End stock “buybacks” that manipulate the market

Stock “buybacks” are when companies buy back their own stock from shareholders on the open market. When a share of stock is bought back, the company reduces the number of shares left in the market, which raises the price of remaining shares. Company executives have every incentive to buy back stocks, since most of their compensation derives from stock and a higher stock price makes them personally richer. Executives buy back billions of their own stock, juice share prices, and pass on cash to themselves and wealthy shareholders.

Stock buybacks are on the rise: over the last decade, companies have sent 94% of corporate profits out to shareholders in buybacks and dividends, after which companies argue they can’t afford employee compensation or investment in new products. At least $200 billion in new stock buybacks were authorized after the 2017 tax bill and gave companies huge windfalls.

As the biggest beneficiary of the tax bill, Wells Fargo alone bought back over $40 billion of its own stock, at the same time as it laid off nearly 700 workers and defrauded millions of customers in various incidents. The rise of stock buybacks, now and over the last 30 years, is both a symptom and a cause of the high-profit, low-wage corporate sector we see today.

Why are stock buybacks bad?

1. **Buybacks come at the expense of wages and productivity**. This leaves very little money left for long-term investments in workers, training, R&D, and innovation. Prior to the 1980s, workers’ wages increased in tandem with their productivity. Since the 1980s, they have become unlinked, which has led to decades of middle class wage stagnation despite rising profits and productivity. This has driven inequality to levels we have not seen since the period immediately preceding the Great Depression.

2. **Executives exploit buybacks for personal gain**. Corporate executives frequently hold large amounts of stock themselves, and their compensation is often tied to higher stock prices. This means that engaging in stock buybacks can affect executives’ compensation by tens of millions of dollars. A recent analysis by SEC Commissioner Robert Jackson found that executives often take advantage of the price spike they themselves engineered to cash out their own shares. In fact, the percentage selling stock more than doubled immediately after buyback announcements, and the amount of stock they sold increased fivefold.

3. **It hasn’t always been this way.** In 1982, the SEC finalized Rule 10b-18, which makes clear that open market stock buybacks would not be considered stock manipulation. This led to an explosion of buybacks. In 1981, the S&P 500 spent approximately 2 percent of its profits on buybacks. In 2017, the index spent 50 percent of its profits on buybacks (and 41 percent on dividends).

Bills

The Reward Work Act of 2019 (H.R. 3355/S. 915.) ends corporations’ ability to buy back their stock on the open market. Repurchases through tender offers -- subject to greater disclosure -- will still be allowed. It also requires that public companies allow one-third of their board to be elected by workers to spur healthier decision-making.

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