Channeling corporate cash and asset reserves into job creation

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U.S. commercial banks and large nonfinancial corporations have been carrying huge cash hoards and other liquid assets, totaling $1.4 trillion. At the same time, small businesses have been locked out of credit markets, preventing them from expanding. In "19 Million Jobs for U.S. Workers: The Impact of Channeling $1.4 Trillion in Excess Liquid Asset Holdings into Productive Investments," Robert Pollin, James Heintz, Heidi Garrett-Peltier and Jeannette Wicks-Lim of the Political Economy Research Institute at the University of Massachusetts Amherst examine the impact that mobilizing these excess liquid assets into productive investments could have on job creation. They find that if we moved those liquid assets into business expansions, U.S. employment could expand by about 19 million jobs by the end of 2014, with unemployment falling below 5 percent.

Commercial banks have been able to build up their excessive cash reserves in large part because Federal Reserve policies for the past 2 1/2 years have enabled the banks to borrow cash at a near-zero interest rate. And large nonfinancial corporations are using their massive holdings of $2 trillion in liquid assets for various forms of financial engineering, such as stock buybacks, rather than expanding their operations, investing in research, development and productive equipment, and hiring more workers.

If the roughly $1.4 trillion now being held as excess liquid assets were channeled into productive investments and job creation over a period of three years, this could, virtually on its own, solve the country's

employment crisis. If the funds were to begin moving into productive investments early in 2012, about 19 million new jobs would be generated by the end of 2014.

These 19 million jobs would be spread across all sectors, regions, occupations and credential levels. In addition, the authors have sketched an approach in which priority sectors--building retrofits, infrastructure, community health clinics, and small businesses generally--would receive an extra share of the total increase in investments.

They also present regional case studies of Los Angeles and Seattle. Los Angeles' share of the national $1.4 trillion in new investments and business expansions would expand employment in the region by 785,000 by 2014, and drop the regional unemployment rate to 6.1 percent. Similar benefits would result in Seattle, where employment could expand by over 230,000 jobs and the unemployment rate drop to 5.8 percent.

As the report's lead author, Robert Pollin, explains, "There is no reason that the U.S. needs to remain stuck in a long-term unemployment crisis. Getting the banks and corporations to move their hoards into productive investments and job creation requires carrots and sticks -- policies such as a new round of government spending stimulus as well as taxes on the banks' excess reserves -- that can both strengthen overall market demand and unlock credit markets for small businesses. Enacting such measures as quickly as possible is the best route for restoring jobs and opportunity in this economy."

Provided by University of Massachusetts Amherst