

CURBING STOCK BUYBACKS: A CRUCIAL STEP TO RAISING WORKER PAY AND REDUCING INEQUALITY

An Analysis of Three Industries—Restaurant, Retail, and Food Manufacturing

REPORT BY **IRENE TUNG
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Executive Summary

Corporate America today increasingly treats workers as cost centers to squeeze, rather than as key stakeholders within the company and core contributors to profitability. In today's high-profit, low-wage economy, corporate leaders are moving record profits up and out of companies instead of choosing to invest those profits in workers, business expansion, and long-term economic growth. One of the primary strategies used to extract profits is the stock buyback—a practice in which companies repurchase their own stocks from the open market to artificially drive up share prices. Stock buybacks greatly benefit corporate executives (who hold stock-based compensation) and market speculators, but they leave companies with fewer resources available to invest in workers and future growth.

Examining the latest available annual data, **this report exposes the extent of recent buyback spending across the U.S. economy from 2015 to 2017—finding that companies spent almost 60 percent of their net profits on buybacks.**

This report also illustrates the magnitude of buyback spending compared to worker compensation by focusing on three important industries—restaurant, retail, and food manufacturing—in which millions of our nation's workers toil in low-wage, economically insecure jobs. We aim to show how much these workers—who are disproportionately women and people of color—could benefit if their employers directed corporate earnings to workers instead of share repurchases.

Key findings from the report include:

- The **restaurant industry** spent more on stock buybacks than it made in profits, funding buybacks through debt and cash reserves. Buybacks totaled **136.5 percent** of net profits.
- Companies in the **retail and food manufacturing industries** spent **79.2 percent and 58.2 percent**, respectively, of their net profits on share buybacks.
- McDonald's could pay all of its **1.9 million workers** almost **\$4,000** more a year if the company redirected the money it spends on buybacks to workers' paychecks instead.
- If Starbucks reallocated money from share repurchases to compensation, every worker could get a **\$7,000** raise.
- With the money currently spent on buybacks, Lowe's, CVS, and Home Depot could give each of their workers raises of at least **\$18,000** a year.

This scale of per-worker spending on buybacks calls into question the idea that these corporations cannot afford to pay their workers more. Policy reforms to curb the use of buybacks are a crucial step towards reducing the growing pay disparities between workers and executives and addressing increasing economic and racial inequality. While ending buybacks alone will not ensure that workers get their fair share, it would close one major channel through which billions of dollars are currently siphoned from America's public companies and lay the foundation for more sustainable and shared prosperity for all.

Introduction

Corporate profits and executive pay today are sky high, while wages for most of our nation's workers have remained low and stagnant over the last 50 years. Companies increasingly treat workers as a cost center to squeeze, rather than as stakeholders who contribute to corporate profits and should do well when a company does well. Today's high-profit, low-wage economy, in part, arises from rules and policies that shape Corporate America's decision-making, leading to more and more profits moving up and out of corporations—at the expense of workers, business investment, and long-term economic growth. If the 21st economy was working for everyone, we would see a high-profit, high-wage economy with better benefits for workers and greater levels of private investment in research, innovation, new jobs (relative to those profits), and other kinds of productive activities that contribute to broad-based and long-term growth.

Nearly five decades of flawed economic policy play a decisive role in the sluggish wage growth and pervasive economic and racial inequality we see today (Stiglitz et al. 2015). The rise of stock buybacks, a practice that overwhelmingly benefits corporate executives and short-term-oriented shareholders, is one consequence of these policies and corporate decision-making that contributes to rising economic and racial inequality. **The terms “stock buyback” and “share repurchase” refer to the practice in which companies repurchase their own stocks from shareholders on the open market.** This creates a scarcity of shares and boosts their value. **Corporate executives benefit from this because share repurchases drive up the value of their stock-based compensation and give them an opportunity to cash out their personal stock holdings at a profit (Palladino 2018; Jackson 2018);** furthermore, shareholders can benefit, but only if they sell their shares at the artificially inflated prices. **This means that fewer corporate resources are available for growth-inducing activities, such as investing in research and development, spending on capital investments and new technologies, or creating new jobs and improving worker compensation.**

