

# Curing What Ails Us

How COVID-19 reveals what's wrong with our economy and what working people are doing to fix it

## PROFIT FROM PAIN?

Some corporations are booming during the COVID-19 pandemic, but working people are suffering

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**W**hile much of our attention has rightly been focused on the plight of Main Street businesses and their employees getting hammered by the COVID-19 recession, the pandemic has created a windfall for many of the biggest and most powerful corporations in the United States. These windfalls will largely benefit wealthy white households. They could drive a new wave of corporate buyouts of local businesses, and they will do nothing to help millions of families bearing the brunt of the COVID-19 recession.

Increased demand for online purchasing, web services, and other shifts in consumer behavior have created a bonanza for giant corporations that are in a position to exploit these growing markets. In addition, market volatility and uncertainty have created huge profits for many banks and investment managers as wealthy people and companies adjust their portfolios. Seventeen of the top 25 most profitable corporations are expected to rake in \$85 billion more in profits during 2020 than what they averaged in the four years before the pandemic.<sup>1</sup>

Some of the leading household names in corporate America with extensive operations in North Carolina had a good second quarter of 2020, beating projections and many seeing their profits surge over last year, even as families across the country were losing jobs and income. Some notable, but hardly isolated, examples include:

**Amazon:** Perhaps no company is better positioned than Amazon to take advantage of the COVID-19 crisis. Increased demand for web and delivery services helped to drive Amazon's revenue up 40 percent to nearly \$89 billion in the second quarter of 2020,

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**Seventeen of the top 25 most profitable corporations are expected to rake in \$85 billion more in profits during 2020 than what they averaged in the four years before the pandemic.**

<sup>1</sup> Oxfam, "Who Profits from COVID-19, and How Can We Use That Money to Help Us Get a Vaccine?" 2020, <https://www.oxfamamerica.org/explore/stories/who-profits-covid-19-and-how-can-we-use-money-help-us-get-vaccine/>.

## Threat to Main Street North Carolina?

### Corporate profits drive loss of local companies

A handful of corporations raking in even more cash during the pandemic could further concentrate economic power and make it harder for local businesses to compete. If history is any guide, companies like Amazon, Microsoft, Google, and Facebook will use their growing cash balances to move in on competitors weakened by the pandemic, giving them even more monopoly power over how we shop, search, and communicate with each other.

producing \$5.2 billion in net income.<sup>2</sup>

**Facebook:** The social media powerhouse beat Wall Street projections, taking in revenues of \$18.69 billion in the second quarter of 2020, an 11 percent increase over the second quarter of 2019. The jump in revenue sent Facebook shares up 8 percent.<sup>3</sup>

**Google:** Google's parent company Alphabet beat expectations, taking in \$31.6 billion, a small drop from its revenues in the second quarter of 2019 but a surprisingly strong showing given how many advertisers have been forced to pull back during the pandemic.<sup>4</sup>

**JP Morgan Chase:** The banking behemoth posted an astounding \$4.69 billion in profit for the second quarter of 2020, with revenues of \$33 billion. Part of this massive haul is rooted in the economic uncertainty set off by the COVID-19 crisis, as JP Morgan Chase took in billions in revenue from bond transactions as nervous investors looked for safe harbor.<sup>5</sup>

**Bank of America:** The banking company's profits of \$3.5 billion exceeded second quarter projections, driven by increased global market trading.<sup>6</sup>

**Berkshire Hathaway:** The multinational company's profits jumped by nearly 90 percent compared with the same quarter in 2019, over \$26 billion.<sup>7</sup>

We saw a similar process play out in the wake of the Great Recession when remote investors flush with cash bought up homes that families lost to foreclosure during the

2 Emil Protalinski, "Amazon Reports \$88.9 Billion in Q2 2020 Revenue: AWS up 29%, Subscriptions up 29%, and 'Other' up 41%," VentureBeat (blog), July 30, 2020, <https://venturebeat.com/2020/07/30/amazon-earnings-q2-2020/>.

3 Rob Price, "Facebook Announces Q2 2020 Earnings - Business Insider," Business Insider, 2020, <https://www.businessinsider.com/facebook-q2-earnings-2020-7>.

4 Hugh Langley, "Alphabet Beat Wall Street Expectations in Second-Quarter Earnings but Couldn't Save the Company from Its First Revenue Decline in History," Business Insider, 2020, <https://www.businessinsider.com/alphabet-google-q2-earnings-revenue-profit-2020-7>.

5 Hugh Son, "JPMorgan Shares Jump after Record Trading Revenue Drives Stronger-than-Expected Second Quarter Profit," CNBC, July 14, 2020, sec. Finance, <https://www.cnbc.com/2020/07/14/jpmorgan-chase-jpm-earnings-q2-2020.html>.

6 Saloni Sardana, "Bank of America Beats Second-Quarter Earnings Estimates, and Reports an 81% Increase in Global Markets Income | Markets Insider," Markets Insider, 2020, <https://markets.businessinsider.com/news/stocks/bank-of-america-2q-earnings-2020-revenues-beat-forecasts-2020-7-1029401093>.

