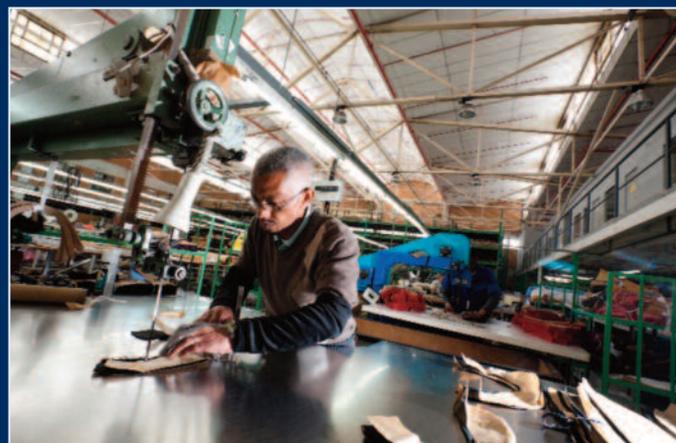


# BIG IDEAS FOR JOB CREATION

*A Policy Brief Highlighting  
Job Creating Initiatives*



A project of the University of California, Berkeley  
[www.BigIdeasforJobs.org](http://www.BigIdeasforJobs.org)

## Introduction

November 2011 — Amid the chatter over the nation's stagnant unemployment rate, one thing is clear: The need for job creation will remain in the headlines as long as 25 million Americans need full-time work.

What is less clear is how best to create those jobs.

Conventional wisdom tells us that the federal government must use fiscal and monetary policies, while counting on innovation, skills and trade over the long haul. But the traditional policies are not working as expected. Spending and investment have not materialized, and debate rages about how demand, investment and global conditions can create jobs in the short term.

Throughout, we hear the perennial partisan cries for more tax cuts or more infrastructure investment. We cannot waste any more time. For every job the private sector has added in the past two years of recovery, the public sector has cut half a job. What's more, job losses since the beginning of the recession reflect an ongoing restructuring that has disproportionately affected the most disadvantaged populations, with losses concentrated in construction, manufacturing, retail and administrative and waste services.

Given federal paralysis and partisan debate, states and cities need to step into the job creation arena if the unemployment crisis is to be addressed. But are there good ideas out there that could make a difference in communities across the country?

Recently, the Institute for Research on Labor and Employment at the University of California, Berkeley, supported by the Annie E. Casey Foundation, solicited big ideas about promising programs and policies for job creation.

We found a number of ideas worthy of consideration and potential investment, ranging from direct, FDR-style job creation to tax credits for employers who add jobs. Ideas range from sustainable local food systems to strategies for turning waste into jobs. We asked our big idea generators, a group of academics and practitioners versed in economics and economic development, to design jobs programs for cities and states (with or without federal support) that would lead to net new job creation in the short term — one to three years. We wanted low-cost, readily implementable programs that would create jobs accessible to low-skilled workers. We sought to avoid gimmicks (such as one-time budget transfers) as well as wasteful incentive programs that simply lured jobs from one place to another.

Big Ideas for Job Creation, a project of the Institute for Research on Labor and Employment at the University of California, Berkeley, tapped into the innovative thinking of leading experts across the nation to develop job creation proposals. Every idea had to meet the following criteria: designed for implementation by cities and/or states and will lead to net new job creation in the short-term; practical, sustainable, scalable and already tested; and all jobs created should be accessible for low-skilled workers and offer some career opportunity.

Based on this research, we estimate that for a wide range of costs from — \$1,000 to \$230,000 per job — we could spur the creation of a variety of jobs, from part-time self-employment through full-year, full-time high quality jobs (see table ). Taken together, these Big Ideas can create millions of new jobs for our country.

— Karen Chapple, University of California, Berkeley, and  
Robert P. Giloth, Annie E. Casey Foundation  
[www.BigIdeasforJobs.org](http://www.BigIdeasforJobs.org)

## Big Ideas for Jobs Creation and Preservation Potential

Proposal	Job Creation/Preservation Potential			
	Type of Job (full-time/ part-time, length)	National Estimate Per \$1 Billion Investment	Public Sector Cost per Job <sup>1</sup>	Caveats, Notes, Assumptions
<b>Job Creation</b>				
Hiring Credits	FT, unknown duration	23,810	\$9,100-\$75,000	Range derived from studies depends on extent of "windfall," i.e., hires that would have happened anyway.
Subsidized Jobs Programs	FT, unknown duration	80,000	\$2,500-\$25,000	Includes only publicly subsidized share of wages does not include administrative costs.
Direct Job Creation	FT job person-year	36,294	\$27,553	Net cost, including savings in tax receipts, unemployment insurance, and other social programs, but not multiplier effects.
Making MUSH Energy Efficient	FT/PT jobs, one year each	5,328	\$143,000-\$230,000	Range derived from studies may be financed via cost savings from energy efficiency.
Reuse, Recycling, Remanufacturing	FT/PT jobs, unknown duration	16,529	\$5,000-\$116,000	There are no standard data on the cost of job creation in the various sectors of the R3 industry. Case studies provide a range, with the non-profit costs significantly lower than the for-profit. However, since these firms must be profitable to survive, their labor costs will be sufficiently covered by their revenues.
RE Transfer Taxes for Energy Efficiency	FT/PT jobs, one year each	9,424	\$106,111	Based on assumptions for North Carolina may be financed by taxes generated from new economic activity.
Manufacturing	FT, unknown duration	23,810 <sup>2</sup>	\$9,100-\$75,000	Range derived from studies depends on extent of "windfall," i.e., hires that would have happened anyway.
Self-Employment	FT/PT jobs, unknown duration	500,000	\$1,000-\$3,000	Cost is per self-employed business business may not provide full income.
CSW - Building Deconstruction	FT job person-year	7,771	\$128,676	Based on assumptions for Detroit. This policy is potentially cost-neutral (no new costs from what already spent on demolition).
CSW - Home Energy Retrofits	FT job person-year	6,182	\$136,842-\$186,667	Based on assumptions for Detroit. This policy is potentially cost-neutral (no new costs from what already spent on demolition).
MBE Financing	FT job person-year	22,222	\$45,000	Assumes loans made to firms that hire one worker per \$45,000 in firm total assets.
<b>Job Preservation</b>				
Short Time Compensation	1/5 FT job person-year	444,444	\$2,000-\$2,500	\$1,560 is the added payout of 52 weeks of STC versus 52 weeks of regular UI benefits range reflects different administrative costs.
Early Childhood Education	FT job person-year	66,667	\$15,000	Assumes \$6/hour pay increase plus benefits and training.

Sources: Bates (2011); Brusentsev & Vroman (2011); Christopherson (2011); Di Ramio, et al (2011); Harvey (2011); Herzenberg-Weiss (2011); Irwin, et al (2011); Leigh (2011); Lester (2011); Lower-Basch (2011); Neumark (2011); Schweke (2011); author's calculations.

Endnotes: <sup>1</sup> Assumes midpoint costs for all ranges.

<sup>2</sup> In the case of manufacturing, assumes that employers use hiring credits.

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## Jobs Idea # 1

### Hiring Credits During Recessions

by David Neumark

#### Problem Statement:

Hiring tax credits often fail to generate significant numbers of new jobs. However, the right type of tax credits can incentivize firms to start hiring new workers. (Fig. 1)

#### What's the Big Idea?

Countercyclical hiring credits used during downturns in the nation's economy provide temporary monetary incentives to businesses that hire new workers. The hiring tax credit could incentivize hiring in general or hiring of unemployed workers in particular. It should also be given only to firms that have a net increase in employment above some threshold, to ensure that firms are not simply firing current workers and hiring new ones just to claim the credit. The credit is intentionally broad in order to stimulate new hiring quickly and maximize administrative efficiency. To be most effective, the hiring credit would be a temporary program that is automatically triggered during times of economic recession and phases out after economic recovery.

#### How Does This Create Jobs?

Hiring credits create jobs directly by effectively subsidizing wages when employers hire new workers. This lowers the cost of labor to firms, increasing the demand for labor. (Fig. 2) The number of jobs that can be created from a hiring credit ultimately depends on how large the program is and how well it is used. A federal investment in a \$50 billion hiring credit program could create nearly 1.2 million jobs. According to calculations based on Congressional Budget Office (CBO) estimates through July 2010, this is less than one-tenth the cost of the American Recovery and Reinvestment Act (ARRA) and creates nearly as many jobs as the lower-range CBO estimates of jobs created by the ARRA.<sup>1</sup>

There are many ways to structure the pricing of the hiring credit that would determine which types of jobs would be created. Some states pay a more generous credit for creating higher-wage jobs or set minimum earnings requirements to receive the credit. There is some trade-off between creating the most jobs with less attention paid to wages versus encouraging somewhat fewer jobs at higher wages. Some credits currently offered at the state level range from \$1,000 to \$5,000 for each worker per year and last for three years or more.

