Investment Heroes: Who's Betting on America's Future?

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American voters are finding it hard to get excited about this year's presidential election. Job growth is slow. Economic growth is slow. Real wages have been essentially stagnant since 2009. It's the same old story as when recovery began three years ago. We are in an atmosphere of economic uncertainty. Voters—swing voters especially—are looking for news that will boost their confidence from all the economic doom and gloom going around. We are a country that needs to hear more (if not have more) economic successes.

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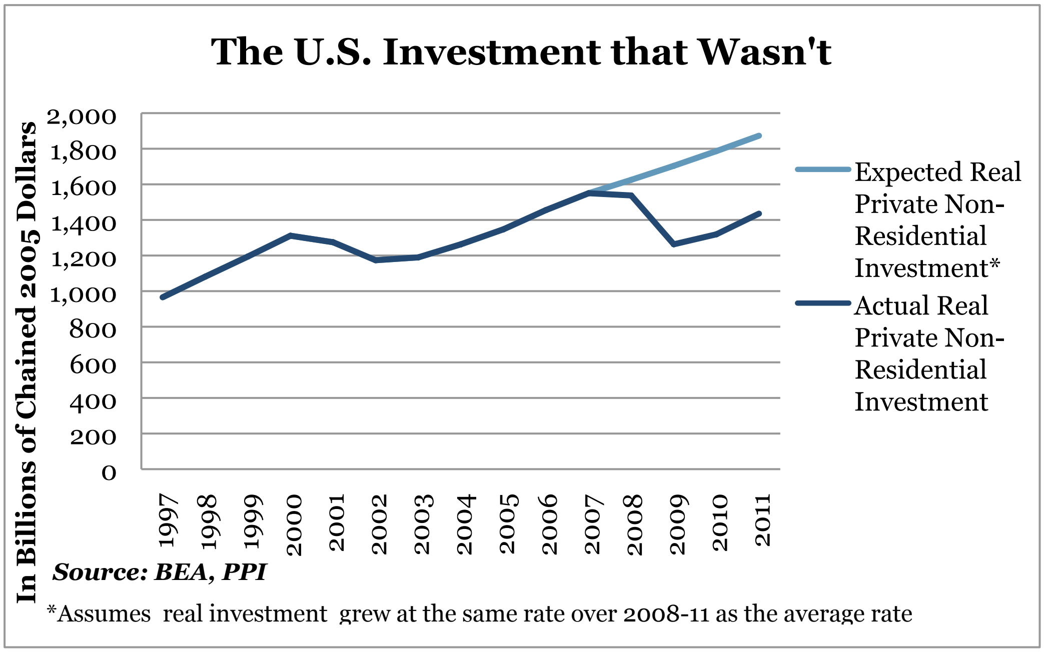
Such successes begin at home with investment—business investment, government investment, and household investment. Government has to invest in infrastructure, education, and research. Households have to invest in their own human capital. And businesses have to invest in buildings, equipment, and software. All are essential—but in this report we will focus on business investment. Domestic business investment generates growth, raises productivity, increases wages and creates jobs for Americans. It can span the gamut from new office buildings to improved production lines to faster communications equipment to deeper natural gas wells.

Unfortunately, U.S. business investment tanked during the Great Recession, and has yet to recover. The graph below shows the extent of the drop-off—in 2011, non-residential investment remained more than 7% below 2007 levels, adjusting for prices. By comparison, personal consumption in real terms was higher in 2011 compared to 2007. We find ourselves in an investment drought, not a consumption drought.

Equally as important, before the recession companies were expanding their domestic investment at a rapid pace. In fact, we estimate there would have been a total of $1.4 trillion more in non-residential business investment over 2008-2011, in 2005 dollars, had business investment continued to grow at the same average annual rate in the ten years before the recession (4.8% over 1997-2007). That extra investment could have gone a long way toward creating jobs, boosting productivity, and enhancing U.S. competitiveness.

The decline and lackluster recovery in business investment has a wide range of causes, including globalization, regulatory barriers, and weak demand. Many companies are investing overseas rather than in the United States. Multiple layers of regulation, even if well-intentioned, have the impact of discouraging capital investment and innovation.[1] And the continued weakness in demand at home makes it difficult to justify building new factories. But no matter what the reason, this weakness is having an adverse effect on economic growth and is one of the main reasons behind the job drought.



