

Business uncertainty the main impediment to corporate hiring, study says

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(Phys.org) —The sluggish recovery of U.S. jobs since the recession began is due to companies being mired in business uncertainty about national policies rather than other hiring and financial roadblocks, according to a University of Colorado Boulder study.

Businesses are uncertain about the yet-to-be-realized costs of policies such as health care, tax reform and environmental cap and trade as regulations take shape and are implemented, according to lead author Sanjai Bhagat, a provost professor of finance at CU-Boulder's Leeds School of Business.

If business uncertainty were to revert to levels that were observed in pre-recession 2005, corporate employment would increase by about 3.35 million jobs, according to Bhagat.

"We're not seeing a normal bounce back from the latest [recession](#)," said Bhagat. "On average, it takes about 24 months for the economy to regain prior employment benchmarks. In this case, about 60 months have elapsed and we're still 3.2 million jobs short of where we were at the peak in 2007."

Contrary to what some have argued, company access to capital is not the prevailing issue, according to Bhagat.

"Some of these corporations are sitting on hundreds of millions to billions of dollars of cash," said Bhagat. "But they don't know if they

should be hiring more people, investing in other facets of their businesses, like R and D and [manufacturing plants](#), or just wait."

Bhagat presented the paper with co-author Iulian Obreja, an assistant professor of finance at the Leeds School, in January to the American Economic Association. Also last May, he spoke to the American Enterprise Institute on a panel about the paper, including Chief Economist Adriana Kugler of the U.S. Department of Labor.

To measure business uncertainty levels, the authors looked at stock market volatility and also tracked negatively worded headlines—including terms such as "risk" and "uncertainty"—in U.S. business media from 1985 to 2010, finding strong correspondence between the two sets of information. They also applied econometric models to the data to calculate business uncertainty through the years and compared the results with unemployment rates.

"What's unique about our research approach is that it's the first to use an economic model to show econometrically a direct correlation between the increase in business uncertainty and the decrease in corporate employment," said Bhagat.

"Our findings suggest that if policymakers would like companies to increase their hiring and investments, they should focus on policies that decrease business uncertainty," said Bhagat. "In other words, a meeting of the minds in D.C. to offer clarification and timelines on things like health care costs, both corporate and personal tax rates, and carbon emission regulation could be helpful."

More information: ssrn.com/abstract=1923829

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