



Rich corporations, poor societies:

The financialisation of Apple

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1 Introduction

At the dawn of the new millennium, Apple Inc. stands as the epitome of a digitalised and globalised economy shaped by information and communication technologies. A world where capital instantly flows from New York to Singapore; a world in which economic and social exchange are no longer bound by physical barriers – that world is very much the product of Silicon Valley, the world’s tech capital, where Apple stands as a class of its own. At the same time, Apple also embodies the global rise of the multinational corporation, capitalising on low-wage jurisdictions and tax havens, accumulating record profits and cash reserves. As elsewhere, the beneficiaries of the status quo are Apple management and shareholders, while other stakeholders – workers, citizens and governments worldwide – hardly benefit from this mounting corporate affluence. In fact, structurally exploiting workers and dodging taxes comprise some of the key strategies through which Apple maximises its financial returns.

Founded in 1976, Apple’s ascent coincided with a broader set of political, economic and cultural developments, which over the course of a few decades have come to transform the capacities of states and corporations alike. Tied up with processes of globalisation and neoliberalisation, this paper zooms in on one of the main consequences of these changes: the increasing dominance of financial markets, investors, products and logics in shaping economic dynamics and outcomes, cumulatively known as *financialisation*. Through a case study of Apple, the present paper explores the ascent, characteristics and limitations of this evolving corporate ecosystem, in which multinational corporations have increasingly been able to accumulate record tax-free profits, hoard phenomenal savings and deliver large returns for their shareholders.

In this paper, Apple features as an illustration of how multinational corporations have progressively been able to realise profits far beyond their capacity to reinvest in the real economy, seeing these cash pools feed into financial markets. These unprecedented profits are primarily based on depressed wages. The shift from investing in real assets (e.g. equipment, research & development) towards financial assets (e.g. stocks, bonds) is exemplified in the declining rate of corporate investments, which translates into mounting corporate savings (gross profits minus investments and taxation). Corporate savings are typically parked in tax havens, or offshore financial centres, enabling corporations to minimize their tax bills. The overall outcome is paradoxical: never before were corporations more awash with cash, yet besides corporate management and shareholders hardly anyone is benefiting from corporate investments and tax returns, reinforcing troubling trends such as high unemployment, rising inequality and fiscal austerity. While governments around the globe are confronted with lower corporate income taxes, leading to tax hikes elsewhere and/or reductions in public investments and services, workers are struggling with reduced purchasing power. This, in turn, leads to ballooning public and private debts. Added up, in the long run this corporate business model is unsustainable, as it lowers effective demand and is contingent on a swelling stock of financial assets, ultimately household and government debt.

This paper is based on a reading of the relevant academic literature on financialisation, literature on Apple’s business model, media coverage and public investigations of Apple’s offshore strategy, as well as an analysis of Apple’s financial performance. The argument is structured accordingly: the next section contextualises the case study of Apple by discussing the broader interconnected trends that have shaped the developed economies over the latter decades: (i) declining wages; (ii) lower nominal taxes on capital; (iii) lower effective corporate taxes, resulting in (iv) ballooning corporate profits. The third section features the case study of Apple to concretize the preceding

narrative. This is done by an evaluation of Apple's (i) evolving business model, focusing on the corporation's offshoring strategy as it applies to (ii) its material production processes, and (iii) the immaterial 'paper trails' that account for Apple's expenses and revenues. The overall strategy minimises costs and taxes, and hence (iv) maximises the company's profitability and shareholder value.

In order to contribute to a more balanced and sustainable economy, multinational corporations including Apple should radically evaluate the long-term impact of their business models. Above all, this requires corporations to do more than focusing on the short-term generation of shareholder value. To this end, this paper calls upon governments to make corporations (i) pay their fair share in taxes, (ii) pay decent wages and (iii) invest cash reserves in productive rather than financial assets. Ultimately, from a long-term perspective these changes will also benefit corporations including Apple and their shareholders, as the status quo is simply untenable.

2 Corporate financialisation

The financialisation of the corporate universe did not emerge out of nowhere. Since the Second World War, developed economies have been subject to two successive policy regimes. Stretching from the immediate post-war years until the early 70s, the first was the age of Keynesianism – a period characterized by strong growth, an interventionist state and a focus on full employment. Large corporations were predominantly confined within the national state, and the international financial system was based on a fixed exchange-rate regime, resulting in financial stability and operational autonomy for states. The turbulent 70s, however, saw the end of the ‘golden age’ of post-war capitalism: growth and corporate profitability, particularly in the United States, stagnated or declined, whilst inflation was on the rise. As a result, the post-war era of ‘embedded liberalism’ made way for a new policy regime, which eventually became known as ‘neoliberalism’, seeing the power of organized labour dismantled on the back of an international financial system that was progressively unshackled from its post-war chains. Three interlinked developments characterize this period – globalisation, neoliberalisation and financialisation –all three of which have accelerated the spectacular ascendance of the multinational corporation, and the largest of these developments have come to assume a global reach.

Among other indicators, the increase in global capital mobility and corporate power is exemplified in the rise of cross-border foreign direct investment (FDI). In part, mounting FDI flows speak to the cross-border merger and acquisition mania of corporations – typically instigated by investment bankers – signalling the concentration of production into a shrinking group of ever-larger firms. Figures from the *United Nations Conference on Trade and Development* (UNCTAD) show that the assets held by foreign affiliates of multinationals rose from \$3.9 trillion in 1990 to \$102 trillion in 2014. Corporate concentration is also reflected in the growing global sales by foreign affiliates of multinationals, rising from \$4.7 trillion in 1990 to \$36.4 trillion in 2014.¹ Furthermore, in 2013 UNCTAD estimated that 80% of global trade took place between and *within* multinational corporations i.e. affiliate companies conducting business with one another within a corporate conglomerate.² If anything, these figures demonstrate a radical reconfiguration of corporate activities – from operating mostly within national states during the Keynesian age, toward globally integrated value chains during the neoliberal era.

Budding corporate integration has also resulted in a new international division of labour, seeing corporations relocate productive capacities from high- to low-wage jurisdictions in order to lower production costs. These developments have accelerated on incessant waves of neoliberalisation, with states around the globe enacting policies of deregulation, liberalization and privatization. Besides lowering production costs, increasingly mobile corporations have adjusted their organizational setup to minimize their tax bills, incorporating a range of ‘activities’ in offshore tax havens. As a result, particularly in developed economies, declining wage shares and corporate tax incomes have been offset by spectacular rises in both public (government) and private (household) debt, signalling the advent of financialisation: the increasing dominance of financial markets, investors, products and logics in shaping economic dynamics and outcomes.