This report illustrates how workers could benefit if companies directed profit toward employee compensation instead of funneling gains up and out of companies to corporate executives and short-term-minded shareholders through stock buybacks. We examine publicly available data from 2015 to 2017 (the latest available) for all U.S. industries to determine the extent of recent buyback spending across the economy. We then focus on three important industries—restaurant, retail, and food manufacturing—to expose the magnitude of buybacks compared to workers' compensation and illustrate how workers could benefit if companies chose to invest in them rather than spending on buybacks.

Our findings paint a staggering picture:

- U.S. publicly traded companies across all industries spent almost 60 percent (58.6 percent) of their profits on buybacks between 2015 and 2017, leaving fewer funds (relative to growth of profits) for other productive purposes, such as corporate investment, job creation, and raising wages.
- The problem is not isolated to a few companies or to a few industries: In most industries, the majority of companies spent over half of their total profits on buybacks between 2015 and 2017. Sixty percent (59.6 percent) of all non-financial, insurance, and real estate companies spent over half of their total profits on buybacks.
- During that same period, public companies in the restaurant, retail, and food manufacturing industries—employers of many of America’s low-wage workers, who are disproportionately women and people of color—spent 136.5 percent, 79.2 percent, and 58.2 percent, respectively, of their net profits on share buybacks.

PERCENTAGE OF NET PROFITS SPENT ON BUYBACKS, 2015-17

136.5%
Restaurant Industry

79.2%
Retail Industry

58.2%
Food Manufacturing Industry

Why the restaurant, retail, and food manufacturing industries?

This analysis focuses on the restaurant, retail, and food manufacturing industries for two reasons. First, these industries, and the public companies within them, are familiar to the general public—most people in the U.S. interact with them as consumers—and, in many cases, are known as important local employers. Second, many of these companies employ millions of our nation’s workers, many in low-wage, economically insecure jobs that are held by women and people of color. These industries effectively illustrate the extent to which workers, particularly those paid the least, could benefit if companies directed funds spent on share repurchases to other, more productive uses.

- **The restaurant industry spent more on buybacks than it reported in profits between 2015 and 2017**, which suggests that these companies are borrowing or are using other cash reserves to fund buybacks. The five companies spending the most on buybacks each year are McDonald's, YUM Brands, Starbucks, Restaurant Brands International, and Domino's Pizza. **These companies could pay the median worker an average of 25 percent more each year if those corporate funds were spent on wages instead.**
- Starbucks could give each worker at least \$7,119 more a year; McDonald's could raise pay by almost \$3,853; and Domino's Pizza and Restaurant Brands International could pay each of their workers over \$2,000 more annually.
- The top spenders on buybacks in **retail** are Home Depot, Walmart, CVS, Lowe's, and Target. On average, these companies spent 87 percent of their net profits on buybacks, and they could pay the median worker in their respective companies an average of 56 percent more each year. **The average ratio of CEO pay to median worker compensation among these companies is 587 to 1**—with average CEO total compensation at over \$13 million.
- Lowe's could raise all of its workers' pay each year by \$19,655; CVS and Home Depot could raise pay by more than \$18,000 for each worker.
- The top five buyback spenders in the **food manufacturing industry** are PepsiCo, Mondelez International, Kraft Heinz, Archer Daniels Midland, and Tyson Foods. **These companies could pay the median worker in their respective companies an average of 79 percent more each year using the money spent on buybacks.**

WHAT WOULD HAPPEN IF THE MONEY SPENT ON BUYBACKS WENT TO WAGES INSTEAD?

The five **restaurant companies** spending the most on buybacks could increase yearly wages for the median worker an average of

25%

The top spenders on buybacks in **retail** could increase yearly wages for the median worker an average of

56%

The top five buyback spenders in the **food manufacturing industry** could increase yearly wages for the median worker an average of

79%

Given that women and people of color are overrepresented in the workforces of these three industries, poor job quality combined with high buyback activity deepen existing gender and racial income disparities. The magnitude of resources spent on buybacks suggests that redirecting those resources toward investment in workers and long-term growth could help to alleviate these disparities and build the foundation for broad-based economic growth.

