

Stock Buybacks: Rewarding the Shareholder or Pumping up Share Prices?

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Stock buybacks by publicly listed companies have become increasingly common. Many earnings reports or company guidance reports include buybacks as normal business strategy, earmarking millions or billions of dollars to re-purchase shares. In fact, it's been suggested that President Donald Trump's Tax Cuts and Jobs Act of 2017 freed up enough cash that it resulted in a noticeable increase in stock buybacks. Who does this strategy benefit? Analysts and politicians have commented on both sides.

Senator Tammy Baldwin (D) of Wisconsin has gone so far as to submit legislation to prohibit open-market buybacks in 2018 and re-introduced it earlier this spring. In addition, Baldwin released a report called "*Reward Work, Not Wealth*", in which she has harsh criticism for public companies as well for the Securities Exchange Commission for what she calls "misguided rules on buybacks which allow executives and wealthy shareholders to extract undeserved cash from public companies."

Baldwin goes on to say that buybacks suppress wages, drive income and wealth inequality, decrease investment, increase systemic risk, harm retirement savers and jeopardize capital formation by allowing speculators to extract value from public companies.

However, there are others who argue that buybacks have been unfairly criticized, as have the executives who implement the buybacks. David Kostin, [Goldman Sachs Group Inc.'s](#) chief U.S. equity strategist, argues that it's a misconception that managements repurchase stock to inflate earnings per share (EPS) to meet incentive compensation targets. Kostin says his team found "that the 247 S&P 500 companies that do have incentive compensation programs linked in EPS actually spent a smaller percentage of their cash, 28%, on stock buybacks, while the other 253 companies without those incentive programs spent 32% on share repurchases. Of those firms with EPS-linked compensation, they accounted for 44%, or just \$360 billion, for all stock buybacks in 2018."

In Kostin's opinion, stock buybacks are an efficient way for some companies to put repatriated cash to work.

For further reading click onto the links below:

<https://ca.finance.yahoo.com/news/democratic-lawmakers-introduce-bill-to-ban-stock-buybacks-140128598.html>

<https://www.baldwin.senate.gov/imo/media/doc/Reward%20Work%20Not%20Wealth%20Baldwin%20Staff%20Report%203.26.19.pdf>

<https://finance.yahoo.com/news/tax-cuts-fuel-stock-buyback-spike-130545937.html>

<https://www.vox.com/policy-and-politics/2019/2/5/18212273/bernie-sanders-schumer-stock-buybacks-nyt>

<https://www.bloomberg.com/news/articles/2019-03-08/goldman-says-public-discourse-gets-it-wrong-about-buybacks>