U.S. Senator Tammy Baldwin's *Reward Work Act*

The problem: Successful corporations no longer create broad economic prosperity in the United States.[1] Prior to the 1980s, workers' wages increased in tandem with their productivity. Yet since the 80s, they have become unlinked, which has led to decades of middle class wage stagnation despite rising profits and productivity. This has driven inequality to levels we have not seen since the period immediately preceding the Great Depression.[2]

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 (91 percent last year). This leaves very little money left for long-term investments in workers, training, R&D, and innovation. The recent Trump tax cuts illustrate how lopsided this has become. Over $200 billion of the proceeds will go to shareholders as buybacks and dividends, while workers receive only $6 billion in the form of increased wages.[3][4]

What is a stock buyback? When people say "stock buyback" they are usually referring to an open-market stock repurchase. This means that a company will go to a stock exchange (the NYSE for example) and buy its shares back from shareholders at the current price. The vast majority of stock buybacks are conducted this way. By repurchasing the shares, the company can increase the share price (though usually only temporarily) because it reduces the number of shares outstanding and increases demand for its stock.

How did this come about? In 1982, the SEC finalized Rule 10b-18, which makes clear that open-market stock buybacks would not be considered stock manipulation. This led to an explosion of buybacks. In 1981, the S&P 500 spent approximately 2 percent of its profits on buybacks. In 2017, the index spent 50 percent of its profits on buybacks (and 41 percent on dividends). Now that executives are largely paid in stock, they have a direct incentive to boost prices.

What has Senator Baldwin done on this? 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. She also held SEC nominees this year in order to ensure they answered her questions on the dangers of stock buybacks.

What does Senator Baldwin's bill do? Senator Baldwin's bill does three things:

1. Repeals SEC rule 10b-18;
2. Bans open-market repurchases; and,
3. Requires that public companies let one-third of their board be picked by their workers.

Executives will take a longer view when the incentive to enrich themselves through buybacks is removed. As the stakeholders most affected by company decisions, it is only right to give workers a seat at the table. Further, because they have the most to lose, they will be a much-needed counterweight to the short-term thinking that has become prevalent on corporate boards. [5]

Who else supports this bill? The bill is cosponsored by Senators Warren and Schatz, and has the support of the AFL-CIO, Americans for Financial Reform, Take on Wall Street, and Public Citizen.

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[1] https://hbr.org/2014/09/profits-without-prosperity
[2] https://inequality.stanford.edu/publications/20-facts-about-us-inequality-everyone-should-know
[3] http://money.cnn.com/2018/02/16/investing/stock-buybacks-tax-law-bonuses/index.html
[4] https://www.wsj.com/articles/boom-in-share-buybacks-renews-question-of-who-wins-from-tax-cuts-1519900200
[5] http://rooseveltinstitute.org/wp-content/uploads/2017/10/Corp-Gov_FINAL.pdf