Robert Wade takes umbrage at defence of corporate managers and short-termism in the Financial Times

Robert Wade submitted the following letter to the Financial Times in response to an article titled 'Shortsighted complaints about short-term capitalism' by Sebastian Mallaby, senior fellow at the Council on Foreign Relations. Disappointed to be overlooked in favour of an acquiescent response by Danny Leipziger, Professor Wade is glad to share it here on the International Development blog.

> Relative to other forces in the company, shareholders may be the good guys.
>
> Sebastian Mallaby

Alarm bells are ringing over low levels of investment to GDP in several developed countries (notably US and UK). Some argue that low investment results from excessive payments on dividends and bonuses and stock buybacks. In a Financial Times column, Sebastian Mallaby says that the causation runs mostly in the opposite direction. But he does not go on to ask what might be other causes of low investment.

Spread out the ownership of capital to raise sluggish investment

Sir,

Professor Robert Wade

Professor Robert Wade

Sebastian Mallaby disagrees with the common argument that low levels of investment in the US and UK are a result of a high level of dividend payouts and stock buybacks, which leaves little left over for investment (Shortsighted complaints about short-term capitalism, August 6). The causality, he says, goes mainly the other way: a dearth of profitable uses for capital drives payouts to shareholders.

Which raises the question of why there is a dearth of profitable uses for capital. One reason, not hinted at by Mr Mallaby in his defence of corporate managers, is highly unequal income and wealth distribution. Investment is constrained by the limited consumption demand of the small fraction of the population receiving most income and owning most wealth.

One line of solution is more income redistribution through the state – which takes us straight into the familiar Left-Right stalemates. Another, less familiar solution is to create institutions for spreading ownership claims on the returns to capital. Employees, customers, others could create trusts which borrow on capital markets and buy equity shares in companies. Companies pay out dividends to the trusts, the trusts repay the loans (and take out capital credit insurance in case equity returns are insufficient). In this way a large fraction of the population receives income from both labour and the earnings of capital – so that the poor and middle-classes, too, could "earn" income while they sleep, and not just the already rich who now own most claims on the returns to capital.

Broader capital ownership would expand investment opportunities and thereby (if Mr Mallaby is correct) lower payouts to shareholders; and also reduce the demand for redistribution through the state. Business associations and trade unions could take the lead in organizing these trusts and securing the cooperation of groups of companies which would collectively benefit from the more evenly spread consumption demand. This solution to the low investment problem should elicit approval from both Left and Right.

Robert H. Wade is Professor of Political Economy and Development in the Department of International Development. (We regret that links to articles in this piece may only be available to Financial Times subscribers. LSE staff and students can access this online via the library website.)

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