DESPITE OBAMA'S ANNOUNCEMENT, "CASH FOR CAULKERS" WILL NOT CREATE JOBS

By ***Julie Borowski*** *on* ***Mar 03, 2010***

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With the national unemployment rate looming around 10 percent, President Obama visited Georgia to attempt to lure Congress into accepting his proposal to make American homes more energy efficient. According to the White House, Obama's plan, officially known as the Homestar program, is expected to create tens of thousands of jobs. In the Homestar program, consumers will have an incentive to invest in energy efficiency improvements to their homes. Depending on the consumer's energy savings, they will receive a set amount of tax payer dollars from the federal government:

> The rebates are two-tiered: the Silver Star level offers $1000-$1500 rebates for improvements such as insulation, duct ceiling, windows, roofing, doors and upgrades to heating and cooling systems. The Gold Star level is for consumers who are planning more comprehensive energy retrofits and include an upfront home energy audit to achieve a 20% energy savings in their homes. Consumers at that level can receive $3000 and potentially additional rebates for energy savings in excess of 20%.

With construction's unemployment rate at 24.7%, Obama expects his proposal to:

> spark more construction hiring and would benefit home-improvement retailers.

Furthermore, a senator administration official claimed that the Homestar plan would be:

> one of the fastest, easiest and cheapest things we can do to put Americans back to work while saving families money and reducing carbon emissions.

This should sound strikingly familiar to the Cash for Clunkers program last July. In fact, the Homestar program or as some call it—"Cash for Caulkers" was inspired by the so-called "successful" Cash for Clunker program. Unfortunately, politicians tend to ignore the long-term effects of their legislation. A number of lessons should have been learned through Cash for Clunkers. Granting temporary government rebates--tax payer dollars-- to those that traded in their old clunker for a new car gave consumers an incentive to buy these vehicles. However, due to the increase in demand, it also gave producers an incentive to raise the prices on all their vehicles. As a result, car dealerships were ordering a massive amount of new car shipments. After the brief Cash for Clunkers program ended, car dealerships were left with an over supply of cars that would not sell.

According to the Wall Street Journal,

> the 'cash for clunkers' program, worth nearly $3 billion of taxpayer's money, increased car sales temporarily to record levels. But once the program was withdrawn, sales came close to plumbing new 2009 lows in September.

A report by Edmonds.com found that Cash for Clunkers cost taxpayers $24,000 per car since most of the cars would have been bought anyway without government rebates.

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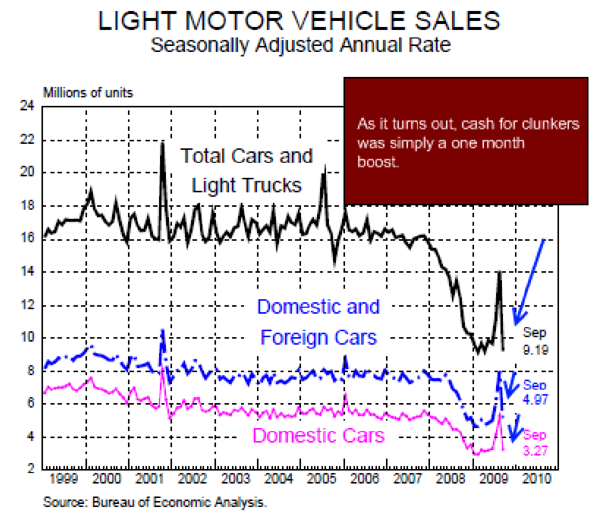

As the graph above shows, Cash for Clunkers did boost auto sells for approximately a month—however, it is imperative to analyze the long-term effects of the program. According to the American Spectator, the demand for automobiles decreased after the program ended:

> Cash for clunkers basically moved car purchases from the future to last summer, meaning it delayed many auto industry layoffs. The stimulus bill moved the date of a lot of other layoffs. Instead of coming last year, they'll come this year.

Once again, Obama has ignored the law of unintended consequences by promoting another incentive program likely to fail to achieve its objective. A good portion of Americans are likely to take advantage of the Cash for Caulker program's government rebates and invest in energy efficient home improvements-- regardless of whether they were going to anyway without government intervention. Since the demand for these home improvements will increase, the price for the products and construction workers will also rise. Once the government program ends, the demand for home improvement products and construction workers will likely be lower than before government intervention. According to Chris Edwards, scholar at the Cato Institute,

> It fits into that theme of artificially trying to pump up the economy in the short run but in my view at the expense of long-term growth. It increases the government's debt and will probably, like those other temporary programs, produce higher inflation in the future.

If Cash for Caulkers is passed, the federal government will be favoring a certain industry at the expense of others--it is taking your hard-earned tax dollars and redistributing it to others to pay for their home improvements. Americans should be free to spend their money to stimulate growth in the industry of their choosing--or save it or do as they please with their earnings. In the end, Cash for Caulkers will not increase long-term employment in the construction sector, it will only add to the unsustainable budget deficit and excessive national debt.

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