1 UNCTAD (2015) World Investment Report 2015: Reforming International Investment Governance. *United Nations Conference on Trade and Development*, available online: http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf.

2 UNCTAD (2013b) GVCs and Development: Investment and Value Added Trade in the Global Economy. *United Nations Conference on Trade and Development*, available online: http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf.

The rise in corporate power against governments and workers is exemplified by a range of outcomes: first, we can observe a decline in the wage share (wages as a percentage of GDP, indicating the distribution of income between capital and labour) throughout developed and emerging economies. Figure one shows what this decline looks like in a number of developed economies. The drop in the wage share was particularly large in Japan, but the trend is similar across different economies. The worldwide picture shows a 10% decline in the wage share from 64% in 1980 to 54% in 2008, signifying a huge transfer of money from workers, communities, and societies at large, to capital owners amounting to \$7 trillion in 2013.³ Although China experienced a double-digit wage growth from the 1990s until 2008, the wage share declined from 52% in the mid 1990s to 47% in 2011.⁴ Second, increased capital mobility and corporate power saw many states enact a range of policies to attract FDI, resulting in the gradual lowering of corporate income tax rates. Figure two shows the decrease in nominal rates throughout developed economies. The overall metamorphosis in capital-labour relations is an essential building block to understand the causes and consequences of financialisation, as declining wage shares and corporate income taxes were typically offset by rising household and government debts (see Köhler et al 2015).⁵

As indicated, amidst the neoliberal makeover of the global political economy, large corporations have increasingly financialised. The concept of *financialisation* is studied on a range of different levels, or scales, and its definition and metrics are constantly subject to debate. This paper does not intend to settle these quarrels. Instead, we foreground those processes and outcomes linked to financialisation which are relevant to the financialisation of corporations in general and, in particular, to the case of Apple. Three (interconnected) developments stand out: first, since the neoliberal turn virtually all publicly-quoted corporations around the globe have increasingly adopted corporate governance models geared toward the generation of shareholder value to improve corporate profitability, seeing executive management increasingly if not exclusively occupied with pumping up the share price of their firms. An exclusive shareholder value-orientation typically comes at the expense of other stakeholders in the corporation and wider society e.g. workers, governments, citizens, the environment, and so forth. Furthermore, besides this general development indicative of corporate financialisation, depending on one's particular business model and relative success, the financialisation of corporations can be subdivided along two axes.

Partly as a result of stagnating wages and reduced public spending, many corporations have themselves increasingly delved into financial services, thereby contributing to the neoliberal trend of rising private debts. A classic example is General Electric, which set up GE Capital, but one could also think of virtually all German automotive firms that set up their own financing companies or banks. These developments resonate with Krippner's⁶ definition of financialisation, where corporate profit-making increasingly occurs via financial channels, rather than through productive capacities. Having said this, although many corporations have set up their own finance arms, not all corporations have witnessed increasing returns from financial channels. For example, Apple is very much capable of generating high margins combined with stellar revenue growth, seeing profits

3 UNCTAD (2013a) Trade and Development report 2013. *United Nations Conference on Trade and Development*, available online: http://unctad.org/en/publicationslibrary/trd2013_en.pdf.

4 ILO (2014) Global Wage Report 2014/15: Asia and the Pacific Supplement. *International Labour Organization*, available online: http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-bangkok/documents/publication/wcms_325219.pdf.

5 Köhler K, Guschanski A, Stockhammer E (2015) How Does Financialisation Affect Functional Income Distribution? A Theoretical Clarification and Empirical Assessment. *Kingston University London*, Economics Discussion Paper 2015-5.