The rise of stock buybacks has gained widespread public attention among policymakers and media since the passage of the Trump tax cuts (the Tax Cuts and Job Act, or TCJA), but it is important to note that our analysis spans the two years (2015 to 2017) immediately preceding the enactment of the tax cuts at the end of 2017. We analyze these years because this is the most recent annual data available, and it provides an important snapshot of the extent of America’s buyback problem before the TCJA went into effect. Since the tax cuts were enacted, all signs indicate that the trends we identify in this report have already and will continue to become more extreme. In the first quarter of 2018, S&P 500 companies completed a record \$187.2 billion in buybacks (Egan 2018).

We focus this analysis on buybacks instead of other forms of shareholder payouts, such as dividends, but recognize that addressing the rise of open-market share repurchases alone will not lead firms to improve employee compensation or invest in long-term productivity. Corporations could divert profits out of the firm through increased dividends, or they could hoard larger piles of cash. However, ending the ability of companies to engage in stock buybacks closes one major channel through which billions of dollars currently exit the nation’s public companies and productive circulation. While we do not draw a causal relationship between the rise of buybacks and worker compensation, we hope this illustrative picture of the magnitude of buyback spending to worker compensation exposes the extent to which workers are not receiving their fair share of corporate earnings.

This report is organized into three parts: **Section 1** gives background on the rise of stock buybacks and an overview of recent evidence of the impact this has on jobs, wages, and broad-based growth with racialized outcomes; **Section 2** illustrates the magnitude of the trade-off between payouts to shareholders, in the form of buybacks, and CEO pay compared to worker compensation in the restaurant, retail, and food manufacturing industries. This section also demonstrates what workers in these industries could potentially gain in higher compensation if corporate spending on exorbitant CEO pay and buybacks were curbed. Lastly, **Section 3** outlines policy principles that federal and state policymakers should put in place to ensure workers reap their fair share of the corporate profits they help to generate.¹

¹ While this analysis focuses on one measure of job quality—worker pay—it is important to note that companies could and should be improving job quality beyond increasing worker pay, such as creating new jobs, improving worker safety, increasing job training, and improving benefits. We focus on worker pay because it highlights the stark distinction between what employers claim they can afford and the actual choices they are making with their profits and tax windfalls.

The Rise of Stock Buybacks and Their Impact on Wages, Jobs, and Broad-Based Economic Growth

The growth of stock buybacks can be traced to 1982, when the Securities and Exchange Commission (SEC) relaxed the rules governing the circumstances in which companies could be held liable for manipulating the market for their own gain. Before 1982, companies buying back their shares potentially faced civil and criminal penalties for manipulating the markets. However, the SEC made the rules around buybacks more lax, creating greater leeway for buyback activity that fell within broad timing and volume parameters, essentially shielding companies from civil or criminal liability for such activity. This gave corporate executives license to buy back company shares with minimal threat of enforcement for market manipulation from the SEC (Palladino 2018).

Before 1982, companies buying back their shares potentially faced civil and criminal penalties for manipulating the markets. However, the SEC made the rules around buybacks more lax, essentially shielding companies from civil or criminal liability for such activity.

Coupled with the 1992 changes in tax deductability of corporate pay, which included a loophole for CEO “performance” pay in the form of stock options, the rule change transformed corporate decision-making—ultimately leading to the rise in buyback activity. A study examining over 400 companies in the Standard and Poor’s (S&P) 500 from 2003 to 2012 found that companies used 54 percent of their earnings (equal to \$2.4 trillion) to buy back their own stock, up from less than 5 percent in the early 1980s (Lazonick 2014). The U.S. has the fewest regulatory provisions related to buybacks of any country with a major stock exchange, and the few restrictions that do exist in the U.S. generally go unenforced (Kim, Schremper, and Varaiya 2013; Palladino 2018).

