Dambisa Moyo, Economist and Author of *How the West Was Lost: Fifty Years of Economic Folly*

Given the shocks that dominated the 2016 macroeconomic and geopolitical environments—including Brexit, the U.S. election, and the negative interest rate environment in Europe and Japan—all eyes will understandably be on global policymakers in 2017.

Yet decisions made by business leaders, especially with regard to capital allocation, will be vital for the prospects of the global economy. After all, corporations continue to play a central role in creating jobs, driving innovation, and raising living standards.

"Restoring risk appetite and capital investment to levels of prior years will be essential to driving continued growth and prosperity."

However, there are troubling signs of growing risk aversion in the private sector. Companies are increasingly choosing to return money to shareholders instead of making capital investments, such as building new factories or increasing research and development, to lay foundations for future growth.

According to research by WPP, a global communications firm, among companies listed on the S&P 500, share buybacks and dividends have exceeded retained earnings (that is, profits withheld by companies and generally earmarked for investment) in five of the six quarters up to June 2016. Moreover, the ratio of payouts and buybacks to earnings has risen from around 60 percent in 2009 to over 130 percent in the first quarter of 2016. This data signals that companies are choosing to scale back rather than grow.

This worrying trend comes at a time when forecasts for the global economy remain underwhelming, and growth is expected to slow in many regions. At the same time, policymakers face growing populist backlash from voters, as well as mounting skepticism from economists and technocrats about the effectiveness of traditional economic tools such as monetary and fiscal policy. And continued geopolitical uncertainty, with national elections slated for both France and Germany that could bring antiestablishment parties to power, will weigh on corporate investment decisions in 2017.

This could all contribute to a further drift toward investment inertia. There is an argument, after all, that it is prudent for businesses to choose to scale back during periods of heightened political and economic uncertainty. But as William Thorndike's 2012 study of successful CEOs, ***The Outsiders***, found, business leaders that prioritize capital allocation even in times of uncertainty consistently outperform both their peers and market expectations. This means that even if cautious companies want to hedge against market turbulence, they can do so most effectively by limiting the amount of dividends they return to investors—which has been steadily increasing—in favor of holding their capital ready for future investment opportunities.

Capital allocation decisions should of course factor in the short-term demands of shareholders, but they must also prioritize long-term growth, which is what the global economy so urgently needs. Ultimately, restoring risk appetite and capital investment to levels of prior years will be essential to driving continued growth and prosperity. President-Elect Donald J. Trump, if he is able to follow through on his plans for tax reform and deregulation, may be able to stimulate greater investment.