6 Krippner G (2005) The Financialization of the American Economy. *Socio-Economic Review* 3(2) 173-208.

Figure 1 – Declining wage shares in selected economies 1980- 2015

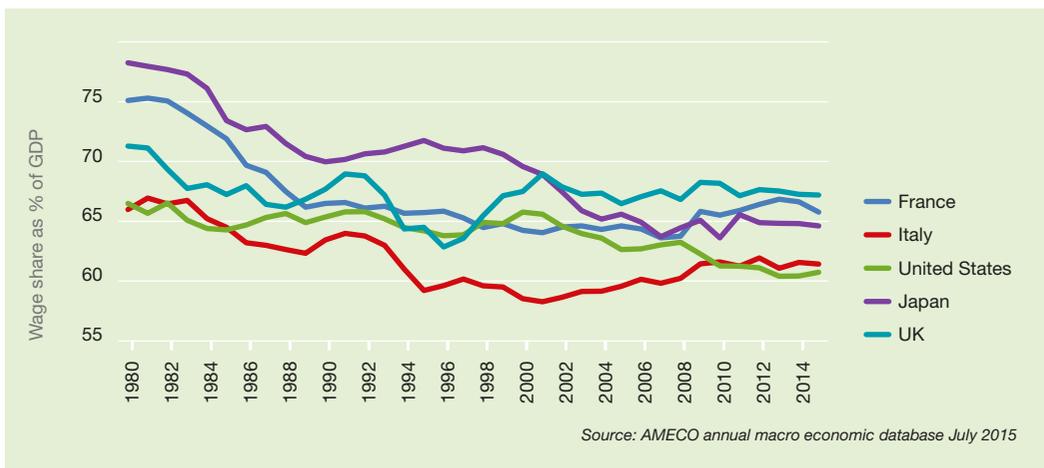


Figure 2 – Declining nominal corporate income tax, OECD average 1981-2013



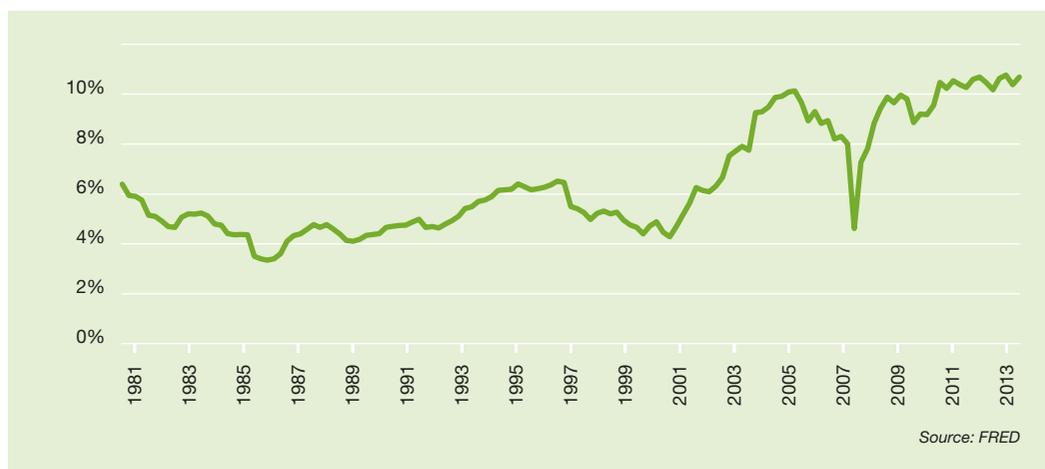
stemming from productive capacities structurally dwarf Apple’s financial returns. Crucially, however, as Apple is able to amass record profits and reserves far beyond its capacity to reinvest them into productive capacities, i.e. the ‘real’ economy, Apple increasingly invests its reserves in financial assets. In so doing, Apple has increasingly come to resemble a large financial investor, acting like a hedge fund or bank. This development can also be classified as a process and outcome of financialisation.

During the neoliberal age, a growing number of corporations have come to adopt a financialised or investor outlook, typically seeing short-term financial considerations trump long-term strategic visions. Pumping up the share price of a corporation can be achieved in multiple ways. A popular method is buying back shares, whereby the corporation inflates the price of the outstanding shares. But there are other ways to increase the market capitalisation (that is, the share price, times the number of outstanding shares) of a corporation, and hence increase the shareholder value of the firm. Unsurprisingly, these include developments outlined previously i.e. the offshoring and

outsourcing of 'real' productive activities to low-wage jurisdictions, and the offshoring of 'paper trail' activities to low-tax jurisdictions. In following such strategies, the risk and return dynamics of the corporation are adjusted to the benefit of corporate bonuses and dividends, i.e. of corporate management and their shareholders, and at the expense of broader society.

It should be noted that the world's largest corporations typically benefit disproportionately from public investments – in (rail) roads, education, military spending, and so forth. Paradoxically, however, whilst enjoying the investments made by governments and taxpayers, they are also best equipped to reduce their corporate income tax bills by establishing or incorporating themselves in a range of low-tax jurisdictions, seeing *effective* (actually paid) corporate income tax rates far lower than the aforesaid nominal rates. Since the 1920s, international taxation has been governed by thousands of bilateral double-tax treaties under the auspices of the League of Nations, the predecessor of the United Nations (UN). These arrangements functioned relatively well for most part of the 20th century, as - globalisation actually retreated until the 70s. It was with the neoliberal turn and the accompanying rise of global corporations that international taxation progressively became an issue.⁷ A growing number of states actively sought to attract their desired share of FDI, which created more opportunities for corporations to minimize their tax bills (and pump up the share price). Given these developments, it is hardly surprising that corporate profits have ballooned in recent times. Figure three shows the rise in corporate profitability for US firms:

Figure 3 – Rising US corporate profits as percentage of GDP 1981-2013



The 1970s restoration of corporate profitability, fuelled by and combined with lower corporate investments and tax payments, has brought about some noteworthy changes. For example, as noted by the *International Monetary Fund*⁸: “since the 1980s, the corporate sector of the G-7 economies [the world’s leading industrialised economies, note added] has swung from being

7 Zucman G (2014) Taxing across Borders: Tracking Personal Wealth and Corporate Profits. *Journal of Economic Perspectives* 28(4) 121-148.

8 IMF (2006) Awash With Cash: Why are Corporate Savings so High? *International Monetary Fund*, available online: <http://www.imf.org/external/pubs/ft/weo/2006/01/pdf/c4.pdf>.

a large net borrower of funds from other sectors of the economy to a net lender of funds”.⁹ Put differently, by amassing record profits and cash reserves on the back of declining wage shares, tax dodging and financial engineering global corporations have increasingly come to resemble the workings of banks or investment funds – all signifying the advent of corporate financialisation. To concretize the broader developments detailed above, the next section focuses on the evolution of what recently has become the world’s most valuable corporation: Apple Inc. headquartered in Cupertino (CA), in the United States.

9 IMF (2006) Awash With Cash: Why are Corporate Savings so High? *International Monetary Fund*, p. 140, available online: <http://www.imf.org/external/pubs/ft/weo/2006/01/pdf/c4.pdf>.

3 The financialisation of Apple

This section features the case study of Apple and is organized in four parts: the first part provides a short overview of the American tech company, outlining the key features of Apple's business model and a number of historical developments relevant to the case at hand. As indicated, the financialisation of Apple is not an account of increased profit-making via financial channels¹⁰, because Apple is able to realise high profit margins on its products amidst strong revenue growth, whilst Apple's returns via financial channels remain relatively muted due to low interest rates. To unpack the financialisation of Apple – understood here as maximising shareholder value, seeing Apple increasingly operate as a financial investor following the accumulation of massive cash reserves – the next two sections focus on the offshoring and outsourcing of material and immaterial processes, namely (i) *production* i.e. the manufacturing of components and the assembly of finished products, and (ii) *paper trails* i.e. creative accounting for Apple's global product sales, profits and cash reserves. Both strategies are integral to minimising costs and amplifying profits, and hence for increasing Apple's share price. Finally, the fourth section discusses how Apple's cash reserves are converted into dividends, further maximising Apple's shareholder value.