#### What Are the Barriers?

There are several barriers to hiring credits:

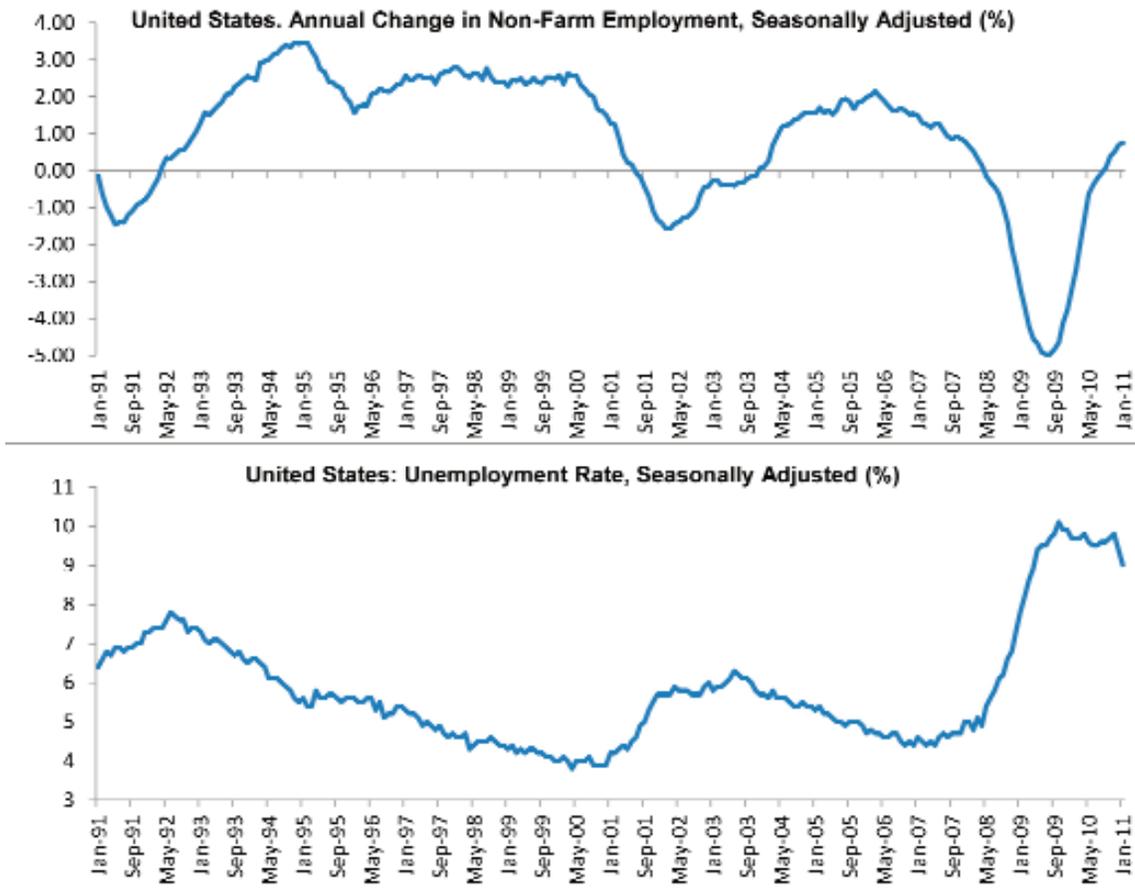
- 1) Previous hiring credit programs that have tried to target narrow groups of disadvantaged workers have created stigma effects, where employers become more reluctant to hire the worker because he/she is perceived as being undesirable.
- 2) A fundamental challenge for hiring credits is creating incentives for new job creation while reducing windfall payments of credits to firms for hiring that would have occurred regardless of the credit. A recent study of a hiring program in Michigan estimated that 92 percent of credits were paid for jobs that would have been created anyway. Windfalls are unavoidable, and therefore windfall rates in this range are incorporated in the cost calculations below.
- 3) The current fiscal constraints of most state governments make it difficult to implement a hiring credit at the state level that could have significant impact on unemployment.

## Case Study: New Jobs Tax Credit

In the late 1970s, the national economy was in an economic slump with high unemployment. The federal government responded by implementing a temporary hiring credit program, called the New Jobs Tax Credit (NJTC), from mid-1977 to the end of 1978. The credit applied broadly to any worker who was hired in a firm in which employment was growing.

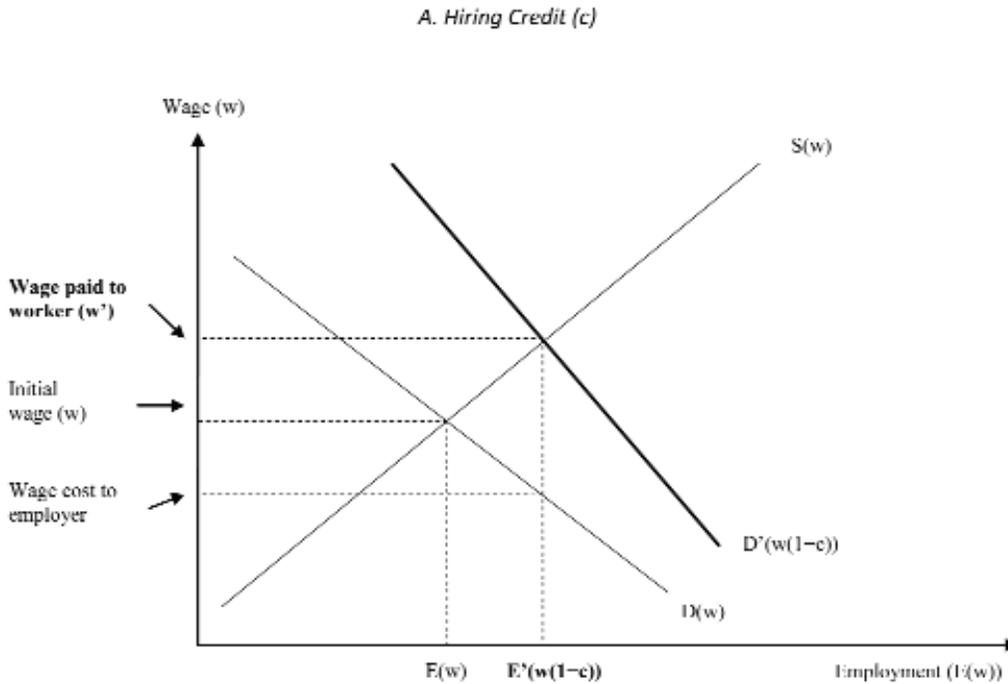
According to one study, the NJTC increased employment in construction, trucking, retail trade and wholesale trade by 400,000, or about 0.5 percent of economy-wide employment.<sup>2</sup> Overall, the evidence suggests that the program was moderately successful, with a significant barrier being that most firms simply did not know about it. Firms that did know about the hiring credit had significantly higher employment growth.<sup>3</sup>

Figure 1: Changes in Employment and in Unemployment Rates in the United States



Source: The top panel is based on the Current Employment Statistics payroll survey, and the lower panel on the Bureau of Labor Statistics Current Population Survey.

Figure 2: The Effects of Employer versus Employee Subsidies



### How Can This Policy Be Implemented?

Appropriate design and implementation of a hiring credit policy are essential to ensure it creates net new jobs. A broader hiring credit that is either fully non-categorical or focused on the recently unemployed could be more effective than some other recent hiring credits by avoiding or reducing stigma effects. This is especially likely in the short-term, when unemployment remains stubbornly high. Additionally, this credit can be designed to reduce windfall rates by requiring that the firm shows net overall growth and that the tax credit is in effect only temporarily during economic recessions. It would not cover retroactive claims. Finally, while this credit could be implemented at either the state or federal level, it would require a significant investment to have a meaningful impact on employment. The greater fiscal resources available at the federal level make this the better choice to successfully fund a hiring credit program.

Gross costs range from \$9,100 to \$75,000 per job created. This cost calculation takes into account the

windfall rate but not the cost savings that government would realize by lowering other government costs (such as unemployment insurance) and increasing economic activity, which is difficult to quantify. Some economists believe the net cost could actually be much lower.

### Conclusion

A hiring credit policy could be an effective and cost-efficient countercyclical measure to create jobs if it were broadly defined, temporary and automatically triggered when the economy dipped into a recession.

### Endnotes

- <sup>1</sup> Congressional Budget Office. 2010. "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From April 2010 Through June 2010." Washington, DC: Congressional Budget Office.
- <sup>2</sup> John H. Bishop. 1981. "Employment in Construction and Distribution Industries: The Impact of the New Jobs Tax Credit." In Sherwin Rosen, ed. *Studies in Labor Markets*. Chicago: University of Chicago Press, pp. 209-46.
- <sup>3</sup> Jeffrey M. Perloff and Michael L. Wachter. 1979. "The New Jobs Tax Credit: An Evaluation of the 1977-78 Wage Subsidy Program." *American Economic Review Papers and Proceedings*, Vol. 69, No. 2, May, pp.173-79.

## Jobs Idea #2

### Subsidized Jobs

by Elizabeth Lower-Basch

#### Problem Statement:

Federal subsidies meant to encourage hiring of disadvantaged workers such as the Work Opportunity Tax Credit (WOTC) often provide large windfalls to employers in low-wage, high-turnover industries without creating any net new jobs or changing whom they hire. Deeper, more targeted subsidies administered at the state level are a more effective way to encourage employers to hire disadvantaged workers and create jobs.

#### What's the Big Idea?

From 2009 to 2010, the Temporary Assistance for Needy Families Emergency Contingency Fund (also known as the Emergency Fund) enabled states to operate flexible, targeted job programs that subsidized wages for businesses hiring low-income workers. This program placed more than 260,000 low-income individuals in subsidized jobs, at a total federal cost of \$1.32 billion. States could choose whether to target long-term unemployed workers, welfare recipients or other populations. In contrast, the WOTC allows any for-profit employer to claim a credit for hiring members of certain eligible groups. In 2010, WOTC cost \$1.1 billion, with no evidence that it changed employers' hiring choices or practices.

#### How Does This Create Jobs?

State-run subsidized job programs create jobs by directly connecting unemployed workers with employers and subsidizing part or all of the workers' wages for some period of time. In an ideal situation, the availability of the subsidy encourages employers to fill permanent jobs sooner than they might have otherwise, or to experiment with whether additional employees could pay for themselves by generating new business. These job programs can also be designed to create temporary jobs that help disadvantaged workers stay economically active, such as summer jobs for youth and young adults. While this type of job is less desirable, it can still play an important role in the long-term economic stability of workers by teaching them new skills and giving them a needed entry into the workforce.

Under the Emergency Fund, slightly less than half of the workers who participated were low-income parents; the rest were low-income youth and young adults up to age 24.<sup>1</sup>

**If the programs were designed to target youth summer jobs and other short-term employment, as many states did under the Emergency Fund, this could create 200,000 or more new short-term jobs.**

#### What Are the Barriers?

The costs of operating a subsidized job program can be quite high, and most states simply do not have the resources to run such a program without federal support, particularly during a recession, when programs are most needed. Even though Emergency Fund programs were considered quite successful by workers, employers and states, Congress decided not to extend the funding past September 2010. Most states ended their subsidized employment programs at that time. While some states, such as North Carolina, were able to continue their programs with a combination of public and private dollars, they had to significantly scale back efforts. The WOTC has been renewed year after year, despite evidence of its limited effectiveness, because of general political support for encouraging employers to hire disadvantaged workers, and the specific support of employers who benefit from it and the consultants who help them apply.