Share prices see an immediate spike following a buyback announcement, but not all shareholders benefit equally. Short-term, speculative investors, like hedge funds or other private investment funds,² who have little stake in the long-term performance of companies, have the most to gain. S&P 500 companies targeted by hedge funds cut capital expenditures and boost spending on dividends and buybacks more than other firms (Monga, Benoit, and Francis 2015). Meanwhile, long-term investors in pension and retirement funds, representing U.S. workers and retirees who are fortunate enough to have retirement savings, are left “holding the bag.” One analysis shows that companies that dedicate a greater proportion of profits to share repurchases, on average, experience lower total shareholder returns (Milano 2017).

Corporate spending patterns following the passage of Trump’s tax cuts (the TCJA)—a major rewrite of the federal tax code, most notably of corporate tax policy—acutely demonstrate how the rules of our economy can further skew economic power toward the corporate elite. As of March 2018, 57 percent of corporate tax savings from the TCJA have gone to shareholders as either stock buybacks or dividends, compared to just 20 percent going to job creation commitments, and 6 percent going to employees in the form of wage increases, bonuses, or benefits (Just Capital 2018). The remaining savings were split between customers (4 percent), product improvement (6 percent), and communities (3 percent) (Just Capital 2018). Proponents of the new tax law promoted it to the American public as a job-creating and wage-boosting policy for American workers. Instead, public companies in the U.S. are spending increasing and unprecedented amounts of cash on repurchasing shares of their own stocks. Yet America’s workers have seen nowhere near such a boost: Companies have announced share buyback programs 30 times as valuable as those increasing employee compensation (Lazonick and Wartzman 2018), while investment in business operations is up just 3 percent following passage of the tax law (Mullaney 2018).

Proponents of the new tax law promoted it to the American public as a job-creating and wage-boosting policy for American workers. Instead, companies are spending unprecedented amounts of cash on stock buybacks.

² Hedge funds are private investment funds that buy a large enough stake in a company to be able to participate in the management of and decision-making within the firm.

There's growing evidence that the rise of stock buybacks has real impacts on working families. Since the 1970s, CEO pay has skyrocketed 937 percent, compared with only 10 percent growth in median worker compensation (Mishel and Schieder 2017). This slow, inadequate growth in workers' wages happened despite massive gains in worker productivity of 75 percent during the same period (Economic Policy Institute 2017; Ellison 2018; Paul 2018). Against the backdrop of sky-high CEO pay, growing corporate consolidation, dwindling labor share of the economy, and deep-rooted wealth and income racial disparities, corporate investment relative to profits is at historic lows. New businesses, and the new jobs they create, make up a shrinking portion of the American economy (Konczal and Steinbaum 2016). **As shown by the leading research, here are three ways that the rise in corporate spending on stock buybacks impacts workers and working families:**

1 Growing CEO-Worker Pay Disparities

Stock buybacks increase the pay disparity between corporate executives, especially CEOs, and the average worker by reducing the money spent on workers' wages and increasing the CEO earnings from stock-based compensation. In the U.S., workers have seen declining levels of compensation in corporations where there are rising shareholder payouts; buybacks are also more likely when a CEO's bonus is directly linked to earnings per share (Lin 2016; Almeida Fos and Kronlund 2016). Even more concerning, SEC Commissioner Robert Jackson's analysis reveals that corporate executives specifically use buybacks to exploit their insider status and grossly inflate returns on their own stock holdings (Jackson 2018). By depressing worker pay and artificially boosting executive compensation, buybacks aggravate the already enormous divide between CEO and worker pay.

SEC Commissioner Robert Jackson found that corporate executives use buybacks to exploit their insider status and grossly inflate returns on their own stock holdings.