That's why PPI wants to highlight those companies that are still investing domestically in buildings, equipment, and software. Using publicly available financial reports, PPI constructed a list of the top 25 nonfinancial U.S.-based companies ranked by their U.S. capital spending in 2011. In many cases this required detailed calculations and assumptions, since companies often report global capital spending without breaking it down by country. Financial companies were excluded because they do not publicly report their capital expenditures. (A more detailed explanation of our methodology can be found later in this memo.)

PPI calls these companies "Investment Heroes" to make a key point: the U.S. economy is at its best—in terms of growth and job creation—when companies and workers are partners with the same objectives. Half of the leading companies are telecom and energy, but the list also includes tech, retail, automotive, and entertainment companies.

The fact that telecom and energy companies find it the most financially worthwhile to invest large volumes in America is quite telling about which sectors are doing well. Telecom companies like AT&T, Verizon and Comcast are making huge

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investments in broadband infrastructure. Energy companies like Exxon are investing in the discovery of new sources of oil and natural gas.

Together, these top 25 companies invested about $136 billion in the U.S. during 2011, according to our estimates. The list below shows PPI's "Investment Heroes" of 2012. (A list of the top 25 companies excluding energy can be found at the end of this memo.)

Investment Heroes: Top 25 Nonfinancial Companies by U.S. Capital Expenditure*

Rank	Company	U.S. Capital Expenditures ($bns)
1	AT&T**	**20.1**
2	Verizon Communications**	**16.2**
3	Exxon Mobil	**11.7**
4	Wal-Mart	**8.2**
5	Intel	**7.4**
6	Occidental Petroleum	**6.2**
7	ConocoPhillips	**5.6**
8	Comcast**	**5.3**
9	Chevron	**4.8**
10	Southern Company**	**4.5**
11	Hess	**4.4**
12	Exelon**	**4.0**
13	Ford Motor	**3.9**
14	General Electric	**3.7**
15	Enterprise Product Partners**	**3.6**
16	Sprint Nextel**	**3.1**
17	Walt Disney	**3.0**
18	FedEx	**2.9**
19	Time Warner Cable**	**2.9**
20	General Motors	**2.8**
21	Target	**2.5**
22	IBM	**2.5**
23	Chrysler Group	**2.5**
24	Google	**2.2**
25	Apple	**2.0**
Total		**136.2**

*Universe includes nonfinancial Fortune 150 companies from 2011; financial reporting from FY11
**Reported to have U.S. operations only; may include a small amount of non-U.S. investment

Source: Company financial reports & filings for FY2011 and PPI estimates. Total includes capital expenditures in plants, property, and equipment, and investment in exploration for energy companies. Totals do not include R&D.

There are a few qualifiers we need to insert here. First, non-U.S. based companies were not included in this list because of data comparability issues. Certainly there are non-U.S. based companies like BP and Toyota that would have made the list if included—BP invested $8.8 billion and Toyota $2.7 billion in the U.S. in 2011. We anticipate constructing a list of non-US investment heroes sometime soon.

Second, we acknowledge that many of the companies on our list have been criticized for a wide variety of issues, including broadband pricing, environmental impacts, privacy concerns, and low tax payments. Indeed, in the dynamic, fast-changing global economy in which we increasingly find ourselves, the raising of such issues is inevitable and healthy. We further acknowledge that some companies on this list have large amounts of cash in reserves and could conceivably be investing even more domestically.

But without minimizing these potential problems, we don't want to discount the positive impact of these companies are having in terms of creating U.S. jobs and generating economic growth through their U.S. investments. Just as two companies will do business even while they are suing each other—Apple and Samsung come to mind—we have to be willing to applaud domestic investment even if the companies are not perfect.

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Third, a company's absence from the list does not mean they did not investment domestically in 2011. We cut the list at the top 25 companies. Mainstay U.S. companies like DuPont and Dow Chemical are investing domestically, just not as much as the other companies on the list.

