

U.S. Sen. Baldwin: Introduces Legislation to rein in stock buybacks and give workers a seat at the table

Posted on Thursday, Mar 22, 2018

>> WisPolitics is now on the State Affairs network. Get custom keyword notifications, bill tracking and all WisPolitics content. [Get the app or access via desktop.](#)

CONTACT: press@baldwin.senate.gov
(202) 224 – 6225

WASHINGTON, D.C. – Today, U.S. Senator Tammy Baldwin introduced legislation to rein in corporate America's addiction to stock buybacks by giving workers a say in how their company's profits are spent. The Reward Work Act improves disclosure of repurchases and requires public companies to give workers the right to directly elect one-third of their company's board of directors.

Since the Republican tax bill passed, corporations have announced more than \$225 billion in stock buybacks, overwhelmingly benefiting corporate executives and wealthy shareholders, and leaving the middle class behind. Corporate boards—often at the urging of activist investors—now spend an inordinate amount of their profits buying back their own stock and issuing dividends, leaving minimal resources for long-term investments in workers, training and innovation.

“Corporate profits should be shared with the workers who actually create value. It’s just wrong for big corporations to pocket massive, permanent tax breaks and reward the wealth of top executives with more stock buybacks, while closing facilities and laying off workers,” said Senator Baldwin. “The surge in corporate buybacks is driving wealth inequality and wage stagnation in our country by hurting long-term economic growth and shared prosperity for workers. We need to rewrite the rules of our economy so it works better for workers and not just those at the top. This legislation makes it clear that empowering the voices of our workers and investing in our workforce is more important than using tax breaks and corporate

profits to reward shareholders with more stock buybacks.”

The Reward Work Act repeals the Securities and Exchange Commission (SEC) 10b-18 rule that makes it easier for corporations to buy back their stocks. It also ends corporations’ ability to buy back their stock on the open market, though repurchases through tender offers—which are subject to greater disclosure—will still be allowed. Finally, the legislation requires one-third of corporate boards to be directly elected by the company’s employees.

The legislation repeals the infamous SEC 10b-18 rule. Finalized in 1982, the rule shields companies from manipulation charges when buying back their stock on the open market. In 1981, the S&P 500 spent approximately two percent of its profits on buybacks. Last year, those same companies spent 59 percent on buybacks. Now that executives are largely paid in stock, they have a direct incentive to boost prices.

“The explosion of stock buybacks since the Trump tax cut has make clear what Senator Baldwin and the AFL-CIO have been saying for a long time: that the current system that puts shareholders before workers is broken. Prior to the 1980s, high corporate profits translated into better wages and an improved standard of living for American workers. But since the SEC has changed its buyback rules in 1982, that bargain has been broken. Aggressive shareholders now force down wages to make room for more stock buybacks. Executives, with their compensation linked to share prices, are only too happy to oblige. Senator Baldwin’s legislation will give workers a seat at the table to ensure that our economy once again rewards work instead of just wealth,” said Heather Slavkin Corzo, Director of Office of Investment, AFL-CIO.

“For over three decades, I have studied the financialization of the business corporation. I can only describe what I have seen as “the looting of the American corporation.” Aggressive shareholders and many executives only have an interest in taking money out of a corporation, instead of investing in it. Workers and taxpayers are at the back of the line when it comes to deciding how to spend a company’s profits. Top priority has gone to stock buybacks that give manipulative boosts to the company’s stock price. These unwarranted distributions to shareholders stifle investment in innovation, and they drive inequality by keeping wages low and work unstable while enriching the wealthiest,” said William Lazonick, professor of economics at the University of Massachusetts Lowell, president of the Academic Industry Research Network and author of *Profits without Prosperity*. “Senator Baldwin has consistently led on this issue in the Senate. Her new legislation will be

the first to attempt to reverse the harms of corporate America's buyback obsession. This legislation will realign incentives in our productive enterprises to ensure that those who truly create value—workers in particular—get to share in the profits they have created.”

“Trump and his partners in Congress made sure the big banks, in particular Wells Fargo, were the biggest beneficiaries of the tax plan,” said Porter McConnell, Take On Wall Street Campaign Manager. “Then Wells and the other banks used tax windfalls to juice share prices so they could pay it to themselves in stock buybacks. Meanwhile, Wells Fargo's scandals continue to mount, revealing the extent of its efforts to cheat and discriminate against its customers and workers. We need to rewrite the rules to put families, not big banks, first. The Reward Work Act, introduced by Senator Baldwin is a bold step in this direction.”

Senator Baldwin has been sounding the alarm on buybacks for years. She wrote to the SEC on several occasions urging them to monitor buybacks and improve their buyback disclosure regime. Her attempt to require the SEC to study buybacks was blocked by Republicans. Late last year, Senator Baldwin held two SEC nominees in order to ensure they answered her questions on the dangers of stock buybacks.

Across the country, there is a growing trend of big corporations using massive, permanent tax breaks for stock buybacks – choosing to reward wealthy CEOs instead of the workers who create profit and grow the company. In 2017, Wisconsin workers helped create \$3.3 billion in operating profit at Kimberly-Clark. The company spent \$911 million on stock buybacks last year and in December, Congress passed and President Trump signed a permanent, corporate tax cut for companies like Kimberly-Clark. Now, Kimberly-Clark announced that it will spend even more on stock buybacks this year. At the same time, the company announced that it would close two Wisconsin manufacturing facilities in the Fox Valley that employ 610 workers. Walmart pocketed a massive tax break, gave executives \$20 billion in stock buybacks in 2017, and then in January they closed Sam's Club stores across the country, including in Madison and in West Allis. Nearly 300 jobs were eliminated and workers were laid off.

The legislation is cosponsored by Senators Elizabeth Warren (D-MA) and Brian Schatz (D-HI), and has the support of the AFL-CIO, Americans for Financial Reform, Take on Wall Street and Public Citizen.

More information about the Reward Work Act is available [here](#).

The full text of the legislation is available [here](#).

An online version of this release is available [here](#).