Moreover, buybacks can serve as a Trojan horse for increasing executive and management compensation. When a company issues stock options to its management, it dilutes the value of its stockholders' shares. Accordingly, companies often repurchase their stock to offset this dilutive effect. As a result, the net transfer of a company's cash to management is more than is reported as compensation on the income statement (Brightman, Kalesnik, and Clements 2015; Buttonwood 2015).

2 Lower Levels of Corporate Reinvestment

The growth of stock buybacks coincides with lower levels of corporate reinvestment overall, as companies have reduced spending on developing new businesses, hiring workers, and establishing new operations. On average, companies used to reinvest 20 cents of each dollar of their operating returns into their businesses; that amount has dropped by half—to just 10 cents of each dollar since 2002 (Gutierrez and Phillipon 2016). Other research shows that share buybacks are associated with reductions in employment, capital spending, and research and development (Almeida, Fos, and Kronlund 2016; Mason 2015; Brettell, Gaffen, and Rohde 2015).

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There are multiple factors driving corporations to reduce their level of reinvestment, including the growth of market concentration—and thus market power—across the economy, which reduces the need for companies to invest in order to compete (Gutierrez and Phillipon 2016; Steinbaum, Bernstein, and Sturm 2018). The number of publicly traded corporations and their share of the total market are lower than at any time in the last 100 years (Doidge 2017). This suggests that conditions within the economy are ripe for a small handful of large powerful firms to crowd out others, especially small and new businesses, and explains, in part, why firms are investing less in research and development (Steinbaum 2018): There is no need to invest in the firm or workers because there are fewer competitors in the market forcing them to compete. However, even though ending stock buybacks alone cannot solve the problem of poor investment, removing one major path of corporate cash extraction is an important step toward reversing the trend.

3 Racialized Outcomes

While research directly diagnosing the racial impacts of the rise of buybacks is not robust, the racial disparities in corporate leadership and wealth do begin to point to discouraging trends. Seventy-three percent of corporate executives are white (Jones 2017). And given exclusive practices and high minimum-investment requirements for entry, only those who are already wealthy—a group that is disproportionately white—can participate in the tightly managed speculative private investment funds that are most likely to benefit from buyback activity (Dettling et al. 2017; Delevingne 2014).

While African Americans and Latinxs hold less wealth and investments overall than whites, any investments they do have are likely to comprise pensions or retirement plans that depend on long-term investments, not buybacks.

When companies buy back shares instead of giving workers a raise or investing in long-term growth, this behavior adversely affects those whose income comes from wages—not investments (Lin 2016). While African Americans and Latinxs hold less wealth and investments overall than whites, any investments they do have are likely to comprise pensions or retirement plans that depend on long-term investments, not buybacks (Smith 2015; Bradford 2018; Wolff 2017; Jones n.d.; Holmberg 2018). Given that people of color face the compounding inequities of generational racism, this effect further intensifies both racial and economic inequality—historic and current, implicit and explicit. Because less wealth has been passed down from generation to generation, the current generation now has reduced opportunities to accumulate wealth—a stark reality intensified by shortsighted decision-making within the firm, including stock buybacks (Darity Jr. et al. 2017).



Members and supporters of the Fight for \$15 campaign rallied for higher pay and collective bargaining rights in New York's Central Park on April 15, 2015.

PROponents OF BUYBACKS IGNORE THE EVIDENCE

Proponents of buybacks argue that corporate executives conduct buybacks when other value-creating investment opportunities are unavailable, and instead use that cash to reward shareholders in the form of share repurchases. This cash, they suggest, can then circulate in capital markets to fund productive investment in other companies and generate growth. In other words, buybacks allow companies to reward shareholders, and the cash gets recycled into investment in other companies or startups. However, this idealized view is flawed.

Capital Is Not Being Reallocated to Other Firms

The data do not show that monetary gains from stock buybacks are returning to productive use as new investment in other public companies or new businesses and start-ups. Across the economy, the scale of shareholder payouts via buybacks in recent years dwarfs new stock issuances by publicly traded companies (Palladino 2018). Overall, this means that funds are being pulled out of the stock market rather

than recirculating within it. There is also no clear evidence that shareholders are using gains from buyback activity to fund new startups. In fact, the share of investment in new and small companies is actually declining (Casselmann 2017; Konczal and Mason 2015).