3.1 A short overview

“Steve Jobs knew that the best way to create value in the twenty-first century was to connect creativity with technology, so he built a company where leaps of the imagination were combined with remarkable feats of engineering.”¹¹

Told many times before, the story of Apple very much resonates with the mythical ‘American Dream’: from the early days in 1976, when assembled personal computers were being assembled in the garage of his parents, the legendary Steve Jobs and his long-time associate Steve Wozniak have over time come to build the world's most valuable company. Although not an inventor, Jobs revealed a capacity to combine and integrate different technologies for personal use. These technologies, it must be said, have their origins in massive public spending. That is to say, although the legendary Jobs often spoke of ‘innovation’, ‘creativity’ and ‘risk taking’, he typically forgot to mention a key player that has been instrumental to the phenomenal rise of Apple – that is the American state:

“Individual genius, attention to design, a love for play, and foolishness were no doubt important characteristics. But without the massive amount of public investment behind the computer and Internet revolutions, such attributes might have led only to the invention of a new toy – not to cutting-edge revolutionary products like the iPad and iPhone which have changed the way that people work and communicate”¹²

Having mostly sold their first sets of personal computers to California-based tech nerds, and having sourced modest financing from venture capitalists, in 1980 Apple was listed on the NASDAQ stock exchange. The 1980s also proved to be the starting point of the financialisation of Apple,

10 Krippner G (2005) The Financialization of the American Economy. *Socio-Economic Review* 3(2) 173-208.

11 Isaacson W (2011) *Steve Jobs*, inside front cover. Simon & Schuster: New York.

12 Mazzucato M (2013) *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, p87. Anthem Press: London.

seeing the company progressively offshore and outsource its financial and productive activities to low-tax and low- wage jurisdictions, whilst adopting a shareholder value strategy to prop up the company's share price. Crucially, Apple was not always set to become the star of Silicon Valley. On the contrary, 1985 saw the resignation of Steve Jobs – he would not return until 1996. This Jobless period coincided with sluggish growth compared to Apple's competitors, particularly Microsoft. To keep up financial appearances, John Sculley – Apple CEO from 1983 until 1993 – did much to boost Apple's share price, including large share buybacks and paying out dividends. It did not prove a successful strategy. Quite the opposite, the vision of Sculley, essentially adopting the short-term outlook of Wall Street, eventually proved detrimental to the long-term survival of Apple.

By the mid 90s, Apple's financial woes had amplified, seeing Steve Jobs return to the company he founded. Unlike Sculley, Jobs had "little if any interest" in returning earnings to shareholders.¹³ Jobs set out to revamp Apple's business model, focusing on integrated high-quality/high-margin technology products that 'lock in' the customer with integrated (hard- and software) products – in other words, an "own the consumer" strategy.¹⁴ The iPod, iPhone and iPad have since the turn of the millennium become testaments to Jobs' vision. In combining high margins with spectacular revenue growth, Apple's earning capacity is truly outstanding, amongst others raking in 92% of the mobile telecoms profits with a 20% market share.¹⁵ Although Jobs did not set out to please Apple shareholders, the restructuring of Apple was based on an *offshoring strategy* that aimed to minimize costs and amplify profits, and hence maximise Apple's share price, which started its phenomenal ascendancy from 2009 onwards.

Today, the operations of Apple Inc. are organized geographically, with its business activities in the Americas headquartered in Cupertino (CA), and its operations in the rest of the world headquartered in Cork, Ireland. Research and Development (R&D) is conducted in the US, while components for Apple products are sourced globally from other companies. Finally, the assembly of Apple products is outsourced to third-party manufacturers in China, and the distribution of these products is again organized via Apple headquarters in the US and Ireland. This particular setup does not stem from the early days. The next sections detail the rationale behind Apple's reorganization, focusing on the offshoring and outsourcing of (i) material *production* i.e. the manufacturing of components and the assembly of finished products, and (ii) immaterial *paper trails* i.e. creative accounting for Apple's global product sales, profits and cash reserves.

13 Lazonick W, Mazzucato M and Tulum O (2013) Apple's changing business model: What should the world's richest company do with all those profits? p 253. *Accounting Forum* 37 249-267.

14 Montgomerie J, Roscoe S (2013) Owning the consumer – Getting to the core of the Apple business model. *Accounting Forum* 37 290-299.

15 Ovide S and Wakabayashi D (2015) Apple's Share of Smartphone Industry's Profits Soars to 92%. Wall Street Journal, 12 July, available online: <http://www.wsj.com/articles/apples-share-of-smartphone-industrys-profits-soars-to-92-1436727458>.

3.2 Offshoring/outsourcing production

“This apparent paradox of assembler misery and brand wealth is inherent in Apple’s financialized business model”¹⁶

In the late 1970s, Apple decided to expand into Europe, and established a presence in Cork, Ireland. As a result, during the 1980s and 1990s, Apple products were manufactured both in the US and Ireland. By the late 1990s, however, Apple faced mounting financial difficulties, and restructured its productive operations accordingly: the production of Apple components was outsourced to third-party manufacturers located around the globe, including high-wage countries such as Germany, Japan and South Korea. Likewise, the assembly of finished Apple products was outsourced to large third-party manufacturers located in China. These changes coincided with broader transformations in the global corporate universe, where large vertically integrated firms were becoming unbundled and *brands* were being made ‘leaner’ by refocusing on one’s ‘core competencies’ – R&D, marketing and sales in case of Apple. Furthermore, the offshoring and outsourcing of manufacturing speaks to the new international division of labour discussed above. Driven by the shareholder-value pressures dictated by Wall Street, many multinational corporations have relocated productive capacity from high- to low-wage countries in order to reduce their production costs.

Whereas the production of Apple components has been outsourced to manufacturers around the globe, the assembly of finished products has been outsourced to a small set of specialised assemblers, the largest of which is Foxconn International Holdings (FIH), operating out of a range of low-wage jurisdictions such as China. Domiciled in the Cayman Islands and listed on the Hong Kong stock exchange, Foxconn is a subsidiary of the world’s leading contract assembler Hon Hai in Taiwan, and also works for Apple competitors such as Amazon (tablets) or Motorola (phones). “Chinese firms like FIH generally assume a subcontractor role for a large US brand, so the supply chain is trans-Pacific, not national, and their position within that chain is a subordinate one to that of lead US firms like Apple”.¹⁷ The appalling conditions of Foxconn workers assembling Apple products in China, leading to worker poisonings and suicides on the work floor, have been well documented.¹⁸ This is arguably a consequence of the “dependent relationship” of Foxconn upon Apple and others who are “dictating price and insist that the burden of adjustment in the fast moving competition between final products are borne downstream”.^{19,20} Besides the fact that neither Chinese nor US nor European workers really benefit from the financial affluence of Apple, the outsourcing and offshoring of production is also detrimental to the US trade deficit with China.²¹ Finally, governments and tax-paying citizens, both in the US and elsewhere, enjoy

16 Froud J, Johal S, Leaver A and Williams K (2012) Apple Business Model: Financialization across the Pacific. *CRESC Working Paper Series* 111, available online: <http://www.cresc.ac.uk/medialibrary/workingpapers/wp111.pdf>.