## Case Study: Put Illinois to Work

Put Illinois to Work subsidized 100 percent of new workers' wages for employers, using the Emergency Fund. To qualify, the workers must have had a household income less than 200 percent of the federal poverty line and either be a parent or be between ages of 18 and 21. All participants were paid a fixed wage of \$10 an hour. Intermediary organizations helped connect workers and employers for a flat fee of \$600 per placement. The program ultimately spent \$107 million paying wages to more than 27,000 workers, at an average of roughly \$4,000 per worker. This was the largest Emergency Fund program in the nation.

Overwhelmingly, the employers who participated in the program were small businesses; two-thirds of them had fewer than 15 employees. Many of these employers said they would not have been able to hire additional workers without the program. However, due to the continued weak economy, only 13 percent of employers reported that they expected to be able to permanently hire these workers, even though more than half said that they would do so if they were financially able.<sup>2</sup>

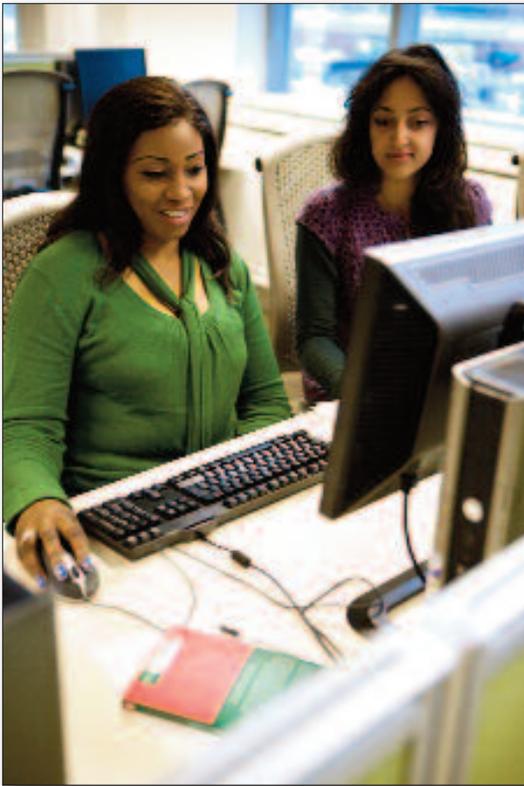
Table 1: Illustrative Examples of the Costs Associated with Subsidizing Wages

State	Maximum wage eligible for reimbursement	Amount of wage subsidized	Coverage of payroll costs: FICA, Unemployment Tax (UT) and Worker's Compensation (WC)	Maximum hours per week	Total cost (6 month placement with maximum wage) <sup>c</sup>	Total cost (6 month placement with maximum wage of \$10)
Alabama	\$15	100%	Employee portion of FICA	40	\$16,780	\$11,187
Florida	\$19.51	100%	FICA, UT and WC	40	\$23,849	\$12,226
Illinois	\$10	100%	FICA and WC	40	\$11,551	\$11,551
Mississippi	\$17.92 <sup>a</sup>	100% in month 1 & 2 75% in month 3 50% in month 4 & 5 25% in month 6	FICA	40	\$13,365	\$7,457
Oklahoma	\$12 <sup>b</sup>	100% in month 1 50% in months 2-4 (balance of subsidy for months 2-4 paid to employer if employee still working in month 10)	None	40	\$8,313 with incentive  \$5,196 without incentive	\$6,928 with incentive  \$4,330 without incentive
Pennsylvania	\$13	100%	None	40	\$13,510	\$10,392
South Carolina	\$7.25 <sup>b</sup>	100%	FICA, UT and WC	20	\$4,432 (20 hours)	\$4,432 (subsidy capped at \$7.25 per hour)
Texas	No maximum specified	Flat subsidy of \$2,000 over four months	Employer can use \$2000 or a portion of it to cover payroll costs	No maximum specified	\$2000	\$2000
Washington	\$8.55	100%	FICA, UT, and WC	20	\$5,227 (20 hours)	\$5,227 (wages at \$8.55)

<sup>a</sup> The state pays up to the average wage plus 11 percent to allow for wage increase for the specific job classification. This wage amount is the average wage for all workers for all occupations plus the 11 percent.

<sup>b</sup> Participants may be placed in jobs that pay more than the maximum wage eligible for reimbursement. When this is the case, employers pay the difference between the wage paid to the employee and the amount reimbursed by the program.

<sup>c</sup> I use 4.33 weeks per month to calculate the total cost for the 6 months. Most states planned for subsidy durations of between 6 and 12 months; however, in practice, many reached scale so late that the duration was limited by the ending of the Emergency Fund in September 2010 rather than by the state's policy.



### How Can This Policy Be Implemented?

As shown in Table 1, the cost of a subsidized job program depends on the level and duration of the subsidy and the amount of wages that can be subsidized. The programs operated under the Emergency Fund had costs of \$2,500 to \$25,000 for each job placement, with \$12,500 as a plausible mid-range cost. Assuming that the entire annual cost of the WOTC — \$1.1 billion — were reallocated to job subsidies, states could create roughly 88,000 jobs. If the programs were designed to target youth summer jobs and other short-term employment, as many states did under the Emergency Fund, this could create 200,000 or more new short-term jobs.

Because each state has unique economic needs, it is vital that there be flexibility at the state level for program design and implementation. States should be given significant discretion in how subsidies are allocated, though to avoid abuses it may be appropriate to set a cap of 200 percent of poverty level for individuals who may be served, or cap the total subsidy that can be given to a worker.

The Pathways Back to Work Fund, part of President Obama's proposed American Jobs Act, would provide \$2 billion for subsidized employment programs, mod-

eled on those operated under the Emergency Fund. However, unlike the Emergency Fund, participation would be open to all low-income unemployed workers, not just those who are parents. States would have the option to operate programs through their state TANF agency or the workforce agency.

### Conclusion

Funding for current worker tax credit programs, such as the Work Opportunities Tax Credit, should be redirected to a more targeted subsidized jobs program administered at the state level, which has the potential to have a more significant impact.

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### Endnotes

<sup>1</sup> Pavetti, L., Schott, L. and Lower-Basch, E. (2011) *Creating Subsidized Employment Opportunities for Low-Income Parents: The Legacy of the TANF Emergency Fund*. Washington, DC: Center on Budget and Policy Priorities and Center for Law and Social Policy.

<sup>2</sup> Social IMPACT Research Center (2010). *Put Illinois to Work Evaluation: An Early Look*. Chicago, IL..

## Jobs Idea #3

### Short Time Compensation

by Vera Brusentsev and Wayne Vroman

#### Problem Statement:

Short time compensation (STC) can reduce layoffs and unemployment during an economic recession, but it is widely underutilized in the United States.

#### What's the Big Idea?

STC programs are intended to reduce layoffs during periods of low labor demand. Rather than laying off some workers, all employees of the work unit are retained but at reduced weekly hours of work. STC operates through unemployment compensation programs and workers are provided partial unemployment insurance benefits to partially or fully offset the reduced hours. Twenty-three states currently have STC programs, though at a much smaller scale than in most other countries.

#### How Does This Create Jobs?

Compared to layoffs, the use of STC increases the level of employment, albeit at reduced hours, each week. Studies show that STC is most often used during the early stages of a recession, when there is increased uncertainty in the economy.

STC does not create new jobs, but it can play an important role in keeping workers employed. STC reduces the volume of worker dislocation, as well as the adjustment problems of dislocated workers, such as long spells of unemployment, skills deterioration, reduced re-employment wage rates and loss of health insurance and other fringe benefits.

#### What Are the Barriers?

The first STC program was enacted in California in 1978. Since then it has slowly caught on, but is still not well used in the United States. There are several barriers.

First, the approach is not well known, so many workers and employers simply do not know it exists or how to use it. Second, implementing STC can be complicated. Employers must file an application with the state unemployment insurance agency beforehand, and wait one to two weeks before approval.

The benefits paid to workers count against the experience-rated unemployment insurance taxes paid by the employer. When workers begin to collect STC, these payments count against their maximum potential payment for the benefit year in the same way as unemployment insurance benefits.

**Short time compensation reduces the volume of worker dislocation, as well as the adjustment problems of dislocated workers, such as long spells of unemployment, skills deterioration, reduced re-employment wage rates and loss of health insurance and other fringe benefits.**

#### How Can This Policy Be Implemented?

Throughout its 30-year history in the United States, STC has been too small to meaningfully affect the labor market at the macro level. In order to increase STC utilization, four changes are suggested:

- 1) Disseminate information about STC and its advantages to employers and workers.
- 2) Ensure that STC is comparatively easy to implement so that it can be used at the early stages of a downturn.
- 3) Treat the payment of STC benefits as a category of non-charged benefits in the experience-rated unemployment insurance system.
- 4) Provide a different treatment of STC benefit payments from regular unemployment insurance benefits.

## Case Study: Short Time Compensation in Germany

In Germany, the STC program expanded dramatically during the Great Recession, from 50,000 participants in September 2008 to 1.46 million in May 2009. During May 2009, unemployment was 3.5 million in Germany. Absent the STC, German unemployment could have been some 250,000 – 400,000 higher according to some research.

The German government made several key changes to expand use of this approach. The maximum duration for a worker to be on STC was increased to 24 months, and the definition of “significant loss of work” was eased to broaden the scope. While other factors contributed to stabilizing employment in Germany, STC played an important role.

Additionally, U.S. Senator Jack Reed has proposed federal legislation to increase the use of STC that includes federal financing of STC benefits, state grants and increased federal responsibilities for promoting STC. Under this proposal, the federal government would cover between half and the full costs of STC benefits for up to three years. The federal government would also distribute \$700 million in grants to states to cover costs of implementing STC.

Evidence shows that STC is most effective in preserving employment in the early stages of an economic downturn. Utilization of STC increases sharply at the beginning of a recession, but then it falls in subsequent years. Because of this timing, it is important to have STC programs in place prior to future recessions.

### Conclusion

STC has the potential to prevent layoffs and to stabilize employment. The programs in the United States are small, however, and do not affect the labor market significantly. If STC is to play a larger role, the program needs to be substantially enlarged.

