US corporate profits return to record levels

Andre Damon
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While millions of Americans confront the daily miseries of unemployment, home foreclosure and poverty as a result of the economic crisis, corporate profits are soaring.

Walmart, the world's largest retail chain, announced last week that its profits grew by 27 percent in the fourth quarter of 2010, while sales at US stores have declined for the second year in a row. The company made $6 billion in profits in the fourth quarter, up from $4.8 billion a year before and $3.5 billion in the third quarter of 2010.

Home Depot posted a 72 percent increase in profits, after sales increased by 3.8 percent in the fourth quarter. Profits reached $587 million, up from $342 million a year earlier.

Hundreds of companies have posted similar figures. The story is the same: sales and revenues have fallen or ticked up slightly, while profits have grown by double digits.

The discrepancy between revenues and profits is due to the fact that the "recovery" in corporate balance sheets is built on layoffs and speedup. "A lot of the recent profits are based on the revenue from cost-cutting," said James L. Butkeiwiz, professor of economics at the University of Delaware, in a telephone interview.

Walmart, for instance, cut over 11,000 jobs at its Sam's Club warehouse stores in January 2010, about 10 percent of the subsidiary's workforce. Home Depot cut 7,000 jobs in 2009 and shuttered 34 of its Expo home design stores in 2009.

Corporate profits reached an annual rate of $1.659 trillion in the third quarter of 2010, and it is possible that fourth quarter profits, which have not yet been aggregated, were even higher.

As a result of these record profits, companies have found themselves with huge stockpiles of cash. US corporations had a record $1.93 trillion in cash and similar assets in December, the last time figures were released.

Instead of investing, companies have used this cash to buy back their own stocks, enriching executives and shareholders without creating jobs. In January 2011, stock buybacks reached their highest level since the start of the economic downturn. That month, companies bought back $57 billion in shares, compared to $357 billion for all of last year, according to Trimtabs, the finance data company.

Intel, the maker of computer chips, announced the largest buyback thus far, amounting to $10 billion, on January 24. Within two weeks, Pfizer, the pharmaceutical company, and media conglomerate Time Warner each followed with $5 billion.

Trimtabs said that buyback activity was up by 25 percent in the fourth quarter over the third, reaching an average of $1.7 billion daily. "Companies have a lot of cash and they don't feel very confident in investing it," said Vincent Deluard, the company's executive vice president, in a telephone interview.

Compared to boosting dividends, the more traditional method of disbursing excess cash, stock buybacks are preferred by executives because they increase the values of their own existing shares. "Stock buybacks benefit executives," said Charles Elson, a professor of corporate governance at the University of Delaware. "If they have options, then a buyback is significantly more favorable than just paying dividends. "

Aggressive wage cuts, together with layoffs and speedup, have resulted in drastic increases in labor productivity, which grew by 6 percent in 2010 following similar gains the previous year.

"Firms have maintained productivity by laying off workers, and they're not willing to hire," said Dr. Butkeiwicz. "Often, productivity falls in recessions, but it hasn't this time around."

As a result, corporations have managed to increase productivity while cutting output. “Companies have to be happy, there’s no question about that,” Butkeiwicz said. “They’ve got to do something with their money, so they’re just buying back stock.”

In the face of an economic crisis that has led to at least 8 million layoffs and over 6 million home foreclosures, by its own estimates the Obama administration’s programs have created 586,340 jobs, only about one 16th of those lost since the beginning of the recession. High unemployment is in fact a deliberate policy, aimed at providing a rapid recovery in corporate profits at the expense of workers.

This policy is manifest most clearly at General Motors, which posted its first annual profit since 2004 last week. The company made $4.7 billion for the year, the most since 1999, in a dramatic return to profitability.

This was the direct outcome of the Obama administration’s restructuring program, in which the government insisted that workers take major concessions. The contract forced onto auto workers in 2009 drastically increased the proportion of workers making $14 per hour, half the previous wage, combined with thousands of layoffs.

This White House-managed corporate restructuring, initiated in early 2009, opened the floodgates for other companies to take similar measures on their own initiative, using the economic crisis to lay off thousands and impose speedup and wage cuts on those who remained.

Two years after the process started, the end result is clear: millions unemployed, millions in foreclosure, and record corporate profits.