17 Ibid p 16.

18 SACOM (2011) Foxconn and Apple Fail to Fulfill Promises: Predicaments of Workers after the Suicides. *Students & Scholars Against Corporate Misbehaviour*, 6 May, available online: http://somo.nl/publications-nl/Publication_3669-nl.

19 Froud J, Johal S, Leaver A and Williams K (2012) Apple Business Model: Financialization across the Pacific. *CRESC Working Paper Series* 111, p 17, available online: <http://www.cresc.ac.uk/medialibrary/workingpapers/wp111.pdf>.

20 SOMO (2014) Dragging out the best deal: How billion dollar margins are played out on the backs of electronics workers. *Centre for Research on Multinational Corporations*, October, available online: http://somo.nl/publications-nl/Publication_4109-nl.

21 Xing Y, Detert N (2010) How the iPhone Widens the United States Trade deficit with the People’s Republic of China. *Asian Development Bank Institute*. Working Paper 257, available online: <http://www.adb.org/sites/default/files/publication/156112/adb-wp257.pdf>.

surprisingly few benefits from Apple's massive success, for Apple's riches are typically parked in tax havens beyond the reach of the tax authorities.

3.3 Offshoring paper trails

*"Apple's offshore affiliates operate as one worldwide enterprise, following a coordinated global business plan directed by Apple Inc."*²²

Besides offshoring production to low-wage countries to minimize costs, the accounting behind Apple's global product sales, profits and cash reserves has been reorganized to minimize the company's tax returns. Apple's Irish operations located in Cork initially included production, but since the late-1990s reorganization of Apple this is no longer the case. Today, Apple's Irish operations have effectively *financialised*, seeing Apple's finances consolidated under two of its Irish subsidiary companies registered at the same Cork address. According to the United States Senate, these subsidiaries are "the key affiliates at the top of the offshore network" of Apple.²³ This section details the features of Apple's 'paper trails' offshoring strategy. Again, they speak to wider developments in the global corporate universe.

The Republic of Ireland is an established tax haven with a statutory corporate income tax rate of 12.5%– the lowest in the European Union (EU). Like other corporations, however, Apple has negotiated a substantially lower tax rate with the Irish authorities, effectively below 2%. In the words of the recent US Senate investigation on Apple's tax strategy, "Ireland has essentially functioned as a tax haven for Apple, providing it with minimal income tax rates approaching zero".²⁴

The first-tier offshore affiliate of Apple is *Apple Operations International* (AOI), which is fully owned by the mother company in Cupertino. Ever since it was founded in 1980, however, AOI has not had any employees. The assets of AOI are managed by another Apple subsidiary, *Braeburn Capital*, located in Reno (Ne), US (the state of Nevada has a zero percent corporation tax compared to nine percent in California), while the assets themselves are held in bank accounts in New York.²⁵

*"Although AOI has been incorporated in Ireland since 1980, it has not declared a tax residency in Ireland or any other country and so has not paid any corporate income tax to any national government in the past five years. Apple has exploited a difference between Irish and U.S. tax residency rules"*²⁶

Another Irish offshore affiliate known as *Apple Sales International* (ASI) – subsidiary of Apple Operations Europe (AOE), which is owned by AOI – equally operates without tax residency, paying hardly any taxes, if at all, to national governments on an income of \$74 billion accumulated over the period 2009-2012. As is the case with AOI, until 2012 ASI had no employees. In fact, ASI's directors were based in Cupertino and their board meetings took place there too. Although a corporate revamp assigned 250 former AOE employees to the ASI, the offshore affiliate still

22 United States Senate (2013) EXHIBITS. Hearing on Offshore Profit Shifting and the U.S. Tax Code. Part 2 (Apple Inc.), p 30, available online: http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_part-2.

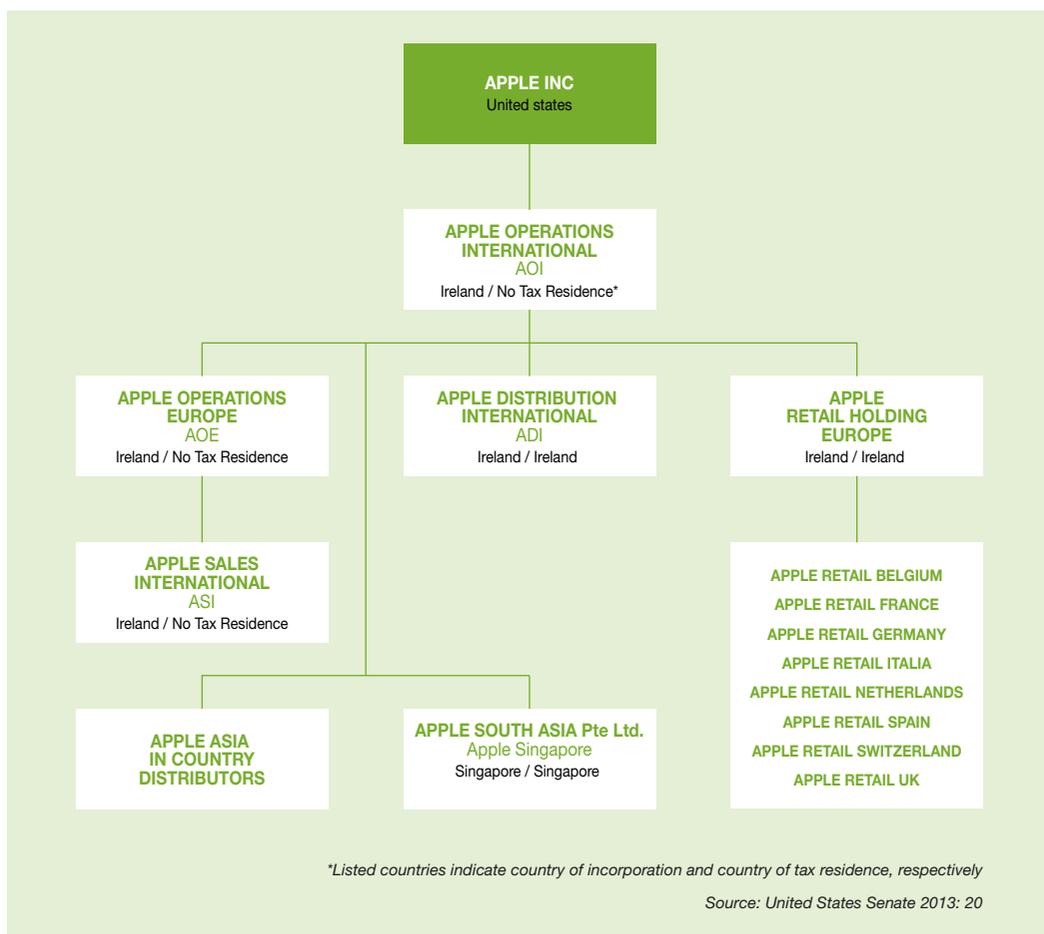
23 Ibid p 19.