## Jobs Idea #4

### Infrastructure Investment

Scott Bernstein and Joel Rogers

#### Problem Statement:

America's physical infrastructure is in poor condition or obsolete. Investment yields returns in terms of the efficiency, equity and sustainability of places, and also has immediate and longer-term employment benefits. But there is little will to upgrade infrastructure, uneven local public capacity to manage improvements and institutional barriers to making public investments.

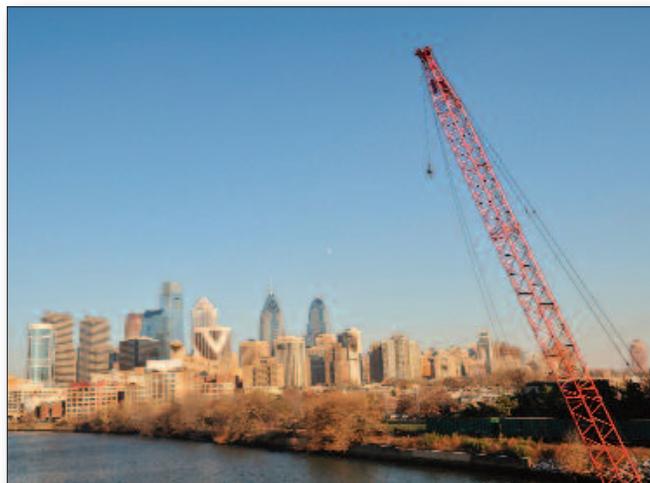
#### What's the Big Idea?

Private involvement in infrastructure projects can provide speed, competence and a welcome disruption from the existing models of infrastructure finance. The idea is to use private capital in infrastructure projects, under public guidance and performance terms. Projects will function essentially as public utilities, paying for private capital by putting a monetary value on infrastructure's direct service and networked "externalities" and charging its costs to beneficiaries of both.

To achieve this, it will be necessary to build new institutions and strengthen the capacity of local government to enable such projects, meaning first, the capacity to initiate, design, bargain over, monitor and enforce the terms of infrastructure projects combining different types of capital and revenue streams, and second, the capacity to enlist public acceptance of these projects on transparent terms. Finally, to capitalize on private involvement, we will need to remove dysfunctional restrictions on state and local governments and instead reward competence and accountability.

#### How Does This Create Jobs?

Infrastructure projects create jobs both through the direct or indirect labor required for their production (and the "induced" jobs from labor's later spending of income from that) and through the increased economic activity they enable. The first results from a project's labor intensity and depends on delivery speed (e.g. ARRA-funded mass transit investments generated twice as many direct jobs-per-dollar as highway projects both because they were more labor



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intensive and more "shovel-ready"). Job creation via economic impact may be much bigger. Construction of the Interstate Highway system, for example, generated many jobs, but more importantly stimulated major economic activity. Though place-based infrastructure investments may simply shift job activity from one location to another, they also create economies of scope and agglomeration that may generate compensating job growth. A recent example of both is the Twin Cities Hiawatha Light Rail Line, completed in the early 2000s. Employment growth along the line has been twice that of the greater metro area, while household costs-of-living in the most efficient transit zones have been 5 to 10 percent lower than the regional average.

Los Angeles and Chicago both have projects that use public authority, popular support, private capital and new local institutions to build high-road infrastructure.

### **Case Study A: LA 30-10**

**LA 30-10** is an ambitious effort to complete a mammoth upgrade of the city's transit system — with 12 new transit lines, 60 new stations and associated road improvements, at least 160,000 construction jobs covered by community benefit agreements guaranteeing targeted local hires, and high hopes for mixed-use, transit-oriented development — in a third the normal time.

Measure R, a 2008 county-wide ballot initiative, passed a dedicated 30-year half-cent sales tax which, over its full run, will cover the full costs of this project during its expected “business-as-usual” completion time. Accelerating that completion however, required more immediate capital. To raise it, LA first successfully competed for a credit enhancement grant from the U.S. Department of Transportation, enabling lower-cost financing; then successfully applied for a low interest loan from the federal government; and then created a new nonprofit entity to issue bonds for private investment, pledging the sales tax revenue of Measure R as security for revenue bonds on the first sub-project of the upgrade (a new light rail line connecting South Central LA to more job-rich parts of the region). LA has also asked federal authorities for help in reducing regulatory roadblocks to realizing LA 30-10's local hiring and other equity goals.

This model of federal-local government cooperation — getting public buy-in, sharing risk, working together to clear the regulatory underbrush, and making intelligent and equity-promoting use of private capital to leverage limited public funds — has prompted 120 cities to join LA in advocating for its use under the banner “America Fast Forward.”

### **Case Study B: Chicago Energy Savers**

Chicago's **Energy Savers** program was created to provide one-stop information, contracting, and financing services for retrofitting older apartment buildings to reduce energy costs. Utilities, state and local government, and foundations together capitalized a revolving loan fund housed at a local community development financial institution, the Community Investment Corporation. The Center for Neighborhood Technology provides energy audit, contractor certification and management services.

In just two years, 6,342 apartments in 200 buildings were retrofitted, achieving a 30 percent utility bill reduction for less than \$2,500 per dwelling unit. An investment of \$15.8 million resulted in 170 direct construction and program jobs, or 10.75 jobs for every \$1 million invested. This performance helped the Chicago region successfully compete to manage Energy Impact Illinois, one of 41 local “Better Buildings” initiatives co-funded by the U.S. Department of Energy. Energy Impact then used its \$25 million federal award to leverage an additional \$125 million in private capital commitments.

In this model, everyone wins. Government gets high-performing, private-sector leverage; landlords and creditors get more stable rent and loan repayments; energy utilities avoid unnecessary capital expansion or purchases (which is why Illinois and other states have passed laws that help scale this model further); and community members get better jobs and lower energy bills.

## What Are the Barriers?

Local governments typically lack the expertise needed to structure and design privately-financed infrastructure, or local leaders hesitate to enlist public support for such projects on democratically accountable terms. Federal and state rules discourage the efficient combination or leverage of public funds, and it is difficult to assemble dedicated revenue sources that satisfy market analysts, rating agencies, regulators, and financial services underwriters.

Regulatory endorsement of the legacy business models for existing utility and government service providers is another barrier. Unlocking the value of urban efficiencies requires new business models: decentralized vs. centralized resource generation, networked vs. stand-alone services, demand-reduction vs. supply-increase value strategies.

While the number of revenue-generating public and private efforts now using these new models is growing — in energy efficiency, distributed transportation, recycling and materials recovery and stormwater management — these are still the exception.

## How Can This Policy Be Implemented?

Leveraging private investment for infrastructure upgrades usually requires political or institutional protection in three forms:

- 1) Capacity assessments and compensating technical assistance to local and state governments;
- 2) A federal risk-sharing partner that can attract private capital, and federal and state relief from unreasonable rules that slow or prevent deals; and
- 3) Support for joint learning and advocacy among leaders, so they can more effectively partner with the federal government, business and community in developing a national infrastructure strategy.

The first element provides the intelligence and will, the second the way, the third the weight to implement this strategy at national scale.

## Conclusion

Quicker and more effective infrastructure improvement will increase employment, but it requires joining public and private capital. We should support cities and states with technical assistance, financial support, and regulatory incentives, and welcome them as partners in improving America's infrastructure strategy.

## Jobs Idea #5

### Direct Job Creation Program

by Philip Harvey

#### Problem Statement:

Faced with a historically and persistently high national unemployment rate, the government needs to stimulate aggregate demand and thus labor demand. But most policy options, such as tax cuts, are insufficient to stimulate the private sector to invest.

#### What's the Big Idea?

The most direct way a government can create jobs for unemployed workers is to hire them itself. A direct job-creation program implemented at the local and state level can dramatically reduce the current, historically high unemployment levels, as well as address the structural unemployment that many workers face even in good economic times.

#### How Does This Create Jobs?

The direct job-creation program outlined here would provide unemployed workers with part or full-time jobs, depending on their preference, producing relatively labor-intensive public goods and services. The jobs would pay the same wages as similar jobs in the regular public and private sectors of the economy and would provide the same health insurance benefits that government employees receive.

Employment in the program would be treated the same as regular employment for tax purposes, for establishing eligibility for government benefits, and for asserting legal rights, including the right to unionize. Program employment would only be offered when private sector and regular public-sector employment was unavailable, and would include on-the-job training. Workers would be required to apply to suitable private or public sector jobs as they became available.

The number of jobs created would be based on the need and the political momentum of the program. A city with a population of 1 million whose labor market conditions mirrored those of the country as a whole would need to create about 39,500 jobs in order to bring its unemployment rate down to the pre-recession low of 4.5 percent. In order to reach "full employment," an additional 12,500 jobs would need to be created. Full employment is considered to



be around 2 percent, which accounts for job seekers in the process of moving from one job to another or entering the labor market for the first time.

#### What Are the Barriers?

The two primary challenges to a direct job-creation strategy at the local level are:

- 1) The willingness and ability of a state or local government to fund the average costs of the program over time; and
- 2) The development of a strategy allowing those funds to be expended in the counter cyclical fashion required by the strategy.

The first challenge is the largest and most difficult. Perhaps the best solution is to take an incremental approach, which would rely on national economic trends to reduce the city's unemployment rate while using the direct job-creation strategy to provide partial relief to the city's unemployed. Thus, a city could launch the program at a small scale initially until it was well-enough established to sustain popular support. This might limit its impact on the current recession, but make cities better prepared to weather future economic recessions.

The latter challenge could be addressed by establishing an "Employment Assurance" trust fund where revenues are regularly deposited for use when the need arises. This is how Unemployment Insurance programs are run.

## Case Study: Works Progress Administration



The Works Progress Administration (WPA) was established by the federal government during the New Deal era as a new government agency. It was created in order to provide employment opportunities for American workers on public projects. Once established, the experience and expertise of agency staff allowed it to respond quickly to changing labor market conditions, undertake ambitious projects, ensure strict compliance with appropriate financial and administrative practices, and easily demonstrate the benefits of the direct job-creation effort to the public. However, it would be difficult to establish such a program in today's political climate, with both progressives and conservatives preferring decentralized administrative models. Also, there are potential stigma effects for people employed through the program.

