Record Profits, Record Stock Buybacks: Another Looming Economic Crisis?

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Has the economy recovered or is it about to sink into another crisis? Do the shenanigans in finance that we regularly read about play a role in developing a stronger capitalism or do they cover up failures that will soon blow up in their faces? These can be mind-numbing questions, but they're questions that activists, in particular, can't ignore.

Profits are a particularly critical indicator of the state of a capitalist economy because they are generally understood to drive investment. Investment in turn has a determining effect on jobs, wages (to the extent that an increase in jobs increases workers' bargaining power) and a growing tax base that can support social programs. Today, however, this link between profits and investment seems broken: while profits are booming, investment is stubbornly lagging. How are we to understand this?

For some, there is a simple answer. They square the circle by arguing that profits are actually not doing all that well. But the statistical contortions involved in making high profits disappear is a hard sell, with all the news of corporations sitting on rapidly growing hoards of cash. The head of the Bank of England (and former head of the Bank of Canada), Mark Carney, called this "dead money," lamenting the refusal of corporations to put their profits back to work in the economy.

Madcap Buyback Binge

Another explanation receiving a great deal of attention was recently summarized by Mike Whitney in *Counterpunch*. He points to the reorientation of corporations to a "madcap buyback binge" of their stock which "has gotten so crazy that buying back their own stock actually exceeded profits in two quarters of 2014." The corporate stampede to purchase their own stocks, in conjunction with the rapid rise in corporate dividends, has two significant implications. First, it seems to leave less funds for investment and innovation. Second, the increased demand for stocks artificially raises their prices and as circumstances change this leaves the stock market vulnerable to another devastating crash.

For Whitney, the increase in stock prices is obviously not a reflection of the actual strength of the American economy because he takes it as self-evident that the U.S. economy is "dead in the water." The underlying culprit in making the stock market boom possible is the U.S. Federal Reserve as the Fed's easy money policy (the so-called quantitative easing) encourages further borrowing – in addition to the funds available through corporate profits – to finance the stock buybacks. This has "led the country to the cliff-edge once again where the slightest uptick in interest rates is going to send the economy into free fall."

But why is the Fed "steering the country from one financial catastrophe to the next"?

Because, Whitney argues, it is part of the Fed's commitment to ensure that – as he titles his article – "The Rich get Richer." Since wealth in the U.S., and especially stocks, are notoriously unequally distributed (the top 10 per cent owns 90 per cent of stocks), higher stock prices sustain and increase that inequality.

The appeal of these kinds of narratives is not just the strange attraction of the Left to predictions of an economic Armageddon just around the corner. Whitney's argument also provides simple yet powerful talking points. If the story oversimplifies the role of the Fed, it is spot on in attacking a key justification for the inequalities brought on by high corporate profits and the outrageous salaries of their executives and managers. Those inequalities are allegedly a condition for delivering jobs and general social welfare. However with corporations *not* actually reinvesting those profits to any degree commensurate with their profits, we end up without the jobs or social programs, and with even worse social inequality and greater economic insecurity.

Consequently, the radical issue posed is that if corporations are failing to adequately invest the surplus, why not – at a minimum – tax their socially unproductive profits and have the state use this revenue to undertake investment?[1] It is remarkable, and a sign of the Left's weakness, that popular sentiment has not been mobilized in this direction to any significant degree. This is what makes Whitney's analysis especially welcome. Yet his argument also slips in certain presumptions that need questioning and unpacking.

Is the U.S. Economy Dead in the Water?

Whitney implicitly assumes that an imminent stock market collapse would be economically catastrophic. Is this true? Are stock buybacks and funds for investment in fact a zero sum game where an increase in one undermines the other? Is investment really as flat as he suggests? Is it accurate to describe the U.S. economy as "dead in the water" or is the situation more ambiguous? Can we reduce the role of the Fed to being the handmaiden of the banks and the rich? And can we assume that if there is another deep economic crisis the left would be strengthened?

To begin with, the bursting of stock market bubbles is, in the first instance, a financial event. It may lead either to wider economic consequences or just occasion a temporary financial panic that is waited out. Unlike a collapse in the housing market – which directly impacts jobs across a variety of sectors and involves the primary source of wealth within the working-class – a stock market crash would not *necessarily* mean a precipitous collapse of the economy. That would depend on its depth, duration, what is going on in the rest of the economy and the response of the state.

