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# Barack Obama's corporate cash grab signals 'start of a wider assault on capital'

First it's corporate cash surpluses, next it will be property and wealth. Angered by a private sector investment strike that they helped create, many governments want to move back to the commanding heights of the economy

The profiteering, tax-avoiding private sector won't invest, so the government must step in, confiscate the money and do the job instead.

**By Jeremy Warner**

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Earlier this week, the world's most profitable company, Apple, raised $6.5bn by issuing bonds of varying maturities at prices that even the UK government struggles to match. Perhaps unsurprisingly, given that this is a company with $178bn of cash or cash equivalent sitting on its balance sheet and which therefore scarcely needs the money, the bonds were in hot demand.

Apple was pretty much a busted flush by the tail end of the 1990s. That investors would happily cough up for such expensively priced paper is on one level testimony to what a remarkable success the company has since become. But on another it is also evidence of the complete madness into which much corporate, and indeed government, finance has descended.

If this were money to fund new investment, job creation and further innovation, you could only applaud. But it is not; it is to pay for the buybacks and dividends which shareholders, understandably keen to get their hands on Apple's embarrassment of cash riches, have begun to demand. Ludicrously, the American tax system forces Apple to go through the rigmarole of raising money from investors in order to pay investors, many of whom will be the same, money which it already has, albeit offshore to avoid oppressive rates of US corporate taxation. Even the twisted logic of Lewis Carroll's Tweedledee would struggle with such absurdity.

This bizarre piece of financial engineering raises a number of inter-related issues at the heart of the Western world's economic funk. The most obvious of these is that more than six years after the financial crisis, the private sector remains stubbornly averse to the sort of productive, employment-creating investment it used to be so good at. It is fashionable to blame this on "market failure", and no doubt there is, after such a serious financial crisis, some element of truth in the charge. Yet in order to generate investment and risk taking, you first have to remove the barriers to it, and in this regard almost everything has been pushing in the opposite direction. Animal spirits have been suppressed – often quite deliberately so - by regulatory and other forms of government intervention, some of it reasonably well intentioned but almost all of it deeply destructive.

Apple is admittedly something of a special case, a victim, if you like, of its own spectacular success. However inventive, no single company could possibly reinvest such humongous cash generation, so it makes sense to return the money to shareholders. Unfortunately, they too cannot seem to find a better use for it.

More and more of these recycled surpluses just sit idly around in cash and government bonds - or simply feed the ever-inflating asset price bubble. Corporate cash hoarding has become pretty much universal. If it is true that post-industrial, ever more digital economies are simply less capital intensive than they used to be, this may be set to become an entrenched condition – more structural than cyclical. In any case, the problem is certainly not lack of funds; central bank money printing has ensured a positive glut of the stuff, and at next to no cost. But still risk aversion reigns supreme.

Into this investment-parched landscape galumphs the American President with a cunning plan to correct the problem. The best way of addressing it would be simple reform of the US's grossly uncompetitive corporate tax rates. But no, that's far too obvious a solution when something much more complicated and doomed to political stalemate can be proposed instead – a one-off 14pc tax on the estimated $2 trillion US corporate surpluses held offshore, all that money then to be reinvested in the infrastructure spending that the private sector refuses to finance.

With a Republican majority in Congress, there is not a snowball's chance in Hades of Barack Obama's plan ever reaching the statute books. If you were being charitable, you might argue that it is merely a way of kick-starting wider, bilateral talks on corporate tax reform. Be that as it may, the underlying political message is clear; the profiteering, tax-avoiding private sector won't invest, so therefore the government must step in, confiscate the money and do the job instead.

Infrastructure – ah that miraculous form of investment that pays for itself, enriches both present and future, and which supposedly only governments, in their wisdom and largess, can properly manage and finance.

Never mind that this way of thinking all too often ends up in semi-corrupt, pork barrel vote buying and worthless monuments to political vanity. The US, Germany and Britain - they all need massive infrastructure renewal, but the private sector won't do it. Market failure must therefore be fought with government activism and interventionism. This is the kind of narrative that Mr Obama's budget proposal speaks to.

It is also very much a self-fulfilling one, for when you examine the causes of the investment strike, they are substantially government initiated rather than the result of some kind of didactic, Marxist-style failing at the heart of the capitalist system.

Let's take two that are particularly prevalent in Europe but which are also mirrored in the US.

By categorising infrastructure investment as high risk, post-crisis banking regulation seems almost deliberately designed to undermine and prevent it. Most European banks have quit this form of lending in the face of the new capital requirements. It's the same with the insurance sector, even though the long-term nature of most pension and insurance liabilities seems tailor made for investment of this type. The EU's Solvency II directive makes it uneconomic. Having spent the past 12 years helping construct this growth-destructive piece of legislation, the Commission president, Jean-Claude Juncker, now asks the private sector to step up to the plate and support his pathetically inadequate, Heath Robinson style, €315bn scheme for rebuilding Europe's ageing infrastructure. Consciously or otherwise, governments almost everywhere have conspired to undermine private investment, and instead push capital into the nothingness of cash and sovereign bonds.

The other big disincentive is politics, which we see in spades in Britain's energy sector, with Labour threats of a clampdown on supposed profiteering. Infrastructure spending requires long-term certainty on tax, regulation and charges. There can be no trust in a system where politicians are seemingly incapable of looking beyond the next election. Constantly shifting goalposts are anathema to investment of this sort. Having run the ship aground, the politicians now demand to be put in charge of the bridge. It's hard to imagine salvage that is less likely to succeed.