24 Ibid: p 21.

25 Ibid: p 21-22.

26 Ibid: p 23.

Figure 4 – Apple’s offshore organogram



maintains that “its management and control is located outside Ireland and continues to claim it has no tax residency in either Ireland or the United States”.²⁷ As indicated, not claiming tax residency is enabled by gaming (arbitraging) national tax codes and bilateral tax treaties, seeing the fiscal duties of these companies effectively dissolve in the legal labyrinths of the offshore world.

“In addition to shielding income from taxation by declining to declare tax residency in any country, Apple Inc.’s Irish affiliates have also helped Apple to avoid U.S. taxes in another way, through utilization of a cost-sharing agreement and related transfer-pricing practices”²⁸

Alongside ASI and AOE, *Apple Distributions International* (ADI) in Ireland and *Apple South Asia Pte. Ltd.* in Singapore are other offshore affiliates instrumental to these schemes. Apple’s internal cost-sharing agreements between various subsidiaries are related to R&D costs. Crucially,

27 United States Senate (2013) EXHIBITS. Hearing on Offshore Profit Shifting and the U.S. Tax Code. Part 2 (Apple Inc.), p 24-25, available online: http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_-part-2.

28 Ibid: p 25.

although the bulk of R&D is conducted in the US, these agreements are structured in such a manner that the lion's share of R&D is reported in Ireland, minimizing the US tax bill. Likewise, the offshore affiliates keep the bulk of Apple's sales revenues outside of the US, and hence outside the purview of the Internal Revenue Service (IRS). As is the case with the cost-sharing agreements on R&D, "Apple's transfer of economic rights to its intellectual property to Ireland has no apparent commercial benefit apart from its tax effects".²⁹ As titles to Apple products are transferred to Ireland, many countries are seeing little if any tax returns from Apple. For example, in 2011 Apple recorded 84% of its non-US operating income through ASI in Ireland, resulting in zero tax liabilities for Apple's French and German retail affiliates.

*"Through this foreign profit shifting, Apple is able to reduce its foreign tax rate to below 2%."*³⁰

It should be noted that Ireland is by no means the only European jurisdiction assisting Apple in global tax avoidance. For example, Luxemburg and The Netherlands feature in these schemes: both countries have essentially enabled Apple to establish a 'presence' in these jurisdictions, which typically is nothing more than a mailbox. Specifically, Luxemburg offers a tax-free haven to route through Apple's global sales of iTunes downloads, whereas the Netherlands features as an in-between 'paper trail' gateway for AOI and ASI to offshore profits further into the tax-free Caribbean – a popular tax-avoidance strategy dubbed 'Double Irish with a Dutch sandwich' which was pioneered by Apple:

*"Apple has assigned partial ownership of its Irish subsidiaries to Baldwin Holdings Unlimited in the British Virgin Islands, a tax haven, according to documents filed there and in Ireland. Baldwin Holdings has no listed offices or telephone number, and its only listed director is Peter Oppenheimer, Apple's chief financial officer, who lives and works in Cupertino."*³¹

By offshoring both material and immaterial activities, Apple has been able to accumulate massive cash reserves, which are mostly parked in tax havens. Apple does not want to repatriate these reserves to the head office in Cupertino, as these returns will be subject to corporate taxation. Yet Apple shareholders are increasingly demanding a piece of the large cash-reserve pie, once again causing Apple to employ a range of financial techniques to repatriate dividends to their shareholders.

3.4 Apple's cash pile

Before detailing the repatriations of dividends to the shareholders, we will quickly outline the magnitude of Apple's cash reserves. Table one shows Apple's corporate performance compared to the industry median. First, the *operating margin* is higher than the industry median, and improving since 2005. Secondly, *return on equity* (RoE) – a financial indicator that embodies the age of shareholders value like no other – is very high compared to other corporations. Third, the *times interest earned* ratio illustrates the ability to meet interest payments. Fourth, the debt

29 United States Senate (2013) EXHIBITS. Hearing on Offshore Profit Shifting and the U.S. Tax Code. Part 2 (Apple Inc.), p 25, 29, available online: http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_-part-2.

30 Ibid: p 40.

31 Duhigg C and Kocieniewski D (2012) How Apple Sidesteps Billions in Taxes. *New York Times*, 28 April, available online: http://www.nytimes.com/2012/04/29/business/apples-tax-strategy-aims-at-low-tax-states-and-nations.html?_r=0.

incurred since 2013, demonstrated by the *debt to equity* ratio, is above industry standards in 2014. In other words, although Apple took out large loans to pay out massive dividends to their shareholders (see next section) – going from zero debt to above industry median debt levels – Apple’s ability to meet interest payments is almost ten times as high as the industry median.

Table 1 – Apple’s financial performance

Indicator	Industry median	2014	2013	2011	2009	2007	2005
Operating Margin	7.0%	28.7%	28.7%	31.2%	27.4%	17.9%	11.8%
Return on equity	9.6%	33.6%	30.6%	41.7%	30.5%	28.5%	21.2%
Reinvestment Rate	7.0%	24.2%	21.9%	41.7%	30.5%	28.5%	21.2%
Times Interest Earned	13.5	136.7	360.3	-	-	-	-
Debt to Equity ratio	0.26	0.32	0.14	0.00	0.00	0.00	0.00
Debt to Total Capital	12.7%	19.7%	12.1%	0.0%	0.0%	0.0%	0.0%

Source: Thompson Reuters

If we look at Apple’s income statement over the last 10 years we see a rapid surge in revenue, investments, profits and financial reserves. Net income before taxes increased from \$1.8 billion in 2005 to \$54 billion in 2014. Figure four shows how Apple accumulated financial assets (cash, short-term and long-term financial assets) since 2008. We see that a growing share of Apple’s reserves is classified as long-term financial assets, mostly bonds.