As for the list, we found AT&T leads the pack, with Verizon, Exxon-Mobil, Wal-Mart, and Intel rounding out the top five. In fact, telecom companies comprise 5 of the top 25 "Investment Heroes." And it's easy to see why. The exponential growth in consumer demand for cable and wireless data services makes it both a necessity and an incentive for these companies to invest in building out their service capabilities. Investment is what led to development of the latest high-speed 4G networks, estimated to be 50% more efficient in streaming wireless data than its 3G predecessor.[2]

What's more, the commitment of these telecom companies to investment in wireless infrastructure, cable communications, and processing equipment is a good example of how investment can have important spillover benefits. By using the infrastructure developed and maintained by telecom companies, companies that develop software applications for smart devices along with companies that provide Internet services—like Facebook and Twitter—are able to innovate and get those innovations to consumers quickly. Because of the broadband networks in place these non-telecom companies are able to expand their businesses and service offerings.

Intel doubled total capital expenditures in 2011, with three quarters of its total 2011 capital expenditures in the U.S., according to PPI's estimate. In a company filing, Intel credits expanding its network of production facilities, including a $5 billion chip manufacturing facility in Arizona, for the rise in spending.[3] This investment will almost certainly lead to increased production, more jobs, and, as a benefit to consumers, more available hardware for smart device manufacturers like Motorola that use Intel products.[4]

Strong business growth for some of the companies on the list is resulting in investment in company expansion. Apple devoted part of its U.S. investment to developing a second corporate campus in California. And according to a public filing, the company plans to expand its total capital spending to $8 billion in the coming year, up from $4.6 billion in FY11, as it continues with construction. Google reported that its rapid business growth has and will continue to require significant spending on its facilities, data centers, and equipment. These expenditures are exactly the type of organic growth that sustainably lifts up the economy and creates jobs.

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Most of the U.S. capital expenditures by energy companies like Exxon-Mobil and Enterprise Product Partners consisted of production and exploration costs, which includes building out oil and natural gas pipelines and exploratory costs for new drilling sites. In fact, of Exxon's $4.5 billion increase in investment over 2010, almost all ($3.9 billion) was domestic. Occidental increased its U.S. drilling rig operations by 89% over the last year, from 38 rigs up to 72. Despite any environmental concerns, the fact remains that such large amounts of domestic investment by these individual companies have the ability to prop up local area economies while meeting the realities of increased power demand.

Two companies on the list, Disney and Comcast, are also investing in entertainment (Comcast purchased Universal Studios in 2011). Disney reports that $2.3 billion of its total U.S. investment in 2011 went to its domestic theme parks—for example, a $450 million "Cars" themed ride is set to open this month.[5] And new Universal Studios owner Comcast states that it "expect[s] to continue to invest in existing and new attractions at our theme parks." Such investment in property and technology upgrades will not only enhance productivity and create jobs—the type of jobs that could benefit the youth labor force—but it also gives consumers another reason to go out and spend locally.

Finally, it is worth noting that several automobile companies made the list—some of which were memorably part of the consortium of companies that were "bailed out" during the recession. Clearly, we are seeing signs that these companies are now giving back to the economy in a very positive way.

So, what are the takeaways here?

First, sustainable economic growth, job creation, and rising real wages require domestic business investment. That means progressives who care about growth and jobs should acknowledge today's investment success stories, whether the company is big or small. Ensuring the U.S. maintains a business-friendly environment can help facilitate continued domestic investment. The upcoming election season provides an opportunity for progressives to articulate this message and give voters some positive news amidst weak economic growth and bleak jobs numbers.

This is particularly important for President Obama, who needs to reframe the 2012 race as a choice between competing prescriptions for reviving jobs and U.S. competitiveness over the next four years, rather than as a referendum on the past four years. One way the administration can counter Republican claims that it is "anti-business" is to acknowledge America's investment heroes and work with them to shape policies that encourage others to invest more as well.

Second, politicians and policymakers must do their part to encourage more investment success stories. The sluggish recovery in domestic business spending shows there is still room to grow. That means designing policies aimed at encouraging new investment, including tax incentives. Depreciation deductions included in the Tax Relief Act of 2010 and in Small Business Jobs Act of 2010 are set to expire at the end of 2012.[6] If expanded and extended long-term, such incentives would likely be more effective at encouraging investment, as investment is typically part of a long-term strategy.