Another possible model is the Public Service Employment program established under the Comprehensive Employment and Training Act in the 1970s, which assigned participants to work in existing government agencies or nonprofit organizations. This model can work well but requires strong enforcement of anti-substitution rules to prevent state and local governments from using the program to replace regular public employees.

### How Can This Policy Be Implemented?

The annual cost of a local direct job-creation program capable of providing work for a third of all unemployed workers residing in the locality immediately—the equivalent of creating about 4.5 million jobs nationally—would require a 14 percent increase in taxes for a typical local government, offset by savings in tax receipts, unemployment insurance, and other social programs, as well as multiplier effects.

For purposes of comparison, raising local taxes by this amount would be equivalent to raising the current Social Security and Medicare tax rate by 1.3 percentage points (from 7.65 percent to 8.95 percent). Once the national economy has fully recovered, a local program funded at that level would reduce the unemployment rate in a typical American locality to the full-employment level of 2 percent, thereby providing all residents of the locality with the “employment assurance” that New Deal reformers thought American workers should be provided and which has been recognized as a fundamental entitlement in international human rights agreements.

The higher the level of government that implements this strategy, the larger the geographic area within which it is implemented, the more comprehensive and diverse the local economy of the area, and the

lower the average rate of unemployment, the less costly it would be to implement this strategy.

### Conclusion

A direct job-creation program would both fulfill this country's human rights obligation to guarantee everyone the right work and induce job growth in the private sector by increasing the population's disposable income, at a relatively low cost for each job created.

## Jobs Idea #6

### Retrofitting Institutions

by James Irwin, Satya Rhodes-Conway, Sarah White and Joel Rogers



#### Problem Statement:

Governments everywhere are looking for ways to create new, quality jobs, despite restricted budgets. Although many have enacted programs that facilitate energy efficiency retrofits for the residential and commercial sectors, retrofitting of public buildings has garnered little policy attention.

#### What's the Big Idea?

Retrofitting public buildings, universities, schools, and hospitals can create significant numbers of net new jobs while simultaneously reducing energy usage. If these retrofits are financed through cost savings achieved through efficiency, the jobs can also be created without allocating new public funds. Publicly controlled buildings account for 24 percent of all commercial space. Public entities have access to low-cost capital, companies exist to do this work, and with a few key policy interventions, decision-makers can ensure that jobs created are in fact high-road. These factors make this portion of the real estate sector uniquely attractive for deep energy retrofits that create high-quality jobs.

#### How Does This Create Jobs?

Local and state government buildings, universities, schools, and hospitals spend about \$40.7 billion a year on energy. By upgrading this building stock for maximum energy efficiency, taxpayers could save up to \$8.1 billion a year on energy costs and create between 165,000 and 428,000 jobs. These jobs are in a wide range of occupations, including production, design, construction, engineering, operations, and maintenance. The initial job impact will be primarily in the building trades.

In order to maximize both the energy cost savings and the job creation potential, it is important that local jurisdictions embrace strong job quality standards. An untrained workforce lowers the potential energy savings of specific interventions. For example, as many as 85 percent of replacement heating, ventilation and air conditioning (HVAC) systems in California are improperly installed, resulting in a loss of potential energy savings.<sup>1</sup> High-road agreements or other job-quality standards can help improve access and advancement for low-income workers into lifelong career paths in the building trades.

#### What Are the Barriers?

Many jurisdictions have implemented some energy efficiency retrofits. However, almost none of them have systematically addressed their entire building stock, and most are not doing so with job creation as a primary motivation. There are several factors that have limited the uptake of energy efficiency programs.

- 1) There is the problem of financing the work, which can have some significant upfront capital costs.
- 2) Another barrier is simply a lack of information. Many municipalities do not track how much energy they are using in their buildings, and few know how to proceed with actually implementing an energy efficiency program.
- 3) The final barrier is a lack of political will that results from the above barriers, and the need for someone to champion these types of projects.

## Case Study: Reducing Reno's Carbon Footprint

In 2008, the City of Reno, Nevada, launched an Energy Efficiency & Renewable Energy Initiative in order to reduce its carbon footprint and lower its energy bills. The city contracted with an energy services company (ESCO) to audit the electricity, natural gas and water use in all city facilities. Based on the audit, the city approved a series of projects, including energy efficiency measures such as lighting retrofits and HVAC upgrades, as well as other investments in renewable energy. The ESCO hired local contractors to do the work, and the contract was subject to Reno's prevailing wage law.

Even though the project is not yet completed, it is expected to save the city \$500,000 in 2011, a 12 percent cost reduction in just one year. At full build-out, the energy efficiency portion of the project will save the city \$1.1 million a year, a reduction in energy costs of more than 25 percent. The project was financed primarily through bonds, as well as with some grants and rebates, for a total project cost of \$16 million. As of April 2011, it had created or retained 191 jobs.<sup>2</sup>

### How Can This Policy Be Implemented?

For state, city, municipal or institutional leaders, the first step is to determine how much energy the current building stock uses and what potential exists to reduce that use. Tools such as the EPA's Energy Star Portfolio Manager can facilitate this process, which can be undertaken fairly quickly with minimal cost. Once the worst-performing buildings have been identified, numerous options exist to finance and implement the work.

Nationwide, it is estimated that the initial investment to retrofit existing public building stock will be between \$38 billion and \$61 billion. Larger government projects could be financed through bonds, including qualified energy conservation bonds, which can be repaid with the future energy cost savings. For agencies that cannot or choose not to bond, financing options available through private lenders, including municipal lease programs offered by ESCOs, are an option. ESCOs are companies that do the work to increase energy efficiency in building stock and are paid over a period of time from the energy cost savings.

A rough but conservative estimate of costs per job — including wages, benefits, materials, overhead and other costs — is in the range of \$140,000 to \$230,000. A public entity has direct control over the contracting process and can make sure that the jobs created — and pathways into them — are accessible to low-income, low-skill workers. This can be accomplished by including job quality measures in contracts. Examples include wage floors, targeted or local-hire provisions, first-source hiring policies and

contracting preferences for local, high-road and/or minority- or woman-owned firms.

Finally, in jurisdictions that currently lack the political will to move forward with these projects, local labor-community coalitions can be effective at raising public awareness and exerting political pressure on elected officials. Such coalitions have been successful in cities from Boston to Los Angeles, leading to the creation of community workforce agreements for energy efficiency retrofit programs.

### Conclusion

America can begin to achieve the widespread, high-road job creation needed in today's economy by retrofitting the nation's public and institutional buildings for greater energy efficiency, financing these retrofits from the savings achieved and requiring local hiring and job and advancement standards for those who do the work.

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### Endnotes

<sup>1</sup> Zabin, C., Chapple, K., Avis, E. and Halpern-Finnerty, J. (2011). *California Workforce Education and Training Needs Assessment*. Berkeley: University of California, Berkeley.

<sup>2</sup> Geddes, J. (2011) Energy Initiative Council Update April 2011. Retrieved October 1, 2011, from City of Reno: Energy Efficiency and Renewable Energy Initiative: <http://www.reno.gov/index.aspx?page=2000>.

## Jobs Idea #7

### Turning Waste Into Jobs

by Nancy Green Leigh

#### Problem Statement:

Collecting waste from businesses and residences for reuse, recycling and remanufacturing (R<sup>3</sup>) creates more economic activity than simply disposing of it in landfills. However, in the absence of waste diversion policies, there is little incentive for waste diversion, because the cost of using landfills remains much lower.

#### What's the Big Idea?

Rather than throwing it away, waste material can be treated as a locally produced resource and used to create new, local jobs. Recycling activity can create over 10 times more jobs than disposal in landfills.

In most states, recycling workers receive higher wages than landfill workers. The number of jobs generated by the R<sup>3</sup> industry has been increasing. While currently half of all workers fall into four industry categories (paper, paperboard, and de-inked market pulp mills; steel mills; plastics converters; and iron and steel foundries), there is significant potential for job growth across a range of industry sectors.

#### How Does This Create Jobs?

If the current landfill diversion rate of 33 percent for municipal solid waste and construction and demolition debris were increased to 75 percent by the year 2030, 1.5 million net new jobs could be created.<sup>1</sup> More jobs are generated by recycling material than disposing into landfills because once material has been collected, hauled and placed into the landfill, its value becomes zero. In contrast, reuse, recycling and remanufacturing provide a range of opportunities to create value and jobs. These occur from further material handling, sorting, processing, manufacture, distribution, research and development, marketing, sales, and related administrative and support activities.

Only one-tenth of one job is created for every 1,000 tons of waste discarded. In contrast, processing recyclable material creates one to two jobs while manufacturing using recycled materials creates four to 10 jobs for every 1,000 tons of waste.



#### What Are the Barriers?

When there is a low cost of disposing waste in landfills and an absence of waste diversion policies, firms engaged in reuse, recycling and remanufacturing have a harder time competing in the market.

The lack of comprehensive, publicly available data with which to convey the current role of the R<sup>3</sup> industry in job creation makes it difficult to motivate state and local government policymakers to take advantage of its economic development potential. R<sup>3</sup> industry and occupation data is not separated from original production activity, and there is no single source of information for waste reduction initiatives.

However, cities with mandatory waste diversion goals or pay-as-you-throw policies have spurred successful R<sup>3</sup> job creation. Voluntary or legislated Extended Producer Responsibility initiatives for specific products have the potential to create significant growth in the R<sup>3</sup> industry, but these have not been widely adopted by U.S. states or industries.

#### How Can This Policy Be Implemented?

The development of an R<sup>3</sup> industry can occur through a number of paths, and three of the most significant are highlighted here.

- 1) The R<sup>3</sup> industry can be stimulated through legal mandates at the state or local level that require

### Case Study: St. Vincent de Paul, Eugene, Oregon

St. Vincent de Paul began operating in Eugene in the 1980s. Today, it employs over 300 local residents and diverted more than 19 million pounds of materials from landfills in 2010 alone. Their primary activities are used clothes retailing, mattress recycling and craft glass manufacturing. In total, the employees are engaged in 10 major waste-to-profit activities, using a range of employees and job skills. The majority of their revenues come from retail sales, and profits are used to support affordable housing construction in the area.

general waste diversion from landfills, such as mandated electronics recycling.

