

Share buybacks have been the “only net source of money entering the stock market” since 2008

Nick Beams
7 April 2020

Like every great crisis, the coronavirus pandemic has laid bare everything rotten and degenerate in capitalist society.

Nowhere is that exposure more pronounced than in the case of the stock market—that vast institutionalised mechanism through which the wealth of society, produced by the labour of the working class, is siphoned to its highest echelons at the expense of the mass of the population.

Corporations are now lining up to receive a portion of the Trump administration’s massive \$2.2 trillion bailout. They are employing an army of lobbyists, lawyers and financial advisers (all taking a fat fee for their services) to maximise their gains as they plead that they are strapped for cash and must be provided with money to “save the economy.”

But a report published in the *Wall Street Journal* at the weekend reveals that one of the main reasons for the cash shortage is the trillions of dollars spent by major corporations on share buybacks, particularly over the decade since the global financial crisis.

According to Brian Reynolds, the chief market analyst at the research firm Reynolds Strategy, upon whose research the article is based, corporate buybacks have been the “only net source of money entering the stock market” since 2008.

The sole purpose of buyback programs is to enhance the wealth of the executives who sit atop the major corporations as well as hedge funds and other traders in shares. By cutting the number of shares on issue, the stock of the corporation rises. Executives and others can then exercise their stock options to make a killing while hedge funds strike at the opportune time and rake in billions.

The buybacks are financed by using the accumulated profits of the company or, in some cases, by the raising of debt, taking advantage of the ultra-low interest rate policies of the US Federal Reserve.

According to the economist William O. Lazonick, the proportion of corporate buybacks funded through the issuing of bonds went as high as 30 percent in both 2016 and 2017.

By Reynolds’ calculations, since the beginning of 2009, buybacks have added a net \$4 trillion to the stock market, an amount equivalent to one-fifth of the total \$20.9 trillion market value of the companies in the S&P 500 index.

Calculations by Lazonick put share buybacks as equivalent to 52 percent of all corporate profits, with dividends on shares accounting for another \$3.3 trillion.

According to the *Journal* article: “Contributions from all other sources—including exchange-traded funds, foreign buyers, insurance funds, mutual funds, broker-dealers, hedge funds and households—netted out to roughly zero.”

Last year, companies in the S&P 500 bought \$729 billion of their own stock, just shy of the record \$806 billion in 2018 that was fuelled by the Trump administration’s corporate tax cuts enacted at the end of 2017.

Trump declared the tax cuts would bring a major expansion of productive investment and good-paying jobs. Of course, having emerged from seedy and corrupt financial world in New York City, he knew nothing of the sort was going to happen.

The origin of share buybacks lies in legal changes made in 1982, at the beginning of the phenomenon now known as financialisation. This is the process in which

the accumulation of profit has been increasingly divorced from productive activity in the real economy, becoming ever more dependent on stock market speculation and other forms of financial parasitism.

Up until that time, buybacks had been considered a form of stock market rigging and insider trading. However, in line with the financialisation process that was getting underway, the Securities and Exchange Commission adopted a new rule giving corporate executives immunity from the charge of stock-price manipulation that would have previously applied.

Standing at very heart of American capitalism, there is probably no institution that has been surrounded by as many lies as the stock market.

One of the biggest falsifications is that rising share values are necessary because they strengthen companies and enable them to carry out the development of productive activities through research and development. In fact, resources which could be made available for such purposes are diverted to share purchases that benefit only the firm's top executives and share traders.

As Lazonick has documented, in 2018 only 43 percent of companies in the S&P 500 recorded any expenditure on R&D. Most of this was on a very small scale because just 38 companies accounted for 75 percent of the spending by the 500 companies covered by the index.

Another myth is that rising share values benefit small household investors. But in 2016, as Lazonick reported in an article published on the website New Economic Thinking last month, in 2016 the wealthiest 10 percent of US households held 84 percent of the value of US publicly traded companies.

"Buybacks," he wrote, "enrich an even smaller group of the richest people who are in the business of timing the sale of shares. Specifically, buybacks have overwhelmingly benefited a small number of stock market traders, including senior corporate executives themselves and corporate raiders (aka 'hedge fund activists'), while leaving most Americans worse off."

As a result of the economic lockdown, airlines have been in front line of corporations, with both hands out, demanding money from the government. They have also been among those most involved in share buybacks that have led to the running down of their cash reserves.

Lazonick reported that in the decade 2010-2019, the four major US airlines (American, Delta, United and Southwest) plus the two largest cargo airlines (Fedex and UPS) together distributed "just over 80 percent of their profits in the form of buybacks (56 percent) and dividends (25 percent). At these six airlines alone, buybacks over the past decade were \$77 billion, with 71 percent of them done in 2015-2019."

The six CEOs received \$19.6 million a year on average, with some 81 percent of their money coming from realised gains from the exercise of stock options and the "vesting of stock awards"—a process in which the recipient has to wait for a period of time before being able to exercise the option.

And then there is the case of Boeing. As has now been established, Boeing went ahead with its 737 Max that put a new engine on an old aircraft structure, leading to the death of 346 people in two crashes.

The cost of developing a new aircraft architecture, estimated at \$7 billion, would have been significantly less, as Lazonick notes, than the \$11 billion it spent on share buybacks between 2004 and 2008.

After receiving 2,500 orders for the MAX by the beginning of 2013, "Boeing went on a buyback spree that reached a total of \$43 billion by the first week of March in 2019."

The cost in human life, however, goes far beyond the case of Boeing. It extends across the entire American economy.

The data on the scale of the buyback operations and the dependence on them for the plundering of the wealth of society discloses the source of the push for a return to work, whatever the dangers to the health of workers, so that the process of surplus value extraction and its distribution to the ultra-wealthy can resume.

The case for the public ownership, under democratic control, of the entire financial system and the major corporations could hardly be clearer.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact