress toward stronger economic growth and job creation must include these steps done at sufficient scale and in the right way. And that's what we propose.

Repairing today's infrastructure, building tomorrow's while creating jobs

Just as there is no disagreement that we need private-sector job growth, there is no disagreement that we need to improve our nation's infrastructure. Business leaders know it. Labor leaders know it. And ordinary Americans see the evidence every day. Combine that need with the fact that building infrastructure is one of the most efficient ways to create private-sector jobs fast and the reasons for making infrastructure investments now are clear.

The numbers that demonstrate the need are stark. A stunning 147,000 of the 605,000 bridges in our country are failing.[4] One-third of America's major roads are in poor or mediocre condition.[5] Dams in need of repair number 4,000.[6] Of America's urban highways, 36 percent are congested.[7] Electricity disruptions cost the economy $100 billion a year in damages and lost business.[8] The Environmental Protection Agency estimates that over the next 20 years, more than $600 billion in improvements to our water infrastructure will be necessary.[9]

We need, however, to do more than fix what's broken. Our country requires new forms of infrastructure to underpin its future economic success. High-efficiency transmission lines, the smart grid, and the information superhighway are to America's economic prospects today what the Erie Canal, the transcontinental railway, hydroelectric power from the Hoover Dam, and the interstate highway system were to our economic success in the 19th and 20th centuries. We need to rewire, expand, and bring the latest technology to our nation's electric power system. We need to extend the high-voltage transmission capacity to bring wind, solar, geothermal, and hydroelectric power to where it is needed. And our clean energy infrastructure needs include building up the clean energy manufacturing sector that will be critical for building the energy production capacity of the future. We also need to fill in the national broadband network.

Now is the ideal time to take action. There is a pool of private-sector labor looking for work. The mostly small- and medium-sized private companies that will do the work are anxious for the business, keeping costs down. Interest rates for the debt-financed portions of the projects are low. And we need job creation. Overall, for every $1 billion spent on infrastructure, 18,000 jobs are created.[10]

The first step is to quickly expand funding through existing channels—prioritizing the programs that are most effective at pulling in private capital. This includes restoring Build America Bonds, which were a highly successful program for funding state and local infrastructure investment at lower cost than traditional tax-exempt bonds before they expired at the end of last year.

For many of these existing channels, the demand for the funding far exceeds the supply—meaning there are projects that can quickly start if the dollars are there. At a minimum, the president's jobs plan should include a federal investment of an additional $65 billion over two years, which would result in at least $135 billion in total additional investment. This would create a million jobs per year for the two-year period as well as benefit the small- and medium-sized businesses in the construction industry and a wide range of suppliers and manufacturers. The federal contribution would be at least:

- $35 billion in additional funding for roads, bridges, ports, and transit
- $10 billion for school energy retrofits and repairs
- $10 billion for clean energy infrastructure, including manufacturing infrastructure, and broadband investments
- $5 billion for Build America Bonds
- $3 billion for water system improvements
- $2 billion for dams and levees

With this funding, a substantial bite would be taken out of our nation's backlog of needed road repair, nearly 2,000 structurally deficient bridges would be fixed, several thousand buses and train cars would be purchased, the rate of transit agency capital improvement would be boosted by 30 percent, and the backlog of port repairs would be eliminated. Thousands of schools could address repair issues and improve their energy efficiency. Approximately 1,500 water systems would be improved. And 5,000 megawatts of new clean energy capacity would come online—enough to power more than 1 million homes.[11]

On top of the additional funding through existing channels, a new, federally chartered infrastructure bank should be part of any job creation initiative. This bank could start helping finance infrastructure projects within a year by using federal dollars to leverage private capital as well as additional funding from state and local governments. The bank would raise funds for the full range of infrastructure described above but focus on larger projects. Credit subsidies of $10 billion would enable approximately $100 billion in federal lending to support between $200 billion and $300 billion in infrastructure.[12]

Creating jobs by shrinking foreclosures and the pool of foreclosed homes depressing the housing market

There is no disagreement that one of the biggest drags on demand for goods and services in our economy is the leaden housing market. Families that are underwater on mortgages are digging their way out of debt, not spending in stores. Homeowners uncertain of the value of their property aren't renovating and upgrading their properties. With a glut of foreclosed properties on the market, new home starts are at a low. Fewer new homes and renovations mean lower demand for building materials, appliances, and other homeowner purchases—everything from placemats to plungers. And those 1 million unemployed construction workers who used to build homes are not purchasing much more than necessities.

