

The solution to big company's massive cash hoards is hi...

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Dominic Rossi, the global chief investment officer for equities at Fidelity Worldwide Investment, [has argued in the FT that](#):

Over the past decade the distribution of wealth has increasingly favoured capital over labour. The trend is most conspicuous in the US, but it can be found in most developed economies.

Labour's share of output is now at historic lows, and may be at levels that are suboptimal to foster economic growth. The corresponding accumulation of capital has led to a corporate savings glut, rather than an investment boom, which may have further contributed to a lacklustre economic recovery.

Labour's share of non-financial output in the US is a statistical measure of labour compensation as a share of non-financial corporate gross domestic product. The data go back to 1950. For 50 years labour compensation meandered between 61 per cent and 65 per cent of business GDP, ebbing and flowing with the economic cycle. Then, something happened. From 2000, it plummeted and currently rests at an all-time low of 57 per cent.

As he continued when analysing the consequence of this:

A hallmark of today's corporate world is the cash hoard that sits idle on its balance sheet, and it is difficult to see who benefits from it. It is the surest sign that a management team lacks imagination.

Boards and shareholders have a role to play here. They are able to resist this trend, and executives can be pressed to either invest or distribute the excess cash flow. It does not take great skill or much of an imagination to squeeze a work force and hoard the proceeds; it is much harder to take risks and invest in a future. Shareholders would be better off if they reward the latter.

I am afraid Rossi has this all wrong. The answer to the excess cash piles that big business now sit upon is not either investment or distribution. As he has already noted

the management of these companies lack the imagination to invest well. And distribution merely shifts the pile elsewhere to the small minority who have no need for that cash as they already have money beyond their reasonable needs. All Mr Rossi reveals is that fact that he lacks imagination by suggesting these solutions.

What is actually needed is something much more obvious and radical. Firstly, real wage levels have to be restored. That means wage increases! Real ones: inflation beating increases that boost the well being of the people who can buy the goods and services business can create. Without their ability to do that business is right not to invest: there is no return to be had on the investment right now as it is obvious people cannot afford what business has to offer.

And secondly, we need real corporate tax increases: in the UK to 30% at least with a residence tax base in place again and with strong controlled foreign companies rules to beat tax haven use so that companies distribute their cash piles for the common good.

Only then can we get the economy going again.

It hasn't hard to see what's needed to solve this crisis: unless, of course, you're blinded by being part of the problem as investment managers are.