The Daily Dish

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The New York Times today is reporting on a number of individuals who decided to forego health insurance and pay the fine after deciding that would be the most financially beneficial move. AAF's research has shown that six out of seven uninsured young adults will save money by not buying insurance and paying costs out of pocket. From the New York Times: "For every individual who did sign up, there were others who…have decided to stay uninsured for now, despite the law's requirement that most Americans get coverage this year or pay an income tax penalty of $95 or more." "A common thread running through stories of the unenrolled is cost. Many people either do not qualify for federal subsidies or believe that the assistance is not enough to make insurance affordable."

The Supreme Court will hear the Aereo case today of an internet start-up that could have massive ramifications for the television industry. The company uses antennas to take broadcasts over public airwaves and deliver the television programs for its subscribers in 11 markets. From the Washington Post: "What Aereo doesn't do is pay licensing fees to the broadcast networks that produce the programs. And that has put Aereo at the center of a fierce debate over the reach of copyright laws, the accessibility of public airwaves and the future of television."

Eakinomics: Corporate Profits

Corporations, especially large corporations, making profits are commonly and frequently demonized, especially in these populist times. Large profits carry the implication that they were extracted from the general public and appropriated for use by those corporations, instead of for the general welfare.

The latter claim does not bear up to any real scrutiny. Pre-tax profits are put to four uses: (1) pay taxes, (2) pay dividends, (3) repurchase shares, or (4) added to cash holdings. Unless representative democracy has failed completely, (1) is clearly to the benefit of the broad public. Uses (2) and (3) put funds in the hands of shareholders, whether they be retirees, the "1 percent", pension funds, or others. That is, they put the funds under the direct control of the shareholders who own those companies and thus own their funds. It is hard to argue that is a bad use of those funds. That, of course, brings us to (4): corporations holding onto their profits as cash hoards.

What should one think of that? Holding onto cash gives the corporation the option of distributing it in the future; that is, repeating the logic of (1) to (3) again. No problem. Or, it could be plowed into new training, hiring, investment or other profit-creating activities. This would, again, lead to the same set of options for distributing the previous, plus additional profits.

The only concern, then, would appear to be the endless accumulation of cash by profitable corporations. It is a fair theoretical concern. However, as a practical matter, firms that hold large cash hoards are clear takeover targets, precisely so that those funds can be distributed in some way.

In sum, corporate profits do not seem to be systemically detached from the public good. But are they earned legitimately, or extracted from that very same general public? This notion is fed in popular discussion by visions of greedy bankers. However, as the table below makes clear, the recent rise in corporate profitability (from 12.6

percent of GDP in 2005 to a post-recession 13.5 percent of GDP) is driven by international success. Fully 88 percent of the rise in profits can be accounted for by earnings from the rest of the world. Only 12 percent were extracted, if one buys that formulation, domestically. In particular, the financial sector contribution subtracted 20 percent from the increase in the profit share.

In short, the data suggest that any transfer occurs from overseas customers to the U.S., and that these funds are used by the public directly or for their general welfare. Corporate profits may be an easy target but are not a real problem.

Corporate Profits as a Share of Gross Domestic Product			
	2005	2012	Share of Increase
Corporate profits before tax	12.6%	13.5%	100.0%
Domestic industries	10.8%	10.9%	12.0%
Agriculture, forestry, fishing, and hunting	0.0%	0.1%	3.9%
Mining	0.3%	0.2%	-14.7%
Utilities	0.2%	0.2%	-1.6%
Construction	0.6%	0.3%	-39.8%
Manufacturing	2.2%	2.5%	29.4%
Wholesale trade	0.8%	0.9%	10.1%
Retail trade	1.0%	0.9%	-3.1%
Transportation and warehousing	0.2%	0.3%	11.9%
Information	0.7%	0.7%	-1.8%
Finance and insurance	1.9%	1.7%	-19.9%

Real estate and rental and leasing	0.2%	0.1%	-8.1%
Professional, scientific, and technical services	0.4%	0.5%	19.5%
Management of companies and enterprises	1.2%	1.2%	-2.2%
Administrative and waste management services	0.2%	0.2%	2.7%
Educational services	0.0%	0.1%	1.5%
Health care and social assistance	0.4%	0.6%	16.4%
Arts, entertainment, and recreation	0.1%	0.1%	2.5%
Accommodation and food services	0.2%	0.2%	2.9%
Other services, except government	0.1%	0.1%	2.3%
Rest of the world	1.8%	2.6%	88.0%