What's more, recent efforts to stabilize the housing market have had only a modicum of success. Home values are still down 30 percent from their peak and in many communities it's closer to 50 percent.[13] With trillions of dollars of lost home value, it's not an easy problem to solve.

But that doesn't mean there's nothing to be done. Our federal government has the tools to make a difference by reducing the continuing flood of foreclosures and all the problems they create. Foreclosed properties on the market keep prices low and new construction stalled. And clusters of unkempt empty homes in a neighborhood can have a particularly powerful impact on local home values.

The first step is to prevent avoidable foreclosures. Modifying or refinancing existing mortgages to reduce monthly payments or outstanding principal will help borrowers to stay in their homes and free up income for other spending. But the administration's main existing programs to modify or refinance loans to lower payments or reduce principal—the Home Affordable Modification Program, the Housing Assistance and Recovery Program, and the Federal Housing Administration's refinancing program—are subject to so many limitations that they have resulted in far too few mortgages being restructured. The U.S. Treasury is supporting the solvency of the two mortgage finance giants Fannie Mae and Freddie Mac, and the taxpayer exposure would be significantly reduced if house prices stabilized and the overall economy improved. The upshot: Federal government agencies including Treasury, the Department of Housing and Urban Development, and the Federal Housing Finance Agency, should use every possible lever to compel Fannie and Freddie to restructure more loans to lower payments and reduce principal.

Automatic foreclosure mediation can be another effective mechanism for avoiding foreclosure, keeping defaulted mortgages from adding to the glut of homes on the market.[14] Though there is no requirement that mediation end in a settlement, more than 70 percent of mediations do—often restructuring debt to sustainable levels while increasing lender recoveries over foreclosure. President Obama should immediately direct greater use of mediation in the foreclosure process by:

- Requiring mediation where the government is the insurer or guarantor—such as the Federal Housing Administration and the two mortgage finance giants Fannie Mae and Freddie Mac
- Issuing guidance clarifying that Community Development Block Grants may be used to fund mandatory mediation programs
- Directing the Department of Housing and Urban Development to create a nationwide working group to promote mediation at the local level

The president's package specifically should include legislation to direct FHFA to approve use of automatic mediation pre-foreclosure.

Furthermore, where the lender and borrower cannot agree to restructure the loan, bankruptcy court judges should be allowed to restructure, or "cram down" the outstanding amount of a homeowner's mortgage debt to market value, change terms of loans, and modify interest rates.

Even with tools now available through FHA and the Fannie Mae-administered Home Affordable Modification Program to write down underwater mortgages to creditworthy borrowers at sustainable levels and avoid greater loss, most mortgage servicing companies show little appetite. But if the president's jobs package included legislation providing that a bankruptcy court could cram down a mortgage in a Chapter 13 debt restructuring plan, it would encourage more mortgage servicers to do more (and more sustainable) loan modifications. This provision would bring bankruptcy court authority in the realm of homes in line with the authority that exists with respect to other assets and liabilities.

Even with more restructured loans, mediation, and cram down, we will experience high levels of foreclosure for some time to come. A further step that CAP has long supported is diverting properties from the single-family sales inventory to speed the process of housing market recovery by converting them to rental properties.