Finally, figure five shows how large Apple’s financial reserves are relative to the foreign exchange reserves of a number of developed economies, and to those of other American (tech) corporations:

Figure 5 – Apple’s financial assets

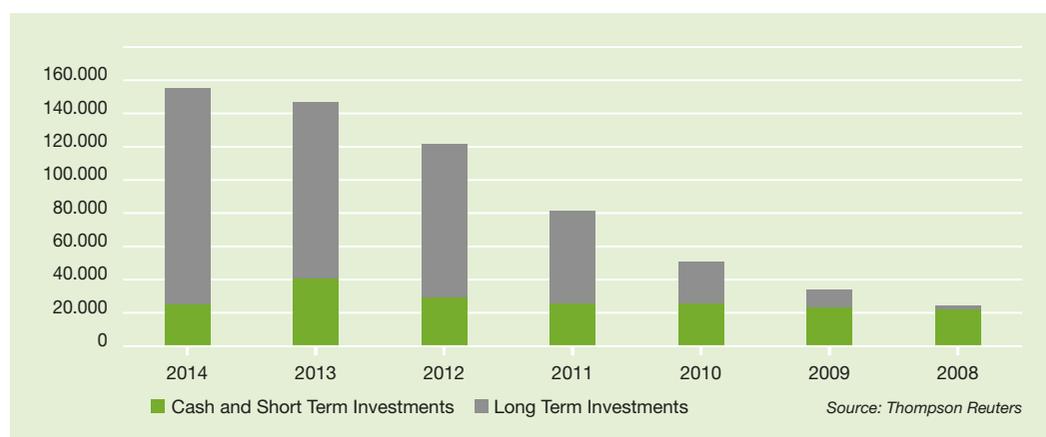
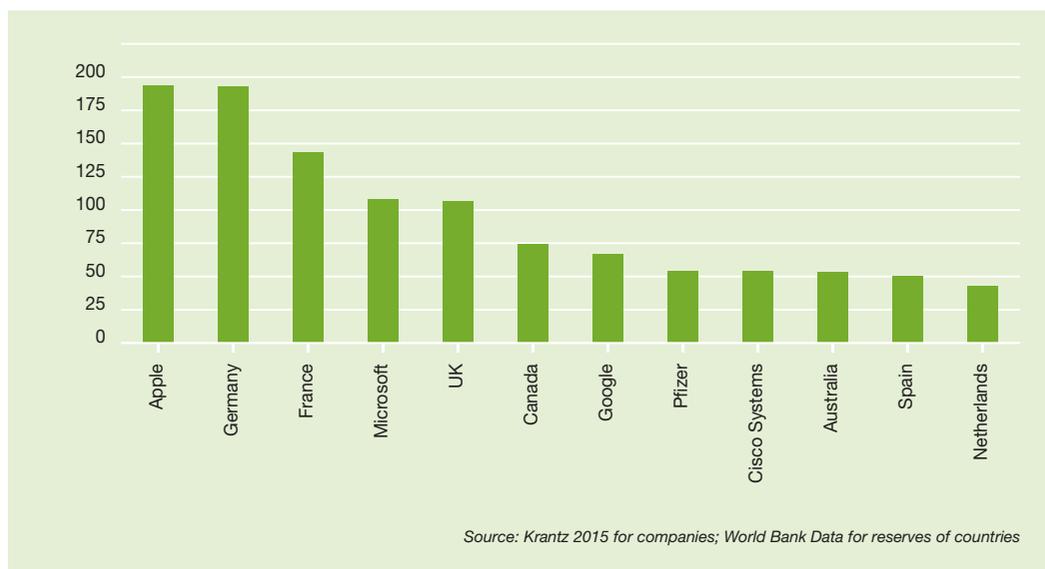


Figure 6 – The magnitude of Apple’s cash pile



3.5 A corporate cash machine

“The cash pile is technically owned by Apple’s subsidiaries in Knocknaheeny, a rundown northern suburb of Cork, Ireland. But it is managed by a rarely talked-of investment subsidiary closer to home and largely invested in American assets, including billions in corporate bonds and US government debt. There is only one brief mention of this opaque internal investment company in Apple’s annual report, on page 114. It is called Braeburn Capital and registered in a quiet corner of Reno, Nevada. Some commentators have described it as “the biggest hedge fund you’ve never heard of.”³²

Although tech companies typically hold more cash than other corporations – for example, Google held a 60% cash reserve of its assets – in 2010 the average cash pool of a tech firm was 30%, whereas US corporations typically held just 10% of assets in cash.³³ As one analyst observed, “if cash is king, Apple’s is an emperor”.³⁴ Not reinvesting its cash into productive capacities, say in R&D or the wider ‘real’ economy, Apple instead invested its cash in a range of financial securities, including money market funds, treasury securities, commercial paper and corporate securities. To put the size of Apple’s cash pool into perspective: Apple’s CFO should be seen as the world’s largest hedge fund manager. In fact, Apple’s quarterly cash growth outstrips the market capitalization of many firms, and the mushrooming cash pool could buy out many rival tech firms at once.³⁵ The rising cashpool brings about its own problems:

32 Bowers S (2015) Apple’s cash mountain grows to \$178bn. *The Guardian*, 2 February, available online:

<http://www.theguardian.com/business/2015/feb/02/apple-cash-mountain-grows>.

33 Parsons J (2011) Apple’s cash hoard: how much is too much? *Betting the Business*, 25 July, available online:

<http://bettingthebusiness.com/2011/07/25/apples-cash-hoard-how-much-is-too-much/>.

34 Dediu H (2011) If Cash is King, Apple’s is an Emperor. *Asymco*, 26 April, available online:

<http://www.asymco.com/2011/04/26/2895/>.

