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Schumer and Sanders: Limit Corporate Stock Buybacks

Corporate self-indulgence has become an enormous problem for workers and for the long-term strength of the economy.

By Chuck Schumer and Bernie Sanders
Mr. Schumer and Mr. Sanders are U.S. senators.

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From the mid-20th century until the 1970s, American corporations shared a belief that they had a duty not only to their shareholders but to their workers, their communities and the country that created the economic conditions and legal protections for them to thrive. It created an extremely prosperous America for working people and the broad middle of the country.

But over the past several decades, corporate boardrooms have become obsessed with maximizing only shareholder earnings to the detriment of workers and the long-term strength of their companies, helping to create the worst level of income inequality in decades.

One way in which this pervasive corporate ethos manifests itself is the explosion of stock buybacks.

So focused on shareholder value, companies, rather than investing in ways to make their businesses more resilient or their workers more productive, have been dedicating ever larger shares of their profits to dividends and corporate share repurchases. When a company purchases its own stock back, it reduces the number of publicly traded shares, boosting the value of the stock to the benefit of shareholders and corporate leadership.

Between 2008 and 2017, 466 of the S&P 500 companies spent around $4 trillion on stock buybacks, equal to 53 percent of profits. An additional 40 percent of corporate profits went to dividends. When more than 90 percent of corporate profits go to buybacks and dividends, there is reason to be concerned.

This practice of corporate self-indulgence is not new, but it’s grown enormously. Fueled by the Trump tax cut, in 2018, United States corporations repurchased more than $1 trillion of their own stock, a staggering figure and the highest amount ever authorized in a single year.

This has become an enormous problem for workers and for the long-term strength of the economy for two main reasons.

First, stock buybacks don’t benefit the vast majority of Americans. That’s because large stockholders tend to be wealthier. Nearly 85 percent of all stocks owned by Americans belong to the wealthiest 10 percent of households. Of course, many corporate executives are compensated through stock-based pay. So when a company buys back its stock, boosting its value, the benefits go overwhelmingly to shareholders and executives, not workers.

Second, when corporations direct resources to buy back shares on this scale, they restrain their capacity to reinvest profits more meaningfully in the company in terms of R&D, equipment, higher wages, paid medical leave, retirement benefits and worker retraining.

It’s no coincidence that at the same time that corporate stock buybacks and dividends have reached record highs, the median wages of average workers have remained relatively stagnant. Far too many workers have watched corporate executives cash in on corporate stock buybacks while they get handed a pink slip.

Recently, Walmart announced plans to spend $20 billion on a share repurchase program while laying off thousands of workers and closing dozens of Sam’s Club stores. Using a fraction of that amount, the company could have raised hourly wages of every single Walmart employee to $15, according to an analysis by the Roosevelt Institute.

Walmart is not alone. Harley Davidson authorized a 15 million share stock-repurchase around the same time it announced it would close a plant in Kansas City, Mo. And Wells Fargo has spent billions on corporate stock buybacks while openly plotting to lay off thousands of workers in the coming years.

At a time of huge income and wealth inequality, Americans should be outraged that these profitable corporations are laying off workers while spending billions of dollars to boost their stock’s value to further enrich the wealthy few. If corporations continue to purchase their own stock at this rate, income disparities will continue to grow, productivity will suffer, the long-term strength of companies will diminish — and the American worker will fall further behind.

That is why we are planning to introduce bold legislation to address this crisis. Our bill will prohibit a corporation from buying back its own stock unless it invests in workers and communities first, including things like paying all workers at least $15 an hour, providing seven days of paid sick leave, and offering decent pensions and more reliable health benefits.

In other words, our legislation would set minimum requirements for corporate investment in workers and the long-term strength of the company as a *precondition* for a corporation entering into a share buyback plan. The goal is to curtail the overreliance on buybacks while also incentivizing the productive investment of corporate capital.

Some may argue that if Congress limits stock buybacks, corporations could shift to issuing larger dividends. This is a valid concern — and we should also seriously consider policies to limit the payout of dividends, perhaps through the tax code.

Why wouldn't it be better for our national economy if, instead of buying back stock, corporations paid all of their workers better wages and provided good benefits? Why should a company whose pension program is underfunded be able to buy back stock before shoring up the pension fund?

Whichever way a corporation chooses to invest in its workers, what's clear to the vast majority of Americans is that companies should devote resources to workers and communities *before* buying back stock.

So, in this Congress, the two of us will attempt to get a vote on legislation that demands that corporations commit to addressing the needs of their workers and communities before the interests of their wealthy stockholders.

The past two years have been extremely disappointing for millions of workers. President Trump promised the typical American household a $4,000 pay raise as he pushed for his tax giveaway to the rich. The reality, however, is that from December 2017 to December 2018, real wages for average workers have gone up by just $9.11 a week. Sadly, average workers are making less today than they made in 1973 after adjusting for inflation, while stock buybacks have skyrocketed to record levels.

The time is long overdue for us to create an economy that works for all Americans, not just the people on top. Our legislation will be an important step in that direction.

Chuck Schumer from New York is the Democratic leader in the Senate. Bernie Sanders is a senator for Vermont.

Correction: *Feb. 4, 2019*
An earlier version of this article misstated the percentage of profits that corporations paid out in dividends from 2008 to 2017. It was around 40 percent, not 30 percent.

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