Bond guru to Wall St.: “You didn’t build that”

By Editor Test *Wed, Aug 8, 2012*

In his latest column, Bill Gross (pictured) almost echoes the refrains of Occupy Wall Street, charging that capital has prospered at workers’ and the public sector’s expense.

William Gross, chief investment officer of PIMCO, and the undisputed king of active bond fund management in the U.S., used his latest column to assert that the equity market gains of the last several decades simply cannibalized other sectors of the economy and didn’t create new wealth.

Asserting that there’s no other way to explain how average stock returns could be double the average growth of the economy for the past several decades, Gross argued that equities have outpaced GNP mainly because of falling tax rates and declining real wages.

“Economists will confirm that not only the return differentials within capital itself (bonds versus stocks to keep it simple) but the division of GDP between capital, labor and government can significantly advantage one sector versus the other… [R]eal wage gains for labor have been declining as a percentage of GDP since the early 1970s, a 40-year stretch which has yielded the majority of the past century’s real return advantage to stocks,” Gross wrote.

“Labor gaveth, capital tooketh away in part due to the significant shift to globalization and the utilization of cheaper emerging market labor. In addition, government has conceded a piece of their GDP share via lower taxes over the same time period. “Corporate tax rates are now at 30-year lows as a percentage of GDP and it is therefore not too surprising that those 6.6% historical real returns [of equities] were 3% higher than actual wealth creation for such a long period.”