- 2) It can be industry driven because of sustainability objectives or fear of legislative response, such as in the Carpet America Recovery Effort (CARE) by major U.S. carpet manufacturers, or because there are compelling profit-making opportunities, such as in medical devices.
- 3) It can be driven by market demand for the recovery of valuable and/or rare materials, such as certain metals and chemicals.

Of these, the first offers the most promise for local and state government involvement. There are both push and pull factors that government can implement to stimulate the job creation potential of the R<sup>3</sup> industry.

On the push side are policies that require mandatory recycling or landfill bans for products. A good example of this is electronics; more than half of U.S. states have legislated mandatory recycling for electronics. Also, many localities have adopted construction and demolition waste recycling ordinances.

Another legislative tool is the “Pay-As-You-Throw” local waste collection system that charges residents by volume of collected waste, thereby motivating recycling. Finally, local government can adopt policies to recycle its own waste, and thus stimulate a local industry. On the pull side, governments can also create purchasing policies for buying products with recycled products, or require LEED certification for building construction.

Priority efforts for stimulating the R<sup>3</sup> industry should be focused on urban areas, where the use and

disposal of goods is highest. The cost to implement any of the above policies or activities is relatively minimal, and the time to do so could be relatively short.

### Conclusion

Until recently, recognition of the job creation potential from growing the R<sup>3</sup> industry has been overshadowed by the environmental benefits of landfill waste diversion. However, this is an important idea that can contribute to pulling the labor market into a real recovery as well as promoting long-term sustainable economic development.

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### Endnotes

<sup>1</sup> Tellus Institute and Sound Resource Management . 2011. “More jobs, less pollution: Growing the recycling economy in the U.S.” *Executive Summary*. February.

## Jobs Idea #8

### Retrofitting Homes

by Bill Lester

#### Problem Statement:

Home retrofits could produce significant numbers of net new jobs, as well as lower energy costs for families and provide environmental benefits. However, current incentive programs alone have not brought home retrofits to scale.

#### What's the Big Idea?

An Energy Efficiency Transfer Tax (EETT) applied to homes at the time of sale would provide strong incentive for homeowners to undertake deep energy efficiency retrofits, ultimately creating jobs. The EETT would be applied to the sale of nearly all residential owner-occupied properties, at 2.5 percent of assessed value. It would exempt homes built after 2000, since newer homes were subject to stronger building codes and use less energy than older homes. It would also exempt homes that already have Energy Star, Leadership in Energy and Environmental Design (LEED) or other outside verification of energy efficiency. The EETT would be immediately rebated to the home buyer upon completion of qualified retrofit projects completed by certified contractors. If home buyers choose not to undertake energy efficiency improvements, the EETT funds would then be pooled to provide residential retrofits for low-income renters.

#### How Does This Create Jobs?

First, the EETT would create direct jobs through the actual retrofitting work, which could produce approximately 130,000 jobs in construction-related sectors each year. Considering that construction has the highest unemployment of any sector at 13.3 percent nationwide, these jobs would be highly significant and could reduce unemployment in that hard-hit industry alone.

Additional jobs would be created indirectly by the increased buying power that comes with energy cost savings. Home owners would save an estimated 40 percent of their energy costs through these retrofits; the savings would go back into the economy in the form of increased purchasing. The extent of job

creation from this induced demand varies widely, depending on how the up-front retrofitting investments are financed and the spending patterns of households. But it could produce as many as an additional 80,000 jobs each year nationwide.

#### What Are the Barriers?

The most significant barrier to implementing a program such as the EETT is the political opposition to putting a greater tax burden on American families, particularly by adding a tax to the already weak housing market. However, economic modeling shows that this tax would have minimal negative impact on the housing market, while creating significant benefits through job creation and increased household savings.

#### How Can This Policy Be Implemented?

The EETT would be enacted at the state level and could be put into effect immediately. Already, 37 states have real estate transfer taxes, which range from 0.1 percent to 5.0 percent of home value. The entire cost of the program could be covered by the energy savings that households would realize by doing the retrofits, assuming they stay in their homes for at least five years. In order to address concerns about the financial burden of the EETT on new home buyers, the tax could be paid for through the tax code as a "synthetic tax." It would be assessed the year the house is purchased, but it would be suspended for two full tax years. The tax filer would do the retrofits during those two years and claim rebates up to the value of the suspended tax. Any amount that is not credited to the filer in rebates would then be collected in the next tax year. This option would reduce potential negative impacts in the mortgage qualification process.

#### Conclusion

Imposing a real estate transfer tax on residential sales would stimulate demand for energy efficiency retrofits, while also providing a stable source of financing for these projects.

### Case Study: North Carolina

Though the Energy Efficiency Transfer Tax (EETT) as proposed here has not been enacted in any state, the impact of such a tax was calculated for North Carolina. Through careful analysis of the effect on home sales, household energy consumption, initial investment financing and household spending patterns, this study estimates that the EETT would create 3,600 to 5,900 jobs, primarily in the construction sector, each year in North Carolina alone. The initial cost to the average home buyer would be roughly \$5,000, but once the retrofits were completed, these home owners would save an average of \$1,200 a year on energy costs.

Table 1. Summary of Net Employment Impacts of EETT in North Carolina, 2011

SCENARIO 1: FINANCING AVAILABLE				
Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	3,629	\$138,361,004	\$140,262,181	\$291,917,086
Indirect Effect	854	\$36,170,666	\$55,450,856	\$92,106,155
Induced Effect	1,418	\$53,668,747	\$98,137,744	\$166,687,539
<b>Total Effect</b>	<b>5,900</b>	<b>\$228,200,417</b>	<b>\$293,850,781</b>	<b>\$550,710,780</b>
SCENARIO 2: CASH UP FRONT/ NO FINANCING				
Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	3,629	\$138,361,004	\$140,262,181	\$291,917,086
Indirect Effect	854	\$36,170,666	\$55,450,856	\$92,106,155
Induced Effect	-843	(\$31,948,714)	(\$58,432,298)	(\$98,744,653)
<b>Total Effect</b>	<b>3,639</b>	<b>\$142,582,957</b>	<b>\$137,280,739</b>	<b>\$285,278,588</b>

## Jobs Idea #9

### Reviving Manufacturing

by Susan Christopherson

#### Problem Statement:

The United States is not well prepared to take advantage of new opportunities for manufacturing that may provide not only short-term job growth but also potential for long-term competitiveness in the sector.

#### What's the Big Idea?

Factories have added 250,000 jobs since the beginning of 2010. This is remarkable both because the current economic recession has led to job losses in most other sectors, and because it is the first sustained increase in manufacturing employment since 1997.

There is increasing evidence that firms are reconsidering the United States as a location for manufacturing. Transportation costs, quality concerns and low labor costs as a proportion of total cost of doing business are driving a different location calculus in some industries such as medical instruments, food processing, engineered products, short production cycle products and high-value transportation and industrial equipment. With the right policy agenda, this small wave of increasing manufacturing employment can grow to create significantly more jobs.

#### How Does This Create Jobs?

One analysis of the potential for manufacturing growth predicts as many as 800,000 new or returning manufacturing jobs. If middle-technology industries, which employed approximately 5 million workers in the late 2000s, increased their employment in the United States by just 10 percent, that alone would create 500,000 new jobs. These industries include automotive parts, transportation equipment, appliances and fabricated materials. These industries are considered “on the edge” because they have been the most vulnerable to international competition but are looking for more market-proximate locations. Thus, the right policy agenda has significant potential to add jobs in these industries in the near future.

Roughly 60 percent of the U.S. manufacturing sector is in low- or medium-technology industries that pro-



vide good jobs for middle-skill workers. These are workers who have credentials and training beyond the secondary school level but whose work does not require a bachelor's degree.

#### What Are the Barriers?

Three major issues need to be addressed in order to continue to rebuild the manufacturing sector in the United States.

- 1) Research initiatives need to be realigned to promote production and processing innovation, and not just innovation in capital-intensive new technologies such as biotech and infomatics.
- 2) Health care costs need to be addressed in order to make our labor costs competitive with countries such as Canada, which has higher wages but much lower health care costs.
- 3) Finally, the effectiveness of small- and medium-size manufacturers in the supply chain needs to be strengthened and supported in order to move up the value chain and develop global markets for their products.

These three challenges may require long-term commitments, but must be overcome in order to translate short-term gains into long-term growth.

## Case Study: Buffalo and Old Industrial Cities

Perhaps unexpectedly, Buffalo, N.Y., has been designated as one of the best performing U.S. metro regions during the Great Recession, which began in 2007. According to the Brookings Institution analysis, many old industrial centers like Buffalo have been leading the U.S. economic recovery.

These regions may hold the key to a fast recovery of manufacturing jobs. Many of them maintain facilities that can be retrofitted and have access to rail and water transport that can reduce transport costs for manufacturers. They lie within the geographic orbit of the major U.S. consumer and business markets. Although their manufacturing workforce has aged, there is still a reservoir of knowledge and skills to draw on, as well as educational institutions with technical training and engineering programs. What is needed is a fresh look at these resources and how they can be adapted to the needs of contemporary, globally oriented manufacturing firms that are looking at total costs, not just labor costs.

With increases in job growth and housing prices, the worst of the recession may already be over in some old industrial cities. In Buffalo, steady employment and increasing output, along with rising home prices, provide some indication that this city is already on the road to recovery.

### How Can This Policy Be Implemented?

A new policy agenda can address these challenges and promote greater job growth in the manufacturing sector. It should take a systems approach to the manufacturing economy and focus on the small- and medium-size firms that show the most job creation potential. It should also play to regional industrial strengths to attract and retain manufacturing supply chains serving global, national and regional markets.

This new agenda has several parts to it:

- 1) Economic development and other public officials need to learn the skills necessary to carry out a total cost analysis so they better understand how firms make choices regarding sourcing of inputs and plant locations.
- 2) An effective job creation strategy should address the specific needs of these firms, including access to capital, assistance in product and process innovation, and skilled workers.
- 3) Finally, payroll tax hiring benefits could help add jobs but should include targeted training “earn to learn” systems especially geared to the needs of small- and medium-size companies. Hiring credits range in cost from \$9,100 to \$75,000, depending on the windfall rate; however, since most of the

manufacturing job creation would not take place in the absence of the credit, the cost for the manufacturing sector is likely at the low end of the range.

