Shareholders’ big skim

By Harold Meyerson Opinion writer
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From the 1940s through the 1980s, back when the mob ran Las Vegas’s casinos, the essence of the city’s economy was the skim. Before the day’s take was tallied, the counting room guys skimmed off a certain percentage for the care and feeding of the Giancanas and the Lanskys, and then entered what remained into the ledgers as official casino earnings, to be reinvested in more lavish floor shows or paid out in taxes. The skim never really put a crimp in the floor shows, but it certainly diminished the funds available for Nevada’s public works, not to mention likely financed any number of gangland hits across the republic.

The mob was driven out of Vegas in the 1980s, but it was during that era that a new, and this time perfectly legal, skim began. Unlike the Vegas skim, which still allowed for sufficient floor show investment, the new skim, which is both ongoing and nationwide, has greatly reduced productive investment in the United States. The new skimmers have been the nation’s largest investors, and although they haven’t had anybody whacked, they have managed, as the mob never did, to bring America’s middle class to its knees.

A recent paper by J.W. Mason, an economist at the City University of New York and a fellow at the Roosevelt Institute, documents the great shift in what U.S. corporations have done with their money. In the 1960s and ’70s, about 40 cents of every dollar that a corporation either borrowed or realized in net earnings went into investment in its facilities, research or new hires. Since the ’80s, however, just 10 cents of those dollars have gone to investment. As a result of the shareholder revolution, the money that once went to expansion and new ventures has gone instead into shareholders’ pockets.
Over the past decade, the payouts that corporations made to shareholders (through both dividends and share repurchases) were equal to the entirety of their borrowing. Indeed, as Mason writes, “the businesses that have been borrowing the most since the end of the recession have not been those with the highest levels of investment, but rather those with the highest dividend payments and share repurchases.”

“Finance,” Mason continues, “is no longer an instrument for getting money into productive businesses, but instead for getting money out of them.”

In the decades following World War II, the disposition of funds within corporations was the prerogative of the managers. Their investments, chiefly from retained earnings, led to a generation of high productivity growth accompanied by steadily rising worker incomes, thanks to substantial unionization. In the 1980s, however, the managerially controlled firm was challenged by corporate raiders who sought to create leaner firms with lower wages in order to return more money to shareholders. A newly deregulated financial sector encouraged corporations to fund their endeavors more from borrowing — which enriched Wall Street — than from earnings. And influential economists such as Milton Friedman propounded the belief that the sole corporate mission was to reward shareholders. That belief had informed very few corporate strategies in the postwar decades, but in the ’80s, it became holy writ in U.S. business schools. It won over top managers when, beginning in the early ’90s, their pay (but not their employees’ pay) was linked to stock performance.

Today, the shareholder revolution is triumphant. As economist William Lazonick has demonstrated, the corporations on the Fortune 500 list from 2003 through 2012 devoted fully 91 percent of their net earnings to shareholder payouts. So much for retaining earnings to invest. As economists John Asker, Alexander Ljungqvist and Joan Farre-Mensa have shown, privately owned U.S. firms devote almost twice the percentage of their assets to investment than publicly traded firms. So much for the indispensability of shareholders to the national well-being. And still, “activist investors” such as Carl Icahn and William Ackman threaten managerial purges unless managers agree to lavish even more resources on shareholders (including the activist investors).

Technological change we have always had with us, but it was the coming of both globalization and the shareholder revolution in the 1980s that undid the broadly shared prosperity that Americans had enjoyed in the mid-20th century. The decline of investment and the slowing of productivity growth, the rise of corporate debt and Wall Street, the enrichment of major investors at the expense of employees at virtually all points on the economic continuum (Americans even at the 95th income percentile saw their incomes decline last year) — all this and more are consequences of the big skim, of shareholder appropriation of the funds that used to make the United States thrive. We’ve traded the Giancanas for the Icahns — and, by the measure of what that did to our middle class, was that ever one bad deal.