Stock Buybacks Hurt Workers

One of the most glaring examples of corporate greed we face is the rise of stock buybacks. Over the last decade, instead of investing in employee compensation and new infrastructure, companies have put 94% of their profits into stock buybacks and dividends. The increasing financialization of the economy is only made worse by these buybacks, and results in corporations squeezing as much profit as they can out of their employees. At the end of the day, workers see a decrease in their bargaining power and a dramatic rise in income inequality, all in the name of maximizing “shareholder value”.

What are stock buybacks?
Stock buybacks are when companies buy back their own stock from shareholders on the open market rather than investing in workers or equipment. 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.

It hasn’t always been this way. Until 1982, buybacks were considered a form of market manipulation, but a Securities and Exchange Commission (SEC) ruling that year gave companies free reign to buy back stocks.

How Buybacks Harm Workers
While buybacks are very beneficial to corporate executives and wealthy Wall Street investors, they end up harming workers. Before the stock buyback explosion, companies would often use excess profits to increase worker pay and benefits, to invest in new equipment, or to expand into new markets and create more jobs.

Now that the majority of profits go to buybacks, there is little money left to invest in workers and the future growth of companies. For example, in 2015, Verizon bought back $5 billion in stock—and then told striking CWA members just a year later that the company couldn’t afford to provide pay increases, improved health care or better job security. If Verizon had instead spent that $5 billion on workers, every Verizon employee could have received $28,000.

Stock buybacks skyrocketed since the passage of the 2017 corporate tax cut, as companies have used their handouts on buybacks rather than workers--in fact, last year companies bought back over $700 billion of their own stock. Last year, after vulture hedge fund manager Paul Singer launched an attack on AT&T and demanded that the company cut jobs and sell off assets, AT&T agreed to commit to spending $30 billion on stock buybacks. Policymakers in Congress and the Administration should focus on ending this practice that's harmful for the economy.

What is the legislative fix?

The Reward Work Act of 2019 (H.R. 3355/S. 915) ends corporations' ability to buy back their stock on the open market. The bill would reverse the 1982 SEC ruling and would ban companies from buying back their stock on the open market.

For too long, corporate executives like those at AT&T have decided to prioritize making their short-term share price as high as possible instead of helping the workers who are the backbone of the company. It is time Congress pass the Reward Work Act to ban stock buybacks and help create jobs across the country.