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The Microeconomics of Green Jobs

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Multiplier Effects

That brings us to the other major potential source of jobs from green policies: economic multiplier effects.

To the extent that green policies improve economic efficiency by overcoming economic barriers to cost effective green solutions, these policies will result in greater economic activity, and hence more jobs. The strongest critique of “green jobs” initiatives is that they simply shift economic activity from out-of-favor “brown” sectors to more politically correct green ones. Yet when a policy improves economic efficiency, it does not just shift jobs and capital around in the economy: it creates economic activity and jobs.

Not all green policies improve economic efficiency. For example, subsidies for not-yet-economic types of renewable energy such as wave power and solar installations may be justifiable on the grounds that they are helping to promote needed future technologies, but they probably come at a net cost to near-term jobs (even if they may create more jobs in the long term by allowing the creation of new types of businesses.)

On the other hand, policies to promote energy efficiency will be strong net creators of jobs, because the cost of energy efficiency is typically only a fraction of the cost of the energy saved. The very existence of opportunities to save significantly on energy bills at modest cost is proof that the energy market is inefficient. In an efficient market, all such opportunities would have already been taken.

After the energy efficiency measure has been installed, the cost savings can be used for useful economic activity, rather than wasted on unneeded fuel. This money will then spur additional activity and stimulate jobs.

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