

Funding the Future

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The [FT has reported this morning that](#):

The pile of unspent corporate cash that has built up since the start of the financial crisis is being held by an increasingly concentrated pool of companies that will be crucial to hopes of a pick-up in business investment to stimulate the world economy.

About a third of the world's biggest non-financial companies are sitting on most of a \$2.8tn gross cash pile, according to a study by advisory firm Deloitte, with the polarisation between hoarders and spenders widening since the financial crisis.

The paper goes on to note that there is demand that these companies (Apple is the biggest culprit, but it is not alone) should engage in capital expenditure. I agree that if they did this would be good for the economy, but the FT whether by choice or because of institutionalised blindness does not ask questions about which this phenomena is occurring, what it means and how it should be addressed if that capital expenditure fails to materialise.

So first of all, why is it occurring? There are three real reasons. The first is that the tax system encourages it. In the US in particular, but in other states too, the tax system encourages profits to be recorded and retained in tax havens. The UK has, for example, specifically passed legislation that encourages the location of multinational corporation treasury functions in tax havens by offering an exceptionally low tax rate on cash earnings accumulated in such places.

Secondly, the system of corporate incentives that we have - which rewards share price growth through massive executive share option schemes that do not take into consideration the causation of that price increase or the impact tax abuse has upon it - encourages this offshore tax accumulation. The City and Wall St have created systems that reward directors for doing nothing.

Third, they do nothing because they have no clue what to do with their cash. Much of this cash is accumulated not because of technical innovation but because of monopoly power. Vast arrays of patents ensure that these monopoly rights are ring-fenced and then reinforced to exclude market entrants into sectors like computing. Competition

fails in that case. Rent seeking profits rise. We all lose out because there is then no need to innovate or undertake capital spending because no one can actually compete with the market leaders anyway. And economic stagnation follows. So in core market leading directors have no reason to spend their cash on, or incentive to do so in their core markets.

And, fourthly, because we are now used to stagnation in innovation, which is now mainly incremental and in many ways less life changing than in their time the car, the hoover and the washing machine were, we are kept happy by tiny changes in the products we buy masked as if they were innovations behind a mass of marketing guff. Candidly, business simply cannot find real need for its cash to meet because the people they are targeting to buy their products - those already well off - have remarkably few material needs they have not already met. They may be short on life satisfaction, security and community, but those are all things like love that money cannot buy.

So, that's why cash is accumulating. What to do about it? The obvious answer is that we need a progressive income tax. As profits increase so should the corporate tax rate. The IMF [has warned of growing inequality around the world](#). This cash fuels it. There is a need to tax it to reduce that inequality.

The problem is, of course, that at present the cash is hidden away from tax. The answer is the one that I, the Tax Justice Network and others have promoted, [which is unitary taxation](#). This taxes global corporations as if they are single entities, so wherever their cash is located it will be within the scope of a tax charge.

Second, we may need to consider specific taxes on excess cash holdings. One of the reasons for tax is to correct market failings. It is a market failing that a corporation can accumulate too much cash because of monopoly power. An excess tax charge would correct this. The time for it has obviously arrived.

Third, tax haven abuse needs to be tackled, of course, but so does the shift in corporate tax systems towards territorial taxation need to be addressed. The UK is positively encouraging this trend towards offshoring cash unproductively under George Osborne. That is absurd.

And we need to change and regulate share option schemes, not least because these are almost all an exercise in falsehood because they pretend that a company director of a large corporation is an entrepreneur taking risk when most if not all are in fact corporate placemen already very well paid before any such bonus is awarded. The pretence that these people take risk is an expensively constructed and convenient abuse of the idea of entrepreneurial behaviour that undermines the status of those who do actually innovate in our economy - most of whom are a very long way removed from the large companies that are accumulating this cash.

This cash is, then, a clear indication of a deep failing within the neoliberal capitalist

system that is almost wholly self-destructive in its impact. Marxists are probably amused by that. But the people who should be really worried are those who think that we need markets in a mixed economy because what this cash pile really indicates is the failure of the private sector - and with it any possibility of a thriving mixed economy. That's the real challenge. And that is a very good reason why action is needed on this issue right across political divides within the mainstream parties of the UK and elsewhere.

The FT may be blinkered. The leading corporations may be intellectually bankrupt. But there is a need for politicians who believe in the power of the model that delivered post war prosperity to act now.

But will they? Or will money buy them off? That's the real question, and the one the Marxists are probably waiting to answer.