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Why Shareholders Can Thank Obama's Slow-Growth Policies

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Stockholders should thank President Obama for implementing policies that created slow economic growth. That slow growth has meant wide profit margins and return of cash to shareholders through dividend increases and buybacks.

S&P 500 cash dividends increased a record 12.7% in 2014 over 2013, according to S&P, and 84% of the 500 companies paid a cash dividend in the fourth quarter of last year.

Slow economic growth has meant excess capacity, so companies refrain from making new capital investments. This means more cash available for stockholders.

Slow economic growth also means slow employment growth for most of this expansion. Employment is 2.4 million workers higher than at the last employment peak in 2008, while the U.S. population is higher by 16.5 million over that same time.

That is hardly the employment situation that would point the way to sharply rising wages.

In turn, that means companies had lower compensation costs than would have been the case had the economy been growing faster. Lower compensation costs meant wider profit margins and more cash available for stockholders.

Profit margins before tax for corporations, when divided by economic activity, remain three percentage points above the median profit margin. Compensation costs as a percent of net sales for domestic corporations remain well below their median level. This also means more cash available for stockholders.

Slowing Growth

One could ask how can one talk about slow growth with some recent strong GDP and job numbers. A few good months doesn't change the picture for Obamanomics.

Real economic activity increased by a total of 13.8% in the first 5 1/2 years of Obama's economic expansion. The average increase in real GDP in the prior three economic expansions for that same time frame was 22.3%. The prior three expansions were for Bush, Clinton and Reagan.

Obama policies, such as ObamaCare and Dodd-Frank, passed in 2010, coincided with declining real wages. Coincidence? U.S. companies didn't know what the new regulations would mean and still don't, which meant a slower economic expansion.

Some might argue these new regulations and direction for the U.S. will mean that people will be better off.

That is certainly true for stockholders, since declining real wages mean wider profit margins and more cash to return to stockholders. Since the majority of the stock is held by 10% of U.S. households, that means Obamanomics has been most effective at helping those 10%.

It is unlikely, however, that Obama's economic policies will ever improve the median standard of living for Americans.

The median income, adjusted for inflation, when President Obama leaves office will be lower than when he became president.

Household median income, after inflation, was $56,436 in 2007, according to the U.S. Census. Last year, it was $51,939, a decline of 8.0% from 2009. What about income levels when the recession ended in 2009? Median household income was $54,057 at that time. Households under Obamanomics are worse off by over $2,000 since the recession ended.

Obamanomics' Failure

It would take a boom in economic activity during Obama's remaining time in office to bring the household median income, after inflation, up to where it was in 2009. The president's tax proposals outlined in his State of the Union speech would work, if implemented, to slow economic growth further.

Obama's policies were never designed to create faster economic and job growth that would lead to rising household incomes after inflation.

S&P expects continued increases in cash dividends in 2015 as companies return cash to stockholders through dividend increases.

Energy companies have halted buybacks and will cut dividends, but increases from non-energy companies will likely more than offset those cuts as lower oil prices are a plus for consumer spending that accounts for nearly 70% of aggregate spending in this economy.

When campaigning in 2008, then-Senator Obama didn't sound like a champion for stockholders. But that is the unintended consequence of his policies, while Obamanomics has resulted in declining household median income.

Perhaps the next president can implement a set of pro-growth policies to help all Americans.

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