

United States Senate

WASHINGTON, DC 20510

COMMITTEES:
APPROPRIATIONS
BUDGET
HEALTH, EDUCATION,
LABOR, AND PENSIONS
HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS

April 23, 2015

Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NW,
Washington, DC 20549

Dear Chair White:

I write to you today with concerns about the recent explosion of stock buybacks by U.S. corporations. Stock buybacks use profits to purchase a company's own stock instead of investing in the worker training, research, or innovation necessary to promote long-term economic growth. In 1982, when the Securities and Exchange Commission (SEC) issued a rule¹ to provide 'safe harbor' from manipulation liability, buybacks were near zero. Last year, over \$500 billion was spent on share repurchases. I request that the SEC, as the regulator responsible for fair and efficient capital markets, provide the following: any analytic work done by the SEC on the long-term economic impact of the 1982 rule; an accounting of all investigations undertaken by the SEC into possible violations of the rule; and, an assessment of whether this rule is adequate for the SEC's stated mission—to foster capital formation and prevent fraud.

U.S. corporate profits have been at post-World War II highs since late 2011, yet the nation's gross domestic private investment remains below historical averages.² American workers' wages have not increased either; in fact, average hourly real wages have stagnated since 1979. A growing body of research³ suggests that the vast amounts U.S. corporations have spent to repurchase their own stock is a chief cause of the stagnation of American wages and investment, and could be a potential source of long-term national decline.

According to research by William Lazonick, from 2003 to 2012, S&P 500 companies used 54 percent of their earnings—\$2.4 trillion—to buy back their own stock.⁴ Dividends paid to shareholders accounted for an additional 37 percent. Only the remaining nine percent was invested back in their own companies, down from an average of 70 percent reinvestment in the early 1980s. There is no evidence that buybacks will slow down anytime soon—cash handed back to shareholders in 2014 was 95 percent of profits, up from 88 in 2013, and 72 in 2010.

¹ SEC Rule 10b-18, <https://www.sec.gov/divisions/marketreg/r10b18faq0504.htm>

² JW Mason, *Disgorge the Cash*, Roosevelt Institute, February 25, 2015

³ William Lazonick, "Stock Buybacks: From Retain-and-Reinvest to Downsize-and-Distribute," Brookings Institution Center for Effective Public Management, April 2015; see also William Lazonick, "Profits without Prosperity," *Harvard Business Review*, September 2014.

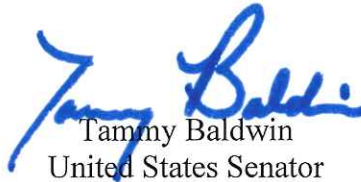
⁴ Lazonick, William. *Harvard Business Review* September 2014. <https://hbr.org/2014/09/profits-without-prosperity>

In the past, this money went to productive investments in the form of higher wages, research and development, training, or new equipment. Today, cash is being extracted from companies and placed on the sidelines. Buybacks are now undermining the stock market's role in capital formation. From 2005-2014 the value of shares withdrawn from the market surpassed the value of stock issued by an annual average of \$399 billion.

The increase of stock repurchases worryingly corresponds with the increase in executives receiving stock-based compensation. In 2013, the 500 highest-paid U.S. executives named in proxy statements received 84 percent of their compensation from stock-based instruments. A recent study⁵ has found that buybacks are more likely when a CEO's bonus is directly tied to the company's earnings per share. Buybacks aiming for earnings per share targets were associated with corresponding reductions in employment and investment at the company.

There is mounting evidence to suggest that buybacks have a negative effect on jobs, wages, and investment, which in turn have negative impacts on innovation and long-term national economic growth, competitiveness, and security. This evidence raises serious questions about the adequacy of the SEC's rules governing repurchases on the open market and I look forward to working with your staff to answer those questions.

Sincerely,



Tammy Baldwin
United States Senator

⁵ Heitor Almeida, Vyacheslav Fos, and Mathias Kronlund, "The Real Effects of Share Repurchases," *Journal of Financial Economics*, forthcoming.