Opinion **Lex**

Trump's $5,000 dividend is bad corporate finance

US president's proposed $1.2tn handout fails to make sense in a country lacking excess cash and in need of investment

Donald Trump's claim that 'our country is making so much money' isn't exactly wrong, but there is no profit to show for it © Kent Nishimura/AFP via Getty Images

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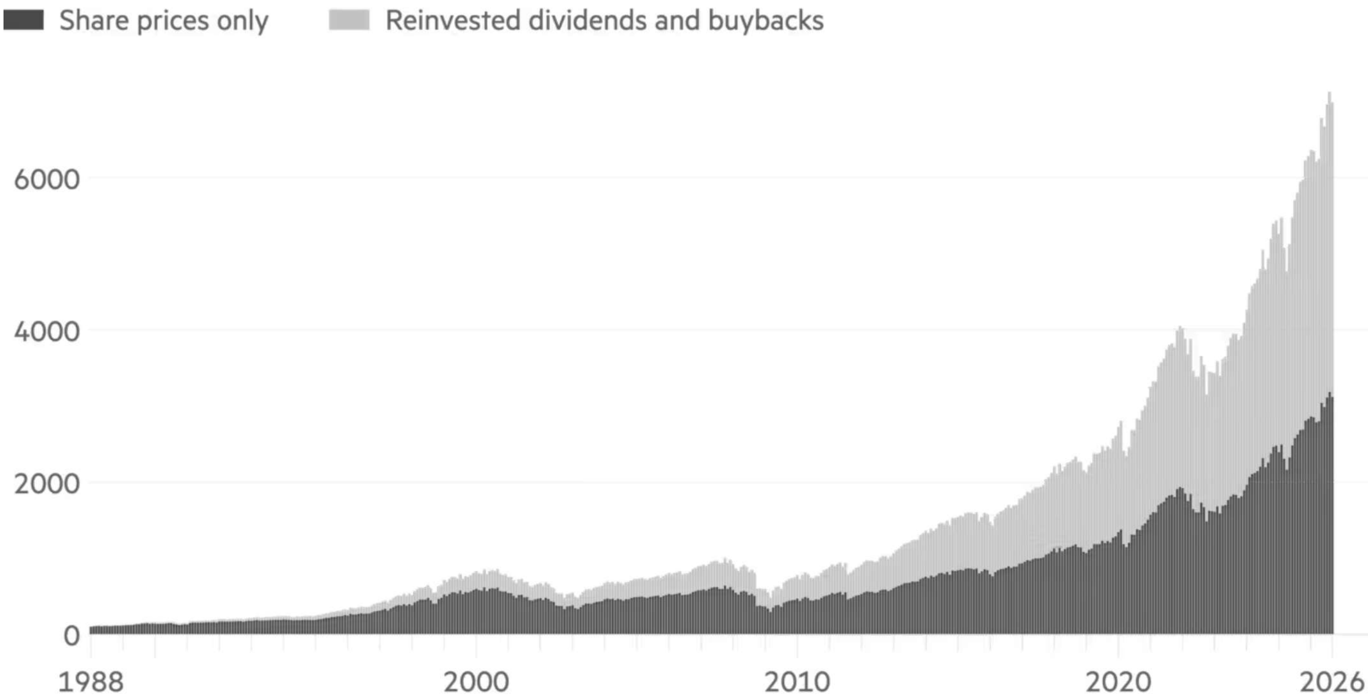
Donald Trump likes to compare the US economy to a business. He did so this week when promising to pay a "dividend" of $5,000 for each adult citizen if his party prevails in November's midterm elections. Let's suspend disbelief — and morality — for a minute, and ask: if America were actually a company, would a $1.2tn handout make sense?

The obvious objection is that the US has no excess cash to pay such sums. The government is likely to spend $1.8tn more than it makes next year. President Trump's claim that "our country is making so much money" isn't exactly wrong — fiscal revenue hit a record $5.2tn last year — but there is no profit to show for it, and has not been since 2001. Dividends would instead be paid out of debt.

In the corporate world, this isn't unheard of. The S&P 500 contains 47 companies that made negative free cash flows last year, according to S&P Capital IQ, and 40 of them paid dividends. Facebook owner Meta Platforms is expected to return $15bn to shareholders next year, according to LSEG, as its cash flow goes into the red by $22bn. Many private equity-owned businesses have "dividended" their way to bankruptcy, but the US runs no danger of that.

American as apple pie

Contribution to S&P 500's total shareholder return (rebased to zero)



Data begins in January 1988
Source: LSEG

The next question is whether a company has good ways to spend its money. If not, the wise thing is to distribute it. Microsoft's $32bn one-off dividend in 2004 is a totemic example; Vodafone made a singular $24bn payout in 2014, and BHP paid out $5.2bn in 2019, both after raising cash from large divestments.

Giving it back lets individuals decide whether they want to spend or save. There will be no shortage of Americans on both sides of the aisle who think they would be better stewards of $5,000 than the current government. Almost 40 per cent of Americans lack sufficient cash to meet a $400 emergency, Federal Reserve data shows. The average credit card borrower owes about $6,600.

But the US undoubtedly needs investment. Infrastructure is woeful; healthcare outcomes are dismal compared with other rich countries. A president faces a problem a CEO doesn't: any given investment will benefit some potential dividend recipients but not others. But if America were a business, no boss would argue it lacks for profitable future projects.

Besides, a Trump dividend would expose the administration to a common corporate trap: once you start, it's hard to stop. Be it dividends or share buybacks, investors and analysts quickly start to clamour for more; reining in payments can crash a share price. If Trump does what he has promised, the political dividend could become as hard to quit as the financial kind.

john.foley@ft.com

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