Here's our longstanding proposal. Not surprisingly, where there are large numbers of foreclosures, there is often a rise in demand for rental units. Given that demand, one would think enterprising landlords would be buying up the foreclosed properties to rent out. Some individual investors are buying single homes to rent out, but few property management companies are set up to efficiently manage nonstandard individual homes spread over a large area—a business model known as "scattered site rental." And given how homes usually come on the market—sporadically—it's difficult for property management companies to acquire large swaths of homes in sufficiently small areas to make it worth their while.

The federal government, however, can overcome the procedural barriers to scattered site rental by aggregating nearby foreclosed properties in appropriate markets for use as rental housing. The Federal Housing Administration, Fannie Mae, and Freddie Mac currently own about 290,000 foreclosed properties, many of which have been sitting on the market for an extended period. Delinquent and defaulted mortgages in their portfolio add another 1.7 million homes to the potential inventory of foreclosed homes, many concentrated in small geographic areas.[15] Thus the FHA, Fannie, and Freddie are in a position to package uniquely large clusters of nearby houses and either rent them out themselves or sell them to housing management companies, as well as public entities, to offer singly as rental properties.

There are some barriers to this. One is the grim history of nonresident investor owners of single-family housing. That history includes a disinterest in repair, maintenance, and neighborhood well-being. Yet given the current situation, many neighborhoods would be better off with renters who pay offsite landlords than with no one home at all. The use of the homes would be subject to strict community protections.[16] In addition, well-managed nonprofit housing agencies and local housing authorities, which concern themselves with more than the bottom line, could be among the purchasers or property managers, where available.

Homes that are vacant or in foreclosure tend to deteriorate rapidly, so the nation's housing stock has suffered a huge quality hit in the last few years. In addition to the opportunity to increase the value of foreclosed properties on the books of FHA, Fannie, and Freddie and help the housing market recover, this is also a golden opportunity to upgrade the nation's housing stock and make it more energy efficient—with all the benefits that entails. The construction industry has plenty of capacity to step in and do the work. And the transition from foreclosed to occupied housing is a perfect time to do the repairs and improvements as the homes are currently vacant. This work could start very soon, creating jobs very quickly.

There are a number of potential pathways for FHA, Fannie, and Freddie to execute this idea:

- Assemble proximate properties and sell them as a portfolio requiring rehabilitation.

- Form joint ventures with investors and managers who would rehab, lease, and maintain the homes and share in the rents and ultimate sales revenues.

- Use new or existing housing voucher programs to help occupy properties managed by local housing authorities.

- Make additional federal weatherization funds or tax credits available to help with energy efficiency costs.

- Offer special HOME or Neighborhood Stabilization Funds to help local governments develop community-based strategies with local investors and community-based organizations.[17] A race to the top model could be used here, awarding subsidies to communities that have the best plans to put the largest portfolios to the best use as quickly as possible.

Different communities, of course, require different approaches. This won't work in areas where rents are not rising, foreclosure rates are more modest, or properties are not well concentrated.

The idea of turning foreclosed homes into rental housing is already being explored by the Obama administration, but we would propose that the effort be accelerated and expanded markedly—a policy we have been advocating for some time.[18] We propose allocating $3.6 billion a year for three years to support the rehabilitation and retrofit costs and incentivize new business models that will help us reach our three objectives. We estimate that this will create about 20,000 jobs per year.

Creating jobs with energy efficiency and high-performance home building

There is little disagreement that wasting energy is bad for the United States. It makes our businesses inefficient and sends money overseas to buy foreign oil that could be spurring demand here. It hits the pocketbooks of families, small- and medium-sized businesses, and major corporations alike—wasting money that could be buying domestic goods and services, paying wages, and funding investments. According to McKinsey & Company, the United States currently spends $130 billion each year paying for wasted energy that could cost effectively be saved.[19] And addressing this problem is an effective way to create private-sector jobs.

No wonder support for measures to reduce waste is widespread, coming from both parties of Congress, the major national business organizations, and labor unions. And just as with infrastructure, now is an ideal time to take this task on. Most of the jobs would be created in small- and medium-sized construction and manufacturing businesses where there is ample idle capacity.