As for buybacks, the fact that corporations are using their funds to purchase their own stock and increase dividends doesn't negate the possibility of them also investing in capital equipment and structures. These are not zero-sum choices. Apple, for example, is the current corporate leader in returning funds to stockholders; it alone accounts for about 10 per cent of existing corporate cash hoards.[2] And yet Apple is also in the top rank of spenders on research and development, equipment, and structures.[3] More generally, if profits are high enough and if corporations can borrow at low interest rates, it is quite possible to both return funds to stockholders *and* reinvest in structures and equipment. This should be self evident from the fact that even after all their buybacks and dividend outlays, U.S. non-financial corporations are still sitting with some $1.7-*trillion* in cash.[4]

Moreover, it isn't necessarily the case that returning funds to stockholders is dysfunctional to capitalist accumulation. Corporations don't engage in stock buybacks just to increase the compensation of executives linked to stock values. Stock buybacks are also a financial tool that corporations use to maintain steady increases in their stock prices because this supports their access to cheap credit. And to the extent that corporations disburse their profits to stockholders and these stockholders in turn reinvest the funds in other companies where they expect a higher return (including new ventures), the reallocation of capital can end up strengthening capital as a whole and thus the wider economy.

The central question is, of course, whether such reinvestment is happening. Are stockholders *not* investing their increased wealth and, as such, no longer acting as capitalists but as rentiers (that is, consuming capital rather than regenerating it)? If stockholders are themselves not reinvesting their new funds in other companies, but only buying other financial products, a question remains as to where the funds involved end up. Do they indirectly support capital investment through the services provided (as with derivatives offsetting exchange rate risk, or funds deployed for mergers and restructuring)? And to what extent do these funds eventually find their way back to investments in productive assets?

Real Investments

These are, in good part, empirical questions. To get at them we need to first reassess whether the presumed stagnation in U.S. investment is actually true. It is undeniable that investment is low relative to the scale of profits in the economy. But with profits so high, investment can lag profits and still be significant – even if such investment hasn't recovered to levels sufficient to consolidate a robust recovery.

Consider the data on real (after inflation) investment. If we compare gross private domestic investment in the first quarter of 2015 to where it was in 2007, the last year before the crisis, it has only increased by 5.5%, significantly lower than even the modest increase in real GDP of 9.6%. These investment figures however include the dramatic decrease in residential investment (23%). If we consider only *non-residential investment*, the data looks significantly better. At 10.4%, it is above, rather than below, the growth in GDP. Further, if we move beyond the most turbulent years of the financial crisis and consider only the last five years, real non-residential investment has been growing at a respectable average annual rate of over 6% (although this growth begins from a low base at the low point of the crisis).[5]

This growth in private investment is hardly spectacular, but compares favourably with public investment. Real government expenditures on investment stands 12% below where it was in 2007 and even remains below where it was back in 2003. Non-residential investment, in contrast, is today almost 40% higher in real terms than it was then. In spite of the federal stimulus from 2009-11 at the height of the economic crisis to keep the U.S. economy from falling into another Great Depression, the severe cutbacks at the regional State level has meant that overall government spending today, including both investment and consumption, remains below where it was in 2007.

So, is the U.S. economy "dead in the water"? Whitney's unambiguous declaration is that it is, reinforced by how flat GDP has been over the last two quarters. But while raising cautions, the period is much too brief for any such definitive conclusion. Short term problems can't be disregarded – they might circumscribe longer term possibilities – but other U.S. trends raise the odds for a continuing recovery.

Levels of employment are, for example, key drivers of household borrowing and spending on big ticket items like housing and cars and the unemployment rate has been falling toward 5 per cent. Exports are up 27% since 2007 and 75% since 2003 while imports have increased at about half that rate, 11% and 35% respectively. Bank balance sheets have been sufficiently repaired to support new rounds of investment (although the role of finance in contemporary forms of accumulation necessarily comes with high volatility and new vulnerabilities). U.S. investment has indeed been expanding abroad but foreign multinationals have also been investing heavily in the United States. Crucially, the American state has, in contrast to the 1930s, kept capitalism on the track of a liberalized global trading and investment order and confirmed its policy capacities to contain – if not prevent – crises. And, cash hoards also serve as the potential funds available to feed a boom *if* confidence in sustainable growth re-emerges.

That "if" is, of course, the big question. The point emphasized here is only that the *possibility* of a relatively sustained economic revival can't be discounted as conclusively as Whitney and others have done. This is especially so when the labour and social movements in the U.S. (or elsewhere for that matter) represent only a minimal barrier to any necessary capital restructuring. In this regard, if the pessimists are right that renewed growth is unlikely in at least the near and medium terms, the experience of the recent crisis – with the great costs imposed on the working-class and the shift in the balance of power further to the right – suggests that there is little basis for optimism about a positive political jolt for the Left from further economic stagnation or even of a new open crisis.

Special Responsibility of the American State

Prominent liberals like Joseph Stiglitz and Paul Krugman, and former Secretary of the Treasury Larry Summers in particular, have added weight to the argument that the U.S. is "dead in the water" by raising the specter of secular stagnation. It's important to note, however, that they present the thesis of structural stagnation not as inevitability, but as a warning that countermeasures are necessary and *can* be taken. Their policy recommendations also flow from concerns with cash hoards alongside low levels of private and public investments. Individual corporations, they argue, are resorting to "waiting" for a coherent economic revival before they shift into higher investment mode. Investors are caught in a web of uncertainty about the responses of households, other corporations as well as developments in the global economy. For these liberals, a special responsibility falls on the American state to productively intervene. The enormous gap in American infrastructural needs (physical, educational and in relation to the environment), the availability to the U.S. of cheap capital, and the unrelenting and appalling growth in inequality, all clinch the case for massive government infrastructural developments alongside progressive tax reform and steps to raise wages at the bottom of the labour market.

