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Explaining that corporate cash glut [1]

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One of the standard tropes currently is that companies and corporates are just sitting on mounds of cash and not doing anything with it. And if you go and look at the balance sheets of the large corporations they most certainly are doing so. Quite why they are is a bit of a puzzle: and I was interested to see this as a contributary factor [3]:

> In addition, firms change: They hold fewer inventories and receivables...

Which brings me to one of my favourite tropes. There's a difference between structural change and cyclical change and it's essential that we note that difference. For example, we might note the relationship (whatever it is) between corporate cash holdings in 1980 and 1970 and subsequent corporate behaviour and then assume that the relationship will hold here in 2013. However, what if there has been some underlying structural change in the economy between 1980 and 2013?

And indeed there has been: we've got computing in a big way now.

It's long been said that we can see the impact of computers everywhere except actually in the economic statistics. We don't seem to be seeing the burst of growth that we would expect with the adoption of a major new technology for example. However, if you think about it, we can see the impact of computing in corporate balance sheets. For one of the things that the mass adoption of computers has caused (along with the shipping container) is just in time production. Everyone now holds very much less stock of anything. Of parts, of parts to make parts, of raw materials. Entire industries now operate on the basis that a customer has just bought something (the evidence being the bar code going through the till) so, about time to make another one then.

One of the things that really has been hollowed out of the economy is the piles of, months worth of usage there used to be, of stocks sitting around and doing nothing, just waiting to be used. Which is where those cash balances at companies come in: the money that used to be used to finance such stocks is now not doing so. Therefore it is sitting in bank accounts. At some point everyone will work out that this is a structural change, it's not just a turn of the cycle, and the money will be returned to shareholders. At which point we'll have corporates running on what we would, in the past, have considered to be a very capital light manner. Which is great, because it frees that capital up to go and do other things.

I don't claim that this is the only cause of corporate cash piles of course. But I do insist that it is one of them. That everyone now holds much less stock and work in progress is indeed one of the reasons why corporate balance sheets are brimming with cash.

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