Investing in Workers Is a Productive Investment

When defenders of buybacks refer to the unavailability of so-called “productive investments,” they fail to acknowledge that investing in a company’s workforce by raising wages and benefits improves a company’s long-term growth and potential for innovation (Ton 2014). Research shows that when firms invest in their workers, it actually improves productivity, profitability, and stock market performance (Hanson et al. 2002; Bassi, Harrison, Ludwig, and McMurrer 2004).

Corporate Executives Exploit Buybacks for Personal Gain

SEC Commissioner Robert Jackson’s analysis revealed how executives commonly exploit buybacks for their own personal benefit (Jackson 2018). When CEOs announce that their company will repurchase shares, it usually causes stock prices to spike. This happens because

the announcement signals that the CEO thinks that the shares are underpriced, generating greater market demand. Typically, executives take advantage of the price bounce they themselves engineered to cash out their own shares. The percentage of executives selling stock more than doubled immediately after buyback announcements, and the amount of stock they sold increased fivefold (Jackson 2018).

Companies Are Borrowing to Fund Buyback Spending

Evidence shows that a growing number of companies are borrowing in order to execute shareholder payouts, suggesting that the decision to repurchase shares is independent of and does not occur only after consideration of all other investment opportunities (Lahart 2016; Mason 2015). Goldman Sachs cites stock buybacks as an important driver of the large increases in corporate borrowing since the last recession (Alloway 2015; Bird 2015).

Buybacks Do Not Benefit the Average Shareholder, They Serve Speculative and Short-Term-Oriented Shareholders

The notion that stock buybacks are justified as a way to “reward shareholders” invites the question, “Which shareholders?” Buyback activity may benefit certain shareholders in the short- and even medium-term—especially

those engaged in speculative behavior (Holmberg 2018). But shareholders that have a decades-long stake in the growth and well-being of companies—including institutional investors such as public, corporate, and union retirement funds, foundations, and endowments—lose as these companies reinvest less in growing and expanding their operations relative to growth in profits. This is why a growing number of institutional investors, including the Council of Institutional Investors, whose members have a combined \$3.5 trillion in assets, have called on policymakers to address the buyback issue (Bradford 2018).

SECTION TWO

How Curbing Stock Buybacks Could Benefit Workers

For decades, U.S. workers have seen stagnant wage growth despite rapidly increasing productivity, and U.S. companies have reinvested less and less of their profits, now at a record high, into their employees, operations, expansion, and new job creation (Shambaugh, Nunn, Liu, and Nantz 2017; Gutierrez and Phillipon 2016). Our analysis confirms this shift by showing an outsized share of corporate profits being spent on stock buybacks.

We find that publicly traded companies in the U.S. spent almost 60 percent (58.6 percent) of their profits on buybacks between 2015 and 2017. This high level of spending on buybacks is widespread across the economy and within specific industries. More than 2 out of 5 public companies (42.2 percent) spent over half of their profits on buybacks over this period. This figure is even higher for non-financial, insurance, and real estate companies, with almost 60 percent (59.6 percent) spending over half of their total profits on buybacks.

In 14 of 18 major industry groups, a majority of companies spent more than half of net profits on buybacks, demonstrating that high levels of buybacks spending are the norm (Figure 1). This corporate spending imbalance hurts the majority of people in the U.S. who depend on wages and salaries—not investment earnings—to live.



Fast-food workers, union members, faith leaders, and activists demanded a living wage for #AllOfUs at a rally in New York's Foley Square on December 5, 2013.