Such a liberal revival of Keynesian spending and mild redistribution is hardly radical. Why, then, is there no generalized enthusiasm for this apparent common-sense way forward? The easy response that focuses on the hold of neoliberal ideology won't do. Ideologies matter and frame and reinforce the practices of economic policy-makers. But they also can come into direct conflict with concrete interests and contradictions that dull their importance in the face of a necessary policy pragmatism. There were, for example, ideological predilections in Congress to reject financial aid to Mexico during its early 1990s crisis, to refuse passage of budgets containing deficits, and to oppose TARP (Troubled Asset Relief Program) and the bailing out of banks during the financial crisis. But under the pressure of circumstances, Congress eventually came around.

A different explanation for the resistance to stimulus is based on seeing the American state (or the Federal Reserve in Whitney's argument) as simply a captive of finance. It is true that the increased prominence of finance in the economy pressures the Fed and the American state to be sensitive to financial structures and the confidence of bankers. These bankers do tend to be fiscally conservative and worried that excess spending may cause a bout of inflation that erodes their assets, or in extreme cases risks a default on their bond holdings. Although the risk of non-payment may be remote at the federal level, this is not the case at the state and local levels (witness Detroit). There is, as well, the example the U.S. state is determined to set for 'less disciplined' jurisdictions abroad.

Yet here, too, more seems at stake. After all, a growing economy is good – and safer – for banks, as well. An additional factor worth considering is that the state, supported by capital more generally and not just the financial sector, has worked hard to erode the relative significance of fiscal policy in managing the economy and is reluctant to give that victory up. The point is that fiscal intervention carries the dangers of it being inherently politicized since it brings into public discussion issues of taxes and tax distribution, of social priorities and of spending outside the direct purview of the private economy. Monetary management in contrast has the preferred advantages to elites of being carried out behind closed doors, with strict market-oriented mandates, and of operating through financial markets that discipline each of firms, workers and states to the 'apolitical' priorities of accumulation.

In this regard, the weakness of labour as a countervailing force reinforces the toleration of fiscal conservatism. Moreover, the persistence of austerity and restrained growth provides the state with an opportunity to further weaken labour. As long as the slower growth doesn't threaten the survival of the banks – something that has been carefully taken care of – austerity can be used to address the longer-term goal pushed by sections of the elite: consolidating the institutional defeat of private sector unions and moving on to match that achievement in the public sector. From this perspective, the conservative fervor of the German state for austerity, even with pressures from the American state to go softer, is not just a matter of an historical legacy that is paranoid about inflation, but is also a dimension of the German state playing a leading role in consolidating European neoliberalism and 'ratcheting down' to the weaker welfare state and greater labour flexibility the U.S. already has.

Organizing Ourselves

American capitalism is currently characterized by both a greater role for financial markets and the weakness of the working-class. The stock buybacks that Whitney points to add to existing financial volatility, and the potential of an asset bubble leading to a significant collapse in the stock market. And the political emphasis on the link between driving up stock prices and inequality, and the failure of corporations (and the rich) to invest at levels that justify their radically disproportionate share of society's wealth, is surely right.

But we should not underestimate the resiliency of capitalism, and the staying power of the American economy. The working-class and social movements remain in retreat, and such recent mobilizations as Fight for $15 and Black Lives Matter are limited without larger perspectives. What we need to build and prepare for is not a capitalism on its last legs but one able to stumble on and to generate profits in spite of all the volatility and uncertainty. The tasks this sets for the Left is the longer term one of winning people over to rejecting capitalism even when it is, on its own terms, functioning 'well.'

It is our inability to organize ourselves to address *this* challenge rather than of focusing on how to fix capitalism that defines the failures of the Left. It is this crisis that we especially need to be talking about. •

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Notes:

1. See the efforts of the International Union of Food Workers to raise buybacks as a mobilizing issue.

2. Hoards are highly concentrated in the largest firms and also in certain sectors like mining and oil. The latter seems an important part of explaining why Canada stands out in the extent of its cash hoardings.

3. Apple Directors recently authorizing a return of some $200-billion to its stockholders. See: Apple, "Press Release," April 27, 2015.

4. Eric Platt, "Top 50 U.S. Boardroom Hoarders sitting on $1-Trillion Cash," *Financial Times*, May 10, 2015.

5. This and other data on the U.S. economy is from *U.S. Bureau of Economic Affairs*, NIPA Tables 1.1.3 and 3.9.3.

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