Re: That $2.5 Trillion In Earnings Stashed Abroad

> Stock prices are usually short-term distractions, while true value is built up over time. *According to McKinsey, 70% to 90% of a company's value is related to its likely cash flow three or more years from the present. That makes sense--making money from new inventions takes time*. Yet Wall Street analysts, whose opinions help set stock prices, typically base their assessments of a firm's one one-year cash flow projections. (Contrary to the Efficient Market Hypothesis that the prices of individual stocks are always correctly priced for their risk-adjusted discounted present value of ***all*** future dividends.) (Added)
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> While recent gains in the market have indeed been driven by rising corporate earnings that fact obscures a more troubling truth beneath--sales growth is trailing well behind earnings growth. Companies have higher profit margins (and thus higher stock prices) not because the economy is booming and they are selling more stuff but because they have cut costs, kept salaries flat and not invested in new factories or research and development.
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> **Buybacks:** From 2003 through 2012, 449 S&P 500 companies used 54% of their earnings to buy back their own stock. An additional 37% was spent on dividends, leaving less than 10% for R&D and employee salary increases.
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> **Payoffs:** In 2012 the highest paid executives of U.S. public companies received 83% of their compensation in stock, or about $25 million each.
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> Rana Foroohar
> TIME
> April 6, 2015

Meanwhile, although the nominal corporate income tax is 35%, *due to generous corporate welfare in the U.S., the effective corporate tax rate is around 15%* with some major companies paying no income taxes at all. Likewise it is estimated that American companies have hoarded about $2.5 trillion in foreign countries in order to avoid paying U.S. taxes. Indeed, some have argued that by lowering the corporate tax rate significantly that much of this $2.5 trillion would flow back to the U.S. to be spent on plant and equipment, R&D and higher salaries for employees. But who can be certain such an influx of capital would not be used for stock buybacks, higher dividends and executive salary increases?

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