7 Associated Press, "Profit up 87% at Buffett's Berkshire, but Coronavirus Slows Businesses," MarketWatch, 2020, sec. Industries, <https://www.marketwatch.com/story/profit-up-87-at-buffetts-berkshire-but-coronavirus-slows-businesses-2020-08-08>.

economic collapse. If we sit idly by, the same thing could play out on Main Street across North Carolina as corporations and investors swoop in to buy up local businesses and commercial real estate that have been rocked by the COVID-19 recession.

## Corporate profits benefit wealthy, older white people

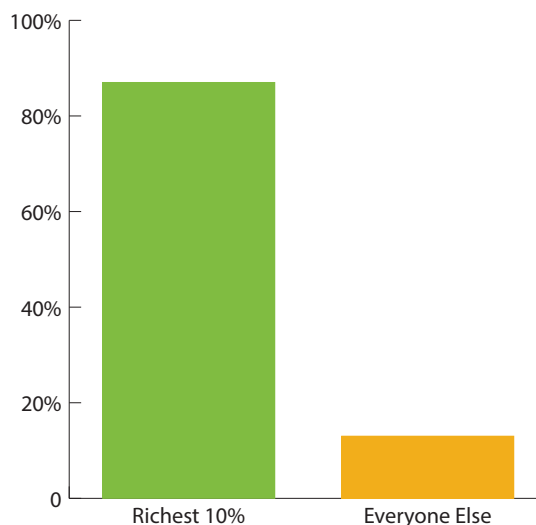
It's no secret that corporate earnings overwhelmingly benefit wealthy, older white people, but the disconnect between how corporations are doing during the COVID-19 pandemic and most people's bank accounts is staggering. Dividends and increased stock value for corporations that are seeing a windfall from COVID-19 will do little or nothing to help most people who are experiencing the worst economic harm from the pandemic.

Benefits from COVID-19 corporate windfalls will overwhelmingly go to very wealthy households. The richest 1 percent of American households controls over half of the total stock and mutual fund wealth in the United States. To put that in context, it would take nearly 3,600 households in the bottom 50 percent by net wealth to equal the stock and mutual fund holdings of just one household in the top 1 percent. The top 10 percent owns nearly \$9 out of every \$10 of that wealth, leaving just 12 percent for everyone else.

People of color will see almost no benefit from corporate earnings. White households control more than 90 percent

**Figure 1: Most Corporate stock wealth is held by the rich**

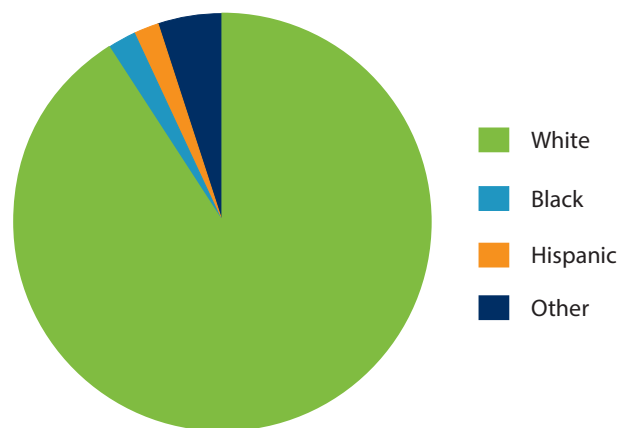
*(Share of corporate equities and mutual fund shares held, by net worth, 1Q 2020)*



Source: Board of Governors of the Federal Reserve System

**Figure 2: Stock wealth overwhelmingly held by white people**

*(Corporate equities and mutual fund shares by race, 1Q 2020)*



Source: Board of Governors of the Federal Reserve System.

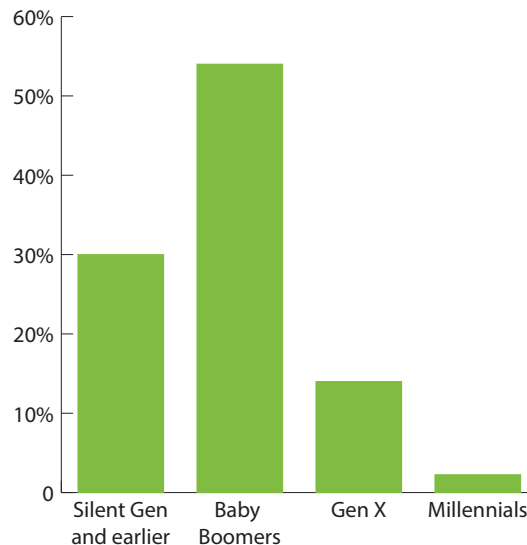
of all stock and mutual fund wealth in the country, leaving only 2 percent each for Black and Hispanic households, respectively.

Stock ownership is also out of reach for many people in the most recent generations. A combination of lower pay, increased student debt, and other rising prices have prevented most Generation X and Millennial people from acquiring any meaningful wealth in stocks. Collectively, the Silent Generation and Baby Boomers control nearly 85 percent of the stock and mutual fund wealth in this country.

Taken together, these data show just how few of the people bearing the brunt of the COVID-19 recession will benefit from corporate windfalls. Women, people of color, and younger generations will see little upside as a handful of corporations and wealthy shareholders gain from the worst economic collapse in decades.

**Figure 3: Most stock wealth held by older generations**

*(Share of corporate stocks and mutual fund shares held by generation, 1Q 2020)*



Source: Board of Governors of the Federal Reserve System.



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