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"The road to energy independence, economic recovery and reductions in greenhouse gas emissions runs through the Building Sector."

– Edward Mazria

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Obama's Jobs Plan: A Cue from King Solomon

December 8, 2009

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King Solomon, reputed to be the wisest man who ever lived, had the difficult job of deciding which of two women was the rightful mother of a baby they both claimed to be their own. Amidst their cries of claims and counterclaims, Solomon did something unique, unexpected, and very, very wise. He acted based on what he knew without question to be true, a mother's love and human nature.

With regards to his Jobs Plan, President Obama would do well to take a cue from King Solomon. He should base his Jobs Plan on what he knows without question to be true: it is private sector investment that creates sustainable jobs, yet it goes against human nature to invest during an economic downturn unless it makes good financial sense to do so.

Unfortunately, this does not appear to be the approach that Obama is taking. Among the major job creation ideas to be announced, the President is expected to call for:

"an expanded program that gives people cash incentives to fix up their homes with energy-saving materials... Obama is leaning toward new incentives for small businesses that hire new workers and new spending on roads, bridges and other public works." (From the [Associated Press](#).)

Providing cash incentives or tax credits for energy-saving materials and equipment for homes will not put America back to work.

Why not? Because both the amount of private investment generated and the financial savings for homeowners will be far too small. Even if one million homeowners (very optimistic) took advantage of a 50% federal cash incentive or tax credit at a home-weatherization cost of \$4,500, it would cost the government \$2.25 billion dollars and generate only \$2.25 billion in private spending. This would create or save only 29,997 direct construction jobs and 39,297 indirect jobs. Over the past 6 months, we have been *losing 63,000 construction jobs each month*. Since the recession began, *we have lost over 1.6 million direct construction jobs*.

The financial savings to the homeowner is so small that it is simply not worth the hassle. A \$4,500 weatherization cost with \$2,500 out-of-pocket expenses and a 20% energy savings would save a homeowner just \$35 [1] a month. If the homeowner borrowed the \$2,500 at 6.5% interest over 10 years (from a revolving loan fund), the homeowner's savings is only \$9 a month.

Funding infrastructure projects with more stimulus dollars will not put America back to work either.

Why not? Because infrastructure projects depend on tax revenue and the generator of tax revenue is the private sector, which has been devastated. Funding infrastructure projects with



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stimulus funds simply substitutes federal dollars for tax revenue dollars. This approach is a losing battle, creating temporary jobs that can only be made into permanent jobs by continual federal funding. While some infrastructure spending and financial help to state and local governments is warranted, it will not put America back to work. Each \$1 billion dollars of federal infrastructure spending creates only 7,667 one-time construction jobs and 9,000 indirect jobs.

If these approaches are not the answer, what is? Based on what we know to be true, the only real answer is a plan that generates large private investment by making such an investment a good financial decision by those investing.

Fortunately, where to target such investment is known. The real engine behind American jobs is private building sector construction. This sector is an amazing jobs machine, employing millions of Americans, spurring economic activity in almost every other U.S. sector, and generating large amounts of private investment and spending, as well as the tax revenue needed for infrastructure projects and other public services.

The bad news is the construction industry is reeling and taking down the entire U.S. industrial base with it, everything from steel, metals, wood and concrete to gypsum-board, glass, wiring, lighting, paint, fabrics, retail, wholesale, shipping and warehousing. Of the 1.6 million construction jobs lost to date, about 1 million of these have been residential construction jobs. To date, less than 15,000 jobs have been created in housing construction by the stimulus.

The good news is that production homebuilders are sitting on billions of dollars in cash reserves and are ready to build, and about 77% of homeowners in the U.S. have positive equity and many are ready to renovate. *The only piece missing is demand.*

The most effective way to create demand is to lower mortgage interest rates for homeowners who renovate their homes or buy new homes that meet specific and deep energy reduction targets. Not only does this make good financial sense to homeowners (the 'investors') who will save substantially on both monthly mortgage payments and energy bills, it also makes good financial sense to the federal government, which will multiply each federal dollar invested with \$9 to \$10 of private spending.

Under such a plan, a homeowner would be able to refinance a home at a lower mortgage interest rate in return for making energy efficiency upgrades, immediately putting people back to work. Homebuyers would also be able to purchase new highly efficient homes at lower rates. The more energy efficient the upgrade or new home, the lower the interest rate available. For renovations, upgrade costs would be added into the new lower-rate mortgage, so that a homeowner pays little up front, has a lower monthly mortgage payment, cheaper energy bill, more expendable income and a more valuable property.

Take, for example, a family currently paying 5.5 percent on a \$240,000 loan with \$30,000 in equity. Under this plan, in order to obtain a new 3.5% interest rate mortgage, the family would be required to spend \$28,700 to renovate their home to be 50% more efficient, immediately creating jobs. After adding the \$28,700 to their current mortgage balance and obtaining a new 30-year loan at 3.5% interest, this family would save \$415 per month in combined mortgage payment and energy bill savings.

A homebuyer purchasing a new \$240,000 home built to a 50% efficiency standard would also be eligible for a 3.5%, 30-year mortgage. The homeowner would save \$338 per month in combined mortgage payment and energy bill savings.

Because the program would be structured so that each federal dollar invested in lowering mortgage rates would generate \$9 to \$10 dollars in private spending, a federal investment of just \$30 billion dollars would generate \$280 billion in private spending, creating 4.5 million new jobs,

Sector.

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generating \$20 billion in state and local taxes, and returning to the federal government \$60 billion in tax revenue – double its investment. The investment would also jump-start an energy efficiency renovation market worth potentially \$1 trillion.

King Solomon acted based on what he knew to be true and was able to return the baby to its mother. If President Obama wants a thriving economy with low employment, he must also base his decisions on what he knows to be true. If not, his mistake could result in years of high unemployment.

[1] U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy. *2008 Building Energy Data Book*, Table 2.3.9 Average Annual Energy Expenditures per Household, by Year. [March 2009]. Using 2010 data.

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