35 Ibid.

“Retaining cash is the premier risk management tool. But holding cash is costly since shareholders have other investments they can make with those dollars. Companies have to balance the value gained by holding an extra dollar of cash against the value lost by not returning it to shareholders. Determining the right balance is a constant source of friction between management and shareholders, and among different shareholders.”³⁶

The growth of Apple’s cash pool is astonishing, soaring from \$76 billion in 2011³⁷ towards \$178 billion early 2015 i.e. “among the biggest of any public corporation in the world”.³⁸ After the first quarter in 2015, the cash pool had risen to \$194 billion, “which is more than any other non-financial company in the Standard & Poor’s 500 – by a mile”.³⁹ As indicated, Apple’s mushrooming cash pool is locked up overseas to avoid a tax bill in the US. “At present, this sum cannot be reinvested in Apple’s US businesses nor returned to shareholders without incurring a colossal tax bill”.⁴⁰ Yet activist investors like hedge funds have increasingly demanded a slice of these cash reserves, wanting to maximise their shareholder value. As a result, Apple has adopted financial engineering as a solution: instead of repatriating its offshore cash pile, the company went on a borrowing streak. In 2013 Apple sold the largest corporate-bond deal in history, borrowing \$17 billion against historically low rates, in order to pay out dividends to its shareholders.⁴¹ This is part of a larger strategy “to distribute \$100 billion in cash to shareholders - \$40 billion in cash dividends and \$60 billion in stock repurchases – by the end of calendar year 2015”.⁴² These developments hint at a return to Apple’s business model of the 1980s, which “suggest that Apple’s innovative capability will be much diminished in the future”, turning Apple into “a financial enterprise that lives off the past”, instead of being a “productive enterprise that invests for the future”.⁴³

36 Parsons J (2011) Apple’s cash hoard: how much is too much? *Betting the Business*, 25 July, available online: <http://bettingthebusiness.com/2011/07/25/apples-cash-hoard-how-much-is-too-much/>.

37 Ibid.

38 Bowers S (20 15) Apple’s cash mountain grows to \$178bn. *The Guardian*, 2 February, available online: <http://www.theguardian.com/business/2015/feb/02/apple-cash-mountain-grows>.

39 Krantz M (2015) \$194B! Apple’s cash pile hits record. *USA Today*, 27 April, available online: <http://americasmarkets.usatoday.com/2015/04/27/194b-apple-cash-pile-hits-record/>.

40 Bowers S (2015) Apple’s cash mountain grows to \$178bn. *The Guardian*, 2 February, available online: <http://www.theguardian.com/business/2015/feb/02/apple-cash-mountain-grows>.

41 Burne K and Cherney M (2013) Apple’s Record Plunge Into Debt Pool. *Wall Street Journal*, 30 April, available online: <http://www.wsj.com/articles/SB10001424127887324482504578454691936382274>.

42 Lazonick W, Mazzucato M and Tulum O (2013) Apple’s changing business model: What should the world’s richest company do with all those profits? p 250. *Accounting Forum* 37 249-267.

43 Ibid p 250-251.

4 Conclusion

The age of neoliberal globalization has led to the phenomenal rise of giant corporations, many of which have financialised, increasingly resembling the workings of banks, institutional investors and hedge funds. This paper has foregrounded the example of Apple Inc. to demonstrate that ballooning corporate wealth has come at the expense of the wellbeing of larger societies. Whereas Apple has massively benefited from public investments, governments and tax-paying citizens and workers around the globe are seeing surprisingly poor returns in the form of public investments (financed by corporate income taxes) and wages from Apple's riches. Instead, through the offshoring of production and creative accounting, Apple has gone to great lengths to minimize its production costs and tax bills. This particular business model has received critical attention from NGOs and governments in the US⁴⁴ and Europe⁴⁵. Rightly so, for Apple's business model – exemplar of wider changes in the corporate universe – is simply unsustainable, as governments and households become increasingly dependent upon public and private debt instead of benefiting from fair tax contributions and earning decent wages.

The story of Apple, although inevitably unique, strongly resonates with wider developments in the global political economy. Not least thanks to the productivity gains achieved by global workers, the world economy has been able to grow steadily, and corporations in particular have, since the turn of the millennium, massively increased their profitability. Yet these productive workers, in both developed and developing economies, are themselves earning less and less in proportion to economic growth, as exemplified in declining wage shares worldwide. In addition, whereas corporations have been able to reduce their tax bills, workers and citizens have generally witnessed an increase in taxes. The overall result is that corporations have come to accumulate massive reserves which – instead of fuelling the real economy – increasingly feed into financial markets. The full picture suggests that these changes have chiefly benefited corporate management and shareholders, reinforcing trends in widening inequality, and allowing corporate affluence to live off the rest of society.

In order to contribute to a more balanced and sustainable economy, multinational corporations, including Apple, should radically evaluate the long-term impact of their business models. Above all, this requires corporations to do more than focusing on the short-term creation of shareholder value. To this end, this paper calls upon governments to make corporations (i) pay their fair share in taxes, (ii) pay decent wages and (iii) invest cash reserves in productive rather than financial assets. Amongst other things, this implies that governments should curb the possibilities for corporations to dodge taxes and park their cash offshore. Ultimately, from a long-term perspective these changes will also benefit corporations, including Apple, and long-term oriented shareholders such as pension funds, as the status quo is simply unsustainable. Particularly for Apple, the years ahead will determine whether the spectacular successes of Steve Jobs can be continued. If not, Apple's mounting cash pile will merely feed short-term investors, while the tech star of Silicon Valley will face an uncertain outlook. As Steve Jobs has demonstrated, and this paper has indicated, it does not have to be this way.

44 United States Senate (2013) EXHIBITS. Hearing on Offshore Profit Shifting and the U.S. Tax Code. *Part 2 (Apple Inc.)*, available online: http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_-part-2.

45 European Commission (2014) State aid SA.38373 (2014/C) (ex 2014/NN) (ex 2014/CP) – *Ireland Alleged aid to Apple*, 11 June, available online: http://ec.europa.eu/competition/state_aid/cases/253200/253200_1582634_87_2.pdf.

Using creativity and imagination to minimize taxes and wages so as to fatten the pockets of shareholders is ultimately a dead-end. It is therefore high time governments around the globe start to rein in the corporate cash machines, and tap into the mounting cash reserves of those who do not invest their riches productively. It is high time for decent wages, real investments, real tax returns, and real sustainable development. Not only is this in the long-term interest of all stakeholders, including Apple's management and shareholders, it would also contribute to the sustainability of the crisis-prone capitalist system itself.

Glossary

Operating margin	<i>The proportion of the revenue that is left over after paying for all operational expenses (wages, material, etc.)</i>
Return on equity	<i>The rate of return for shareholders equity</i>
Debt to equity ratio	<i>Debt divided by total shareholders equity</i>
Debt to total capital	<i>Debt divided by total capital</i>

Colophon

Rich corporations, poor societies: The financialisation of Apple

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