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Another way to nurture investment is through regulatory improvement—not deregulation, but making sure that the overall impact of multiple levels of regulation doesn't weigh down potential investment excessively. For example, consider the maze of registrations, license approvals, and legal fees associated with starting a new business. Lowering compliance costs for start-ups by reducing redundant regulatory burdens could allow new businesses to invest more of their money in business development and less in legal paperwork. Similarly, smooth, timely, and easy to understand regulatory processes for developing land or building up operations can reassure companies considering a large investment in your area—like amusement park rides—to move forward.

Finally, we need to consider carefully whether there are any investment roadblocks that could be alleviated by targeted government action. For example, the heavy investment in wireless and broadband infrastructure could come to a halt if fears of an impending spectrum crunch become reality. That would affect not just broadband services but everything else that relies on those networks. Adaptive regulatory processes that reallocate unused spectrum quickly and effectively could help ensure telecom investment stays on track.

Regulatory reform also applies to state and local governments.

PPI's list of "Investment Heroes" shows there are still companies across a wide range of industries that continue to invest in the U.S. But there is more we can do. Encouraging other companies to follow the "Investment Heroes" lead would translate to new infrastructure and property development, jobs for millions of Americans, and precious income to U.S. businesses and consumers.

Methodology

To develop this year's list of "Investment Heroes," we started with the 2011 list of Fortune 150 companies, ranked by revenue.[7] We omitted financial companies, of which there were 22, because they do not report on capital expenditures. For each company, we then looked at their fiscal year 2011 annual filing with the SEC for global (gross) capital expenditures on additions to plants, property, and equipment (but not R&D) over the year.

To rank these 150 companies (128 of which were nonfinancial) by U.S. capital spending, we estimated the appropriate share of gross capital expenditures to investment in the U.S. using several different procedures, as appropriate.

- In 7 cases (4 cases on the non-energy list), the amount of U.S. investment was given explicitly in the filing. In those cases that estimate was used.
- In another 8 cases (10 cases on the non-energy list), the company did not break out non-U.S. operations separately, suggesting that they were relatively small (non-material). In those cases we allocated all of the capital expenditures as U.S. expenditures and indicated that on the table. We paid special attention to AT&T and Verizon, the top two companies on our list, neither of which broke out their international investment. Based on our analysis, both companies would retain their top spots under any reasonable set of assumptions.
- For companies that did business internationally, we used the geographic distribution of long-lived assets—plant, property, and equipment—for fiscal years 2010 and 2011, combined with reported depreciation for FY 2011, to estimate domestic capital expenditures.
- Finally, for a small number of companies, the reported change in long-lived assets seems incompatible with reported capital expenditures and depreciation. This can happen because of divestitures and acquisitions, or for a variety of other accounting reasons. In these cases, we estimated domestic capital spending as a share of global capital spending based on the domestic share of the change in long-lived assets (after adding back in depreciation).

Investment Heroes Part II: Top 25 Nonfinancial, Non-Energy Companies by U.S. Capital Expenditure*

Rank	Company	U.S. Capital Expenditures ($bns)
1	AT&T**	**20.1**
2	Verizon Communications**	**16.2**
3	Wal-Mart	**8.2**
4	Intel	**7.4**
5	Comcast**	**5.3**
6	Ford Motor	**3.9**
7	General Electric	**3.7**
8	Sprint Nextel**	**3.1**
9	Walt Disney	**3.0**
10	FedEx	**2.9**
11	Time Warner Cable**	**2.9**
12	General Motors	**2.8**
13	Target	**2.5**
14	IBM	**2.5**
15	Chrysler Group	**2.5**
16	Google	**2.2**
17	Apple	**2.0**
18	Kroger**	**1.9**
19	CVS Caremark**	**1.9**
20	Lowes**	**1.8**
21	Proctor & Gamble	**1.8**
22	DirecTV	**1.7**
23	Boeing**	**1.7**
24	HCA Holdings**	**1.7**
25	Microsoft	**1.7**
Total		**105.5**

*Universe includes nonfinancial Fortune 150 companies from 2011; financial reporting from FY11
**Reported to have U.S. operations only; may include a small amount of non-U.S. investment

Source: Company financial reports & filings for FY2011 and PPI estimates. Totals do not include R&D, only capital expenditures in plants, property, and equipment.

Endnotes

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About the Progressive Policy Institute

The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century. Through research and policy analysis, PPI challenges the status quo and advocates for radical policy solutions.