### Conclusion

The U.S. manufacturing sector is in a unique moment of job growth, which can continue if the right policy agenda is in place.

## Jobs Idea #10

### Improving Early Childhood Education (ECE) Jobs

Elaine Weiss, Stephen Herzenberg and Mark Price



#### Problem Statement:

Although high-quality early childhood education (ECE) delivers large benefits to participating children and their families, as well as to society overall, poor compensation and inadequate training for the workers who care for young children result in poor quality programs.

#### What's the Big Idea?

Investing in upgrading the qualifications and compensation of early childhood educators could convert a million low-income jobs into middle-income ones and solidify the middle-income status of nearly another million jobs. The payoffs to improving early childhood education include lower costs for special education and grade retention, higher taxes from increased earning potential, and reduced social and judicial costs.

Researchers show that public returns can be as high as \$16 saved for each \$1 invested. Even conservative estimates show that the benefits of high-quality preschool programs exceed costs by a ratio of four to one.

To reap these returns, programs must offer consistently high quality. This means the people who work in early childhood education must be well trained and paid a competitive wage. Upgrading the quality of these jobs entails one or more of three complementary interventions:

- 1) Higher quality ECE programs should receive additional state, federal or leveraged private funds to help finance training and compensation improvement for staff.
- 2) Workers should have wage and benefit improvements, with career ladders tied to qualifications and experience.
- 3) Wage, benefit and training agreements should be established through expanding union representation and collective bargaining in ECE.

#### How Does This Create Jobs?

The primary focus of this strategy is on upgrading the quality of existing jobs. Some small number of new jobs would be added because higher quality and larger subsidies would lead some parents who now care for their own young children to trust early childhood education programs and join the paid labor force. Some parents may also choose to switch to “above-ground” early childhood services, replacing informal sector jobs with jobs in the formal sector.

There are nearly 2 million paid, early childhood educators currently working in the United States. Many are in low-income jobs, and most lack professional development and career ladder opportunities. Most of the work is poorly compensated, which has eroded educational attainment and professionalization in the industry. Improving the job quality of early childhood education would significantly improve the lives of those who currently work in this industry.

#### What Are the Barriers?

State and local governments face several barriers. Inadequate funding has translated into a system that is fragmented and highly uneven in quality. Few federal standards exist, and state standards vary widely. In most states, a large share of providers are not even licensed or regulated.

The most challenging barrier for state and local governments is determining how to finance these programs. In the past decade, leading economists, the

## Case Study: Louisiana Quality Start Program

Through the Quality Start program it launched in January 2008, Louisiana uses a range of tax credits to link resources for early childhood education with quality improvements. The state employs four concurrent tax incentive systems, three of them tied to program quality.

The first of these incentives, the School Readiness Tax Credit, provides sizeable bonuses for highly-rated centers that serve children in subsidized care. The state also provides School Readiness Tax Credits for individual teachers, which are based on qualifications and years of experience. The third type of credit provides parents a small, non-refundable supplement to the federal child care tax credit. The fourth tax incentive goes to businesses that donate to a center, provide child care on-site or provide a worker benefit to fund child care. Though not tied to quality, it builds support within the business community for the other tax incentives and for early childhood education generally.

The support provided by tax credits through the Louisiana Quality Start program, at its highest levels, increases pay for workers by roughly only \$3 an hour. Nonetheless, the program illustrates the potential for a state with high rates of poverty and low resources to invest in quality.

business and labor communities, many state and federal policymakers, and the general public have all come to recognize that investing in early childhood education leads to social benefits and cost savings. While there are some immediate benefits, many of the payoffs take 10 to 20 years to realize. Governments must find ways to support higher quality in the meantime.

### How Can This Policy Be Implemented?

Increasing hourly wages is one critical step. A \$6 an hour increase would significantly improve the industry's ability to attract and retain workers with a college education or credentials. For a full-time, full-year worker, that increase would cost \$12,480 a year, or \$19.5 billion annually if implemented nationwide. Including benefits and training, the total price tag would be \$23.4 billion.

At the state level, this could be paid for in part through tax credits in the short term. In the long term, governments could explore using social investment bonds or other reallocation strategies that reinvest the projected cost savings from reduced demand in other social services, such as prisons, in preventive programs, such as early childhood education.

### Conclusion

The next several years provide a unique economic and political opportunity for investing in early childhood education and compensation initiatives. At a

time when the nation's top two concerns are the need for good jobs and the reduction of public deficits and debt, investment in early childhood education is one of the few ideas that addresses both. These investments can upgrade job quality by increasing the salaries of low-income workers, which in turn will improve retention and increase the quality of care.

Higher quality ECE, in turn, reduces future spending on remedial education and other social programs while increasing tax collections when children who enjoyed quality education enter the workforce.

## Jobs Idea # 11

### Community-Based Job Creation

Michael DiRamio, Tammy Coxen, Carrie Floyd, Lewis Humphreys, Lisa Katz, Jeannine La Prad

#### Problem Statement:

Traditional approaches to economic development have left unmet market demand, waste and inefficiency in communities across the United States. These unmet market opportunities represent businesses and jobs waiting to be realized.

#### What's the Big Idea?

Community-based job creation partnerships that know the community and local industry can organize targeted sectors to ensure that local market opportunities, waste and inefficiencies are effectively addressed and that local area residents have access to jobs in emerging industries.

As such, the core work of community-based job creation is building the base of entrepreneurs, businesses and companies where jobs can be established and sustained locally, and cultivating a local resident talent pipeline for job opportunities that emerge. States and communities can play an integral role in these efforts through policies and investments that support such public-private partnerships.

#### How Does This Create Jobs?

A community-based job creation approach focuses on growing businesses and jobs within a region that are accessible to job seekers in those communities and are based on sustainability-driven innovations in emerging industries. There is particular value in addressing sustainability-driven innovations that support the pillars of a community economy, such as food, buildings, energy, transportation and manufacturing. In many of these industries there are inefficiencies, waste and local market opportunities that are left unmet by traditional economic and business development approaches, such as salvaging building material assets, capturing energy savings and addressing food deserts.

These opportunities can be the basis for new community-based products and services to meet both local and export-oriented demand. In addition, many of the jobs are accessible with short-term training

and less than a two- or four- year degree. These jobs can create pathways to careers for lower-skilled residents with disadvantaged backgrounds. As a result, there is potential to create and sustain hundreds if not thousands of jobs that are environmentally beneficial and accessible in many cases to the chronically unemployed.

Three emerging industries — building deconstruction, energy efficiency and local food production — show how these sorts of partnerships can be put into practice. In the city of Detroit alone, these industries have the potential to create up to 30,000-60,000 direct jobs over the next several years. If implemented at the national level, partnerships in these industries could potentially lead to millions of jobs.

#### What Are the Barriers?

Local stakeholder engagement and collaboration are typically needed in communities to demonstrate the viability of emerging sustainability-driven practices, and policy changes are often needed to create a viable market where business development and job creation can go to scale. Each community and emerging industry within it will have its own barriers and will require innovative thinking and partnerships in order to solve these problems.

One example comes from the building deconstruction industry. Detroit does not have policies in place for permits covering building deconstruction, only demolition, and many of the requirements do not make sense in the context of deconstruction. Cities have the ability to influence the adoption of deconstruction via their permitting process and adjustment of fees. Community-based job creation partnerships can play an important role in pushing for adoption of these policies to ensure that the job creation potential in deconstruction is realized.

#### How Can This Policy Be Implemented?

Community-based job creation partnerships can accelerate job creation in targeted industries, such as local food production, using the following high-leverage policy strategies:

## Case Study: Scaling Up local and Regional Food Systems in Detroit

Locally grown food is one of the fastest-growing segments of the food market across the country, with annual growth of about 10 percent. State and regional studies have shown that a shift to purchasing 20 percent of food locally by 2020 has the potential to create nearly 36,000 jobs in Southeast Michigan. Already, an estimated 10 percent of food consumed in Michigan is produced in the state.

Emerging community-based job creation partnerships have already formed around this growing regional food system. And they have, for example, supported local entrepreneurs to start two new grocery stores by reducing risks to banks, lowering interest in loans and providing technical assistance. These stores employ 30 people.

On the food production side, they are supporting urban agriculture projects and food-processing facilities in Detroit. They are also working on creating a regional food hub to aggregate regionally grown food in order to sell to larger buyers.

- 1) **Enable It:** Advocate for existing state and local programs and policies to nurture public demand for local goods and services, making community-based markets more accessible to area entrepreneurs. Examples include establishing urban farming and food councils.
- 2) **Build It:** Provide support to high-growth, sustainability-driven industries. Examples include changing procurement policies to encourage local food sourcing.
- 3) **Support It:** Provide technical assistance that builds the capacity of local entrepreneurs and businesses to satisfy increased demand from targeted industry clusters. Examples include lowering small-business loan requirements and fees.
- 4) **Supply It:** Work with employers, educational partners and community-based organizations to develop workforce training programs that link directly to emerging employment opportunities. This includes providing alternative forms of employment and training. Examples include establishing job training centers, apprenticeship programs and other such agreements.
- 5) **Sustain It:** Align seemingly disparate policies, programs and practices in economic, community and workforce development so that they leverage each others' resources and attract private sector investment that leads to self-financing solutions. Examples include establishing a loan funding program to leverage private investment in a targeted industry.

States and communities can play an integral role in these efforts through policies and investments that support public-private partnerships, including federal, state and local governments; private sector businesses; philanthropies; and community-based organizations. With the right actors and policies in place, thousands of jobs could be realized within two to three years. The public cost of creating these jobs varies widely, depending on the types of partnerships and policies used. Apart from any direct investment in the community-based job creation partnerships themselves, the public cost is often no greater than the alternative. For example, the cost borne by cities for deconstruction can potentially be kept nearly the same as for demolition while, by conservative estimates, creating six to seven times as many jobs from the additional deconstruction labor and resale, remanufacture and recycling of salvaged materials. An average of \$128,676 invested in deconstruction creates one job a year by conservative estimates, compared with \$813,953 on average for demolition. Supportive policies and public investment in partnerships are needed to enable a viable market to operate, stimulate new investment and expand business activity and job creation.

