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Uncertainty in the marketplace

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A recent theory has gained traction that shortsightedness and greed on the part of corporations has been the cause of a prolonged decline in economic growth. Starting in the 1990s, companies have increasingly decided to either award lavish bonuses to executives or hoard profits in lieu of investing that money back into the firm.

According to economics bloggers Yves Smith and Rob Parenteau, "[t]he reason for all this saving… is that public companies have become obsessed with quarterly earnings."

In times of economic stagnation, this does appear to present itself as a problem. But, whether or not a company chooses to invest its earnings back into itself is a decision that companies have had to make since the outset. What changes in recent years have lead to companies doing so less frequently?

Fareed Zakaria unknowingly offered an answer to that question in a recent *Washington Post* piece. After speaking with several of the nation's top chief executives, Zakaria succinctly summarizes, "economic uncertainty was the primary cause of their caution."

To be clear, the executives were not referring to the vitality of the national economy, but rather to the increasingly complex and unpredictable regulatory state under which they must now do business. Under anonymity, one CEO was quoted as saying, "[a]lmost every agency we deal with has announced some expansion of its authority, which naturally makes me concerned about what's in store for us for the future."

To be fair to the Obama administration, the uncertain regulatory environment did not begin under their reign. George Mason University Professor Veronique de Rugy calculated that, "[t]otal real expenditures for finance-and-banking regulation rose 45.5 percent from 1990 to 2010, with a 20 percent increase in the last ten years."

Major changes in the employer-sponsored health insurance market took place in 1997, 2003, and again in 2010. Looking to the future, it seems that Congress intends to solve almost every problem this country faces – not a brief list by any measure – with some form of increased regulation, taxation, or oversight. The merits of each intervention may be worth debating, but in combination this strategy paints an uncertain landscape for businesses and entrepreneurs.

The "greed theory," claiming that companies just now realized that foregoing investment and retaining profits can be lucrative, is inadequate because it ignores the simple truth that profits and self-interest have been driving forces in corporate decision-making from the start. Has human nature markedly evolved during the last couple of decades so that avarice and myopia have replaced temperance and prudence?

Rather than identifying what has changed, the theory deceptively blames what has always been the same. In so doing, it presents today's corporations as modern rent-seeking phenomena rather than basic economic actors responding to changing incentives.

With uncertainty in regulation, taxation, and oversight puzzling executives across the country, it is not difficult to see why money that is sitting on the books will remain there for some time. As Ivan G. Seidenberg, chairman of the Business Roundtable, notes, "by reaching into virtually every sector of economic life, government is injecting uncertainty into the marketplace and making it harder to raise capital and create new businesses."

As a result, corporations have begun to deal with questions such as these: how will a carbon tax affect transportation and manufacturing costs? How will health insurance costs change as a result of the recent health care legislation? These are questions that even regulators cannot answer.

The uncertainty of tomorrow's corporate landscape has resulted in predictable outcomes. Businesses, eager to learn the most advantageous response to the next government intervention, will patiently wait until it happens. In the meantime, profits are being saved. Better policies would change those incentives, and while solutions vary, Cato Institute Senior Fellow Daniel Mitchell suggests, "the best way to encourage growth is to permanently reduce the burden of government spending and get rid of regulatory obstacles that fail a cost-benefit test."

The uncertainty that results from constant government intervention has encouraged corporations to hold onto today's profits in preparation for the next big policy change. According to Zakaria, "America's 500 largest nonfinancial companies have accumulated an astonishing $1.8 trillion of cash on their balance sheets," the highest level in over 50 years.

In order to get companies spending that money, Congress must first relieve the current regulatory burden and promise a reliable, steady, limited-government approach to businesses desperately trying to employ our nation's workforce and stimulate our nation's economy. Until then, companies will keep that money under the mattress instead of in the hands of the American people.

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