THE INFORUM EMPLOYMENT OUTLOOK:

Press Release

February 7, 2012

Unemployment rates remain high in the U.S. and even higher worldwide, but steps can be taken to encourage job growth, finds an analysis conducted by the UN's International Labor Organization (ILO) and reported in their "Global Employment Trends 2012.” The US portion of the international study, supported by economists at the University of Maryland, investigates effects of investing a portion of the cash held by American firms and measures by which employment growth might be spurred without deepening government debt.

The ILO describes the four years of economic turmoil as a three-stage crisis. The initial crisis was met by fiscal and monetary stimulus, which helped but proved insufficient to foster full recovery. The resulting increase in public debt next inspired reduction of public spending and concentration on monetary policies. Weaker GDP and employment growth followed. This increased the potential for a dangerous third stage, characterized by increased risk of a second recession.

In this third stage of crisis, borrowing constraints seriously limit policy, making it difficult to battle further economic decline with a further round of stimulus spending. Early in the recession, business investment declined to historically low levels. This slowdown in investment bodes ill for stronger job creation, since strong investment growth is a leading indicator for falling unemployment rates. Increasing private investment is an essential catalyst to close the employment gap. Investment in new plants and equipment could help pick up the slack of reduced public-support measures, boosting payrolls and providing a much-needed jolt to economic activity.

Yet, there is evidence that many companies are holding large cash reserves relative to historical patterns, rather than investing towards productive ends. This perhaps is not surprising given the highly uncertain economic environment, but the consequence of this over-saving by many companies is low levels of total investment, reducing prospects for economic growth and job creation and making a further downturn more likely.

In the United States, a great deal of attention has been given to cash reserves that have been built up by corporations, where about $2 trillion was held at the end of June 2011. Investment of even a fraction of the total cash reserves could provide a substantial boost to growth of output and employment.

To assess the potential impact of such an increase in investment, the ILO and the Interindustry Forecasting Project at the University of Maryland (Inforum) produced a series of scenarios using the Inforum economic models of the US national economy. Inforum estimated excess cash holdings among US corporations by comparing current and historical ratios of liquid assets to current liabilities. The current ratio was found to be more than 14 percentage points greater than the historical average. This implies that $508 billion of cash holdings beyond levels needed for normal operations that could be invested, and the impacts of such investment were estimated for two scenarios.
First considered is the spending of a portion of each company’s excess cash on equipment and structures to serve its own operations. The overall impact of this increased investment on GDP and employment growth then was estimated through simulations performed with Inforum economic models.

According to the results, expenditure of 100 per cent of the estimated excess cash reserves spread evenly across years 2012 to 2014 would boost real GDP in the United States by 1 per cent in 2012, 1.5 per cent in 2013, and 1.6 per cent in 2014. The employment impact would peak in 2014, whereby an additional 2.4 million workers would hold jobs and the unemployment rate would be 1.5 percentage points lower. Even a more conservative assumption that half of the excess cash reserves will be spent implies significant stimulation of output and employment growth, with an estimated 1 million jobs created in 2012.

A second scenario envisions the introduction of an “Infrastructure Bank” into which companies could invest a portion of their cash. Bank deposits would support infrastructure investment projects throughout the economy. A key feature is the introduction of a tax amnesty program for companies’ overseas cash, enacted with a requirement that companies invest repatriated funds in an infrastructure bank for three years. The bank allocates its resources to a variety of public infrastructure improvement projects throughout the economy. The assumption is that investment in state, local, and federal structures would increase by a total of $250 billion between 2013 and 2016. This investment is projected to boost GDP by around 0.8 per cent in 2014 and 2015, providing employment for an additional 1.1 million workers.

The results imply that incentives to companies to deploy their excess capital could yield large-scale benefits for growth and employment in the United States.

ADDITIONAL INFORMATION:

The International Labour Organization (ILO) is the United Nations organization responsible for drawing up and overseeing international labor standards. The tripartite structure of the ILO gives an equal voice to workers, employers, and governments to ensure that the views of the social partners are reflected in labor standards and in shaping policies and programs. The main aims of the ILO are to promote rights at work, encourage decent employment opportunities, enhance social protection, and strengthen dialogue on work-related issues. The full “Global Employment Trends 2012” report can be found on the ILO web site: www.ilo.org/global/publications/books/global-employment-trends.

Inforum stands for the INterindustry FORecasting at the University of Maryland. Since its founding forty-five years ago, Inforum has been dedicated to improving business planning, government policy analysis, and the general understanding of the economic environment. For information regarding Inforum’s research, contact Jeffrey Werling, Executive Director of Inforum and Faculty Research Associate in the University of Maryland’s Department of Economics. He may be reached at (301) 405-4607 or werling@econ.umd.edu.

For assistance, please call the Inforum offices at (301) 405-4609 or contact Neil Tickner, UMCP media relations representative, at 301-405-4622 or ntickner@umd.edu.