### Conclusion

Community-based partnerships can play a critical role in helping to realize job creation. If done right and with the right policy supports in place, these partnerships can begin to help emerging industries go to scale, create jobs and address high rates of unemployment in communities across the country.

## Jobs Idea # 12

### Regulatory Relief for Minority-owned Businesses

Timothy Bates

#### Problem Statement:

Minority Business Enterprises (MBEs) face unique challenges and discrimination in accessing loans needed to grow their businesses and create new jobs.

#### What's the Big Idea?

Access to capital is a key factor in the growth of any small business. However, there is substantial evidence that minority-owned, small businesses do not have adequate access to business loans and credit. This severely limits their ability to grow or even survive during economic recessions. Government policies and interventions to help MBEs overcome these challenges could have substantial positive impacts on this sector.

#### How Does This Create Jobs?

A financially stronger MBE community would grow more rapidly than a credit-constrained one, thus creating additional jobs. Because jobs in MBEs are largely filled by minority employees, benefits of expanded credit access would reach further into minority communities plagued by high rates of unemployment and underemployment.

MBEs already employ a significant number of workers. Census data indicate that over 150,000 firms owned by African Americans and Latinos employed 2.8 million paid workers nationwide in 2007, an average of 7.9 employees per firm. If fair lending laws were better enforced and discriminatory lending practices against MBEs were reduced, MBE access to loans might increase by as much as 20 percent. The net result of this additional \$640 million in loans to MBEs could lead to an employment increase of more than 14,000 new jobs in these firms, assuming one worker for each \$45,000 in firm total assets. This does not take into account the number of jobs that would be preserved by expanding loan availability to MBEs that might otherwise close down due to liquidity problems.



#### What Are the Barriers?

Studies consistently find that black-owned small firms have restricted access to loans, compared to their non-minority counterparts. This includes lower loan amounts, higher borrowing costs, and more frequent loan denials. Studies of bank lending discrimination using the Federal Reserve's Survey of Small Business Finances have consistently found black-business borrowers pay higher interest rates and experience a higher incidence of loan denials than white borrowers, even after firm and owner traits are controlled for statistically. These same broad patterns of limited credit access impact Latino-owned firms as well.

This level of discrimination is a significant barrier to growing MBEs. Without equal access to credit and loans, MBEs are at a disadvantage to compete for large contracts or even make payroll. Among firm owners whose businesses shut down in 1996, black owners were nearly three times more likely than whites to report "lack of access to business loans/credit" as a reason for closure.<sup>1</sup>

## Case Study: The Short-Term Lending Program

Public-sector procurement opportunities have been a source of growth for MBEs. Yet many have faced liquidity squeezes because of slow-paying government clients and limited access to bank lines of credit. The Short-Term Lending Program (STLP), run by the Office of Small and Disadvantaged Business Utilization Financial Assistance Division at the U.S. Department of Transportation (DOT) offers lines of credit up to \$750,000 to “disadvantaged” (largely MBE) businesses pursuing contracting opportunities in DOT-funded projects.

While this program has been successful for businesses that have used it, it is largely unknown and generally underutilized by MBEs. A program that is implemented at the city and state level may prove to be more effective in reaching MBEs.

### How Can This Policy Be Implemented?

First and foremost, bank regulatory authorities and the U.S. Department of Justice need to start enforcing the small-business fair lending laws that are already on the books.

At the state and local level, there are several options to increase credit availability for MBEs that are cost-effective. For example, local governments can operate “linked deposit” programs, in which their choice of local banks with which they do business is shaped in part by bank track records regarding lending in local minority communities. Ideally, banks would be encouraged to lend more actively to MBEs in exchange for the opportunity to attract local government business. Such a program can be effective at increasing MBE access to credit and loans with minimal cost to taxpayers.

A second strategy for state and local governments would be to increase MBE access to government contracts. Because of the financial constraints many MBEs face, many of them are limited in their ability to compete for large government contracts, and can be driven out of business by slow payments. Governments can respond to these constraints proactively by unbundling large contracts and ensuring prompt payment for completed work. Such changes could make a substantial difference for MBEs, with minimal cost to taxpayers.

While the payoff to easing the credit constraints impacting MBEs may not be high when measured by jobs created in minority communities in the short

run, the long-term payoff may indeed be substantial as MBEs flourish and add jobs.

### Conclusion

The full potential of the minority business community will be realized only when the higher barriers facing MBEs are overcome and entrepreneurs, regardless of race or ethnicity, are fully allowed to compete on the basis of their skills and abilities. By implementing low-cost policies and programs that counteract MBE discrimination in lending, government can improve access to capital for minority-owned businesses, improving their chances to grow and create new jobs.

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### Endnotes

<sup>1</sup> Fairlie, R., and A. Robb (2008). *Race and Entrepreneurial Success: Black-Asian- and White-Owned Businesses in the United States*. Cambridge: MIT Press.

## Jobs Idea # 13

### Tax Benefits for Entrepreneurs

Bill Schweke

#### Problem Statement:

Entrepreneurs and the self-employed are essential drivers in the American economy. Leveraging the federal tax code—and eliminating penalties for self-employment and new business—could propel these firms to create a significant number of new jobs.

#### What's the Big Idea?

Each year, more than 20 million self-employed businesses file a Schedule C tax return, 2 million of them for the first time. We should recognize the job creation potential of new businesses and the self-employed by making the tax system self-employment friendly. This includes using free tax preparation sites to help low-income entrepreneurs file Schedule C returns and capture benefits due, reducing the taxation of new businesses, and encouraging the savings that enable business start-up and growth.

#### How Does This Create Jobs?

For the last 30 years, new businesses in existence less than a year have generated an average of 3 million net new jobs each year — more than all older businesses combined. Yet, we are at a 30-year low in new business job creation. We can readily address several of the barriers the self-employed face, such as FICA taxes and high debt loads, through the Schedule C preparation process and appropriate savings incentives.

Appropriate Schedule C tax preparation can increase business filing and help the self-employed collect Earned Income Tax Credits, the Make Work Pay Tax Credits, the Child Care Tax Credits and others. At the same time, it connects new entrepreneurs to technical trainings and other business services to help firms grow and add more employees faster. Exempting the newly self-employed from employer and/or employer share of FICA taxes for the first year or two, allowing entrepreneurs to draw from IRA and 401(k) savings to start businesses, and making the Saver's Credit refundable could power a resurgence of new business starts.



#### What Are the Barriers?

Start-ups and self-employed workers face several challenges navigating the federal tax code. Between 4 million and 6 million self-employed businesses do not file Schedule C at all. Once a firm has a net profit of \$400, it incurs both employer and employee shares of Social Security and Medicare payroll tax liability. Even if new entrepreneurs pay all the tax they calculate, they often end up owing back taxes and penalties since it is impossible to predict revenues accurately especially in the early years.

While there may be immediate financial reasons not to file a Schedule C, such a decision leads to long-term barriers to growing the firm. Banks are often unwilling to make loans to small firms without a tax filing history, and firms often must eventually pay penalties to the government for late tax payments. These barriers can be overcome with some basic education and assistance to Schedule C tax filers. Many of them are eligible for tax credit refunds that more than offset business payroll and income taxes, and would be better off both legally and financially if they took full advantage of all the federal programs that exist.

## Case Study: Self-Employment Tax Initiative (SETI)

The Self-Employment Tax Initiative (SETI) is a small business development strategy that takes advantage of the tax code to help low-income, self-employed workers formalize and grow their businesses, create jobs and access asset-building opportunities through the tax code. Between 2008 and 2011, SETI funded 16 community-based microenterprise programs to provide free or low-cost self-employment tax preparation services, coupled with other essential business services. Of the more than 30,000 self-employed filers assisted, 62 percent claimed refundable credits, totaling more than \$30 million; 52 percent of filers relied solely on self-employment income; and 21 percent were first-time self-employed filers. The majority of people served by the program were women who filed as single taxpayers. In addition, more than 70 percent of filers were Latino, African-American, Asian or Native American.

### How Can This Policy Be Implemented?

The cost of such a program would be minimal and could be covered with local, state or foundation funding. Based on earlier programs, the cost for each filer is at most a few hundred dollars in tax preparation expenses (often covered by volunteer labor). Even without new federal or state policy, local Volunteer Income Tax Assistance (VITA) and tax preparation sites can provide tax prep and help new firms claim existing credits. Federal and state employment training funds can and should be used to support self-employment training and support programs.

In addition to local or regional tax preparation assistance programs, the federal or state governments could enact a (new) Self Employment Tax Credit, like that included in the American Jobs Act. The total cost of this would be \$1,000 to \$3,000 for each new venture, for 3 million start-ups (including the 2 million that file Schedule C anyway), for a total expenditure of \$3 billion to \$9 billion (less than 4 percent of the payroll tax cut included in the American Jobs Act).

Note, however, that this expenditure is really an investment that produces enduring jobs and businesses and productive capacity. Providing Schedule C preparation services and new tax incentives to new filers could, we believe, increase new self-employment and job creation rates by slightly more than the 30-year average, for an addition of 800,000 jobs a year.

### Conclusion

If we can turn Schedule C preparation, which affects 2 million new self-employed workers each year, into a welcome mat rather than a barrier, we could use the federal tax system to drive American job growth.

## About Big Ideas for Job Creation

Big Ideas for Job Creation, a project of the Institute for Research on Labor and Employment at the University of California, Berkeley, with the support of the Annie E. Casey Foundation, tapped into the innovative thinking of leading experts across the nation to develop job creation proposals. Every idea had to meet the following criteria: designed for implementation by cities and/or states and will lead to net new job creation in the short-term; practical, sustainable, scalable and already tested; and all jobs created should be accessible for low-skilled workers and offer some career opportunity. Taken together, these Big Ideas can create millions of new jobs for our country.

For more information, visit <http://www.BigIdeasforJobs.org>



The Annie E. Casey Foundation

Report edited and designed by The Hatcher Group.





A project of the University of California, Berkeley, and the Annie E. Casey Foundation  
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