Three are three initiatives in Congress that should be part of any job creation plan.[20] Together, the three—Home Star, Building Star, and Rural Star—provide strong incentives for private investment in energy efficiency by home owners, businesses, and contractors. Advanced together as an integrated suite of tools, these initiatives would create jobs cost effectively while upgrading the efficiency and productivity of our nation's homes and businesses. Although the apparatus for the incentives could take months to put in place, once the law was in place and the incentives' legal parameters established, home and business owners could start hiring contractors and having the work done knowing that they would be receiving the legislated rebates and other incentives.

Home Star passed the House of Representatives in the last Congress and has bipartisan support in the Senate. The program would establish a two-year, $6 billion rebate program providing direct incentives for homeowners to purchase energy-saving upgrades such as efficient furnaces, air conditioning units, hot water heaters, and other appliances, as well as improved insulation, duct sealing, windows, and doors. Under this program, consumers would receive $3,000 for improvements projected to result in energy savings of 20 percent, plus an additional $1,000 incentive for each further 5 percent of reduction in energy use, with incentives not to exceed 50 percent of project costs.

Building Star targets energy retrofits in commercial and multifamily housing buildings. The program establishes $6 billion in incentives for businesses to invest in energy-saving mechanical equipment, insulation, and other upgrades. The program maximizes federal investment by leveraging $3 to $4 in private investment for every federal dollar spent. With a $6 billion federal investment, Building Star would result in $18 billion to $24 billion worth of energy efficiency spending.

Rural Star, passed in the House of Representatives as the "Rural Energy Savings Program" in the last Congress, provides $4.9 billion in loan authority to rural electric cooperatives to offer low-interest micro-loans to residential and small-business customers. The loans would pay for cost-effective energy-saving home improvements and give consumers the opportunity to repay these loans on their utility bills. The loan payments would be offset by their energy cost savings for a net reduction in their utility bill. Rural Star would cost $800 million over five years.

Together, Home Star and Building Star are estimated to save building owners approximately $4 billion each year while avoiding pollution equivalent to taking 4.6 million cars off the road.[21] And job creation would be substantial. The retrofitting would create private-sector construction jobs and the materials used are, to a substantial degree, manufactured in the United States. For example, 99 percent of duct sheet metal comes from U.S. firms and 96 percent of rigid foam insulation is made in America. [22]

Similarly, advanced mechanical equipment boasts high domestic content. The domestic content of air conditioning and heat pumps is 88 percent and is 78 percent for water heaters.[23] The three programs combined will create approximately 250,000 jobs per year based on independent estimates.[24]

Conclusion

President Obama will be announcing a plan for job creation in early September. A good plan to create jobs will have many components. There are many corners of our economy where jobs can be spurred and none of them should be left untouched. But the three job creation programs briefly outlined above should be part of any job creation plan. They create jobs and address important underlying problems for our economy and our nation.

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Endnotes

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16 Where homes are converted to rental use, protections are required to ensure against discrimination. Owners should not be permitted to exclude families with housing vouchers from renting the properties, consistent with policies that apply to the low income housing tax credit and other federal programs.

17 The Department of Housing and Urban Development's HOME Investment Partnerships Program allocates about $2 billion in annual grants to states and localities to create affordable housing for low-income families. HOME block grants are used to build, buy, and rehabilitate affordable housing or provide direct rental assistance to low-income households, often in partnership with local nonprofit groups. HUD's Neighborhood Stabilization Program allocates grants to states, local governments, and nonprofits to purchase and redevelop foreclosed and abandoned homes. NSP grantees mostly develop their own programs and funding priorities, but all activities funded by the program must benefit low- and moderate-income persons whose income does not exceed 120 percent of area median income. So far there have been three rounds of NSP funds: a formula grant through the Housing and Economic Recovery Act of 2008, a competitive grant through the American Recovery and Reinvestment Act of 2009, and a second formula grant through the Wall Street Reform and Consumer Protection Act of 2010.

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