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Why It's So Tough to Create Jobs

by Bill Broderick
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As the media have amply reported, there is a broad consensus that the current job environment in the U.S. economy is the worst since the 1930s. Let's explore the state of the job market now and one of the most unique features, the lack of job creation on a scale sufficient to reduce unemployment.

This chart (click to enlarge) shows the job market over the past decade, from the U.S. Bureau of Labor Statistics.

The job creation record from 2001 through 2007 was more than 5 million non-farm payroll jobs added, topping out at 137.5 million in January 2008. At that point, the economy entered into recession, with six million jobs lost through mid-year 2009, when the recovery commenced.

Note that the current number of people on company payrolls today is almost equal to the number of payroll job holders 11 years ago. In addition, since January 2001, the U.S. economy has gained a net increase of 12 million people available in the workforce, from 142 million to 154 million.

At present, the number of employed is substantially below the available workers. The BLS uses a category of workers called "discouraged workers" to define a group that, while available for work, are "not looking for employment." The practice results in an understated unemployment percentage versus the total workforce, as evidenced by the Workforce Participation Rate.

According to BLS data, since 1980, the average Workforce Participation Rate is 65.8%. If we calculate the "unemployed" count to reflect the average participation rate, we find that the more correct figure for unemployment today is more than 17 million workers, or an 11.4% unemployment rate. Compared to the official report of 13 million workers and an 8.5% unemployment rate, the BLS figures grossly understate the unemployment problem. In a quote from a recent Gallup Poll: the practice of "reducing the unemployment rate by driving potential employees out of the workforce is not a solution to today's job problem or a good sign for the U.S. economy."

The recovery that officially started in June, 2009 has stalled out, and growth in GDP as well as the job creation process essential to a healthy job market is not happening.

Job Creators: on Strike or Broke?

Spending by businesses and consumers, along with other factors, are primary drivers of growth in GDP and job creation. For 2012 to be a break-out year for job creation, two key variables must come together:

- **Economy**: conditions must turn positive, with tax, regulatory, and government policy reforms a priority, as well as stability of policies for a 5-10 year time frame, and
- **Private sector**: Businesses and consumers must have sufficient after-tax funds to spend and generate new jobs over the next few years.

In the next three to six months, the performance of the economy will determine if the conditions cited above are favorable (or not) for job growth. The private sectors represent different facts but the same issue about available funds for spending. Let's focus on the business sector.

This Business About Cash

Over the past year, the media has reported on the extent of cash on hand on corporate balance sheets as an indicator that the job market will improve once companies begin to invest and spend money.

In a *Wall Street Journal* article in September 2011 co-authored by Ben Casselman and Justin Lahart, they stated: "Corporations have a higher share of cash on their balance sheets than at any time in nearly half a century, as businesses build up buffers rather than invest in new plants or hiring. Cash accounted for 7.1% of all company assets, everything from buildings to bonds, the highest level since 1963."

Washington Post columnist Harold Meyerson recently opined that, "U.S. corporations can't sit on their nearly $2 trillion in cash reserves forever, but that doesn't mean they're going to invest their stash in job-creating enterprises within the United States."

On a related note, Neeraj Chaudhary with Euro Pacific Capital, Inc., bloggedrecently: "Some have described this cash hoarding as a nearly irrational timidity on the part of the private sector and has for many justified the currently robust intervention from the public sector in the form of deficit spending, fiscal stimulus, and monetary accommodation. The saying goes that if companies won't spend, government must pick up the slack to restart the economy. Another key factor that is under reported in the "cash on the sidelines" story is that up to $1 trillion of the cash held by U.S. companies sits outside American borders, where it is essentially unavailable to fund U.S. operations."

As noted, cash reserves of non-financial corporations are at record levels, but, according to several analysts, so is debt. In the WSJ article noted above, "Companies' growing cash cushions could also help them weather a domestic slowdown. Per Mr. Chaudhary: "Despite the seemingly large amount of cash held by U.S. corporations, their debts far outweigh the balance in their collective bank account. According to the most recent Flow of Funds report published by the Federal Reserve, U.S. corporations have approximately $7.3 trillion in outstanding debt; the oft-quoted $2 trillion of cash sitting on corporate balance sheets pales by comparison. If borrowing costs were to rise, corporations would need every dollar of their available cash to keep from going under."

Dana Saporta, (WSJ article), an economist with Credit Suisse in New York, said "When Lehman Brothers collapsed, companies that counted on being able to borrow money for routine operations suddenly found themselves locked out of financial markets and scrambling for cash. The value of having cash became apparent during the crisis, painfully so for those who were caught unprepared, and I don't think corporate America will forget that lesson anytime soon."

Alan Reynolds, Senior fellow at the Cato Institute in an article in February, 2011, stated: Firms hire out of income, not by liquidating assets or adding to debt. No sensible employer plans on meeting routine payroll expenses by drawing down assets, liquid or not. Decisions to increase or reduce hiring are unrelated to decisions to increase or reduce any assets on the balance sheet. Companies add workers if the expected addition to after-tax revenues is likely to exceed the addition to costs (including taxes and mandated benefits).

Low Visibility

The business sector has increased cash holdings, with up to $1 trillion in domestic operations alone, as well as debt, and is now holding cash to deal with the uncertainties of the economy, concerns about ability to borrow from traditional sources (banks), fear of another financial crisis, and potential increases in operating expense if interest rates rise. All options noted reduce available cash for job creation.

With regard to the options posed, (on strike or broke?) the option that seems more correct is “broke.” If businesses cannot visualize a way forward with sufficient confidence to justify risk, and more importantly, fund plans for growth as well as expansion, how do we get back to robust job creation? The short answer seems to be: we don’t.