



The above chart illustrates one of the greatest economic costs of the current recession: lack of businesses investment. Using data from the United States Federal Reserve Bank, Mercatus Center Senior Research Fellow Veronique de Rugy shows the changes in American businesses' cash reserves since 1975. Billions of dollars in cash reserves is shown in red and cash reserves as a percentage of total business assets is shown in blue to provide historical parity. By both measures, companies are holding onto more cash than they have in 48 years, over \$1.8 trillion.

This cash is being held to hedge against the risk produced by an exceptionally uncertain policy environment. Instead of being put to work in the economy, private dollars are being held.

Economists and the business community agree: recent policy changes have hampered business investment, making a bad situation worse. Indeterminately large future debt and deficits pose a threat for increased taxes and for future government crowding out of capital markets. Healthcare and financial reform measures have increased the regulatory burden on businesses. Uncertainty about the future of energy and environmental policy looms. The cost of this uncertainty is new plants that are not being built, technological research that is not being done, and workers that are still unemployed.

As policymakers attempt to reduce unemployment and encourage growth, they must realize their limitations and the unrealized opportunity for private sector growth. Lasting economic stimulus will come when American businesses are allowed to thrive.

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