**SHARE OF COMPANIES SPENDING MORE THAN HALF OF PROFITS ON STOCK BUYBACKS,
BY INDUSTRY, 2015-2017**

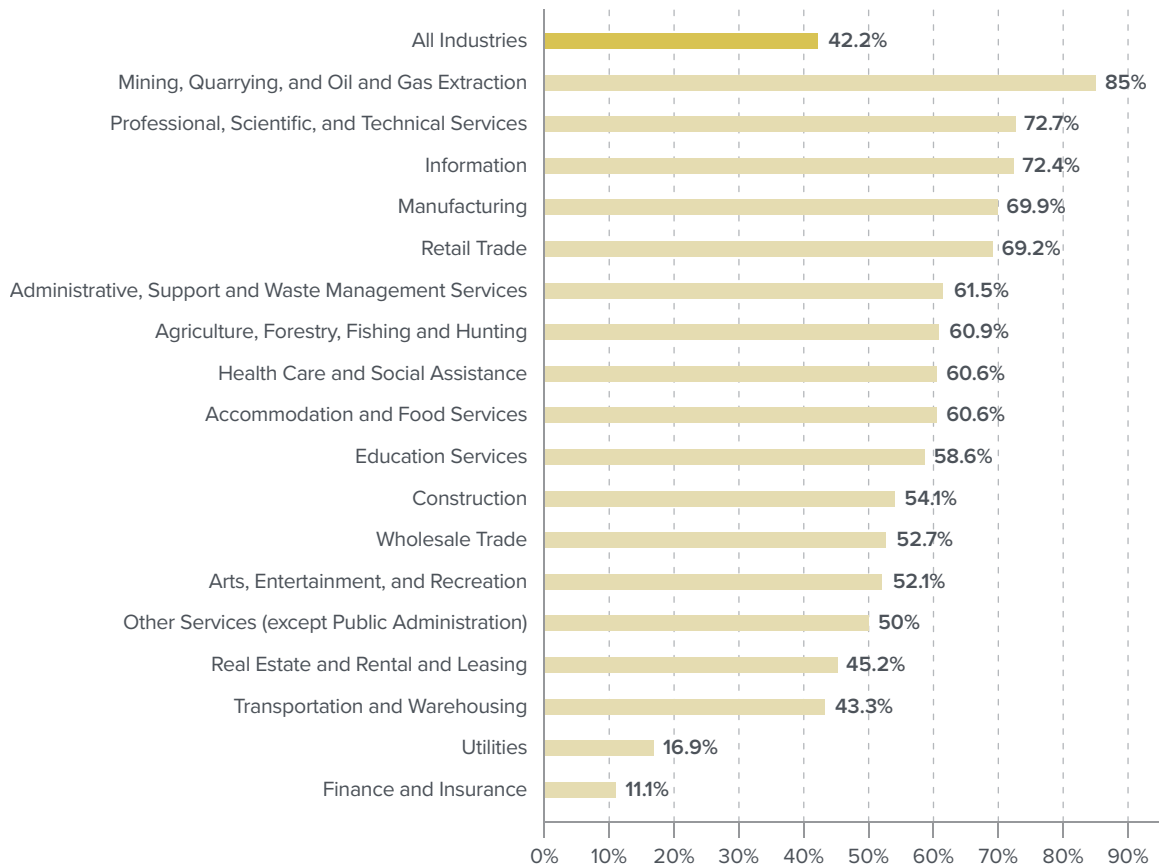


FIGURE 1 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017.

We look deeper into three industries that employ many of America's low-wage workers—restaurant, retail, and food manufacturing—in order to demonstrate a more detailed reality of the scale of buybacks spending and to illustrate how workers could benefit if corporations redirected the money currently spent on buybacks and instead invested in workers.

2.1 RESTAURANT INDUSTRY: WHILE PAYING LOW WAGES, MANY LARGE RESTAURANT CHAINS SPEND ALL OF CORPORATE PROFITS (AND MORE) ON STOCK BUYBACKS

Employing over 11 million people nationwide, the restaurant industry has the potential to improve—or worsen—the economic well-being of a large subset of America’s overall workforce (BLS 2018). From 2015 to 2017, the restaurant industry’s collective spending on buybacks was equivalent to more than its total net profit. Publicly traded companies in this industry spent 136.5 percent of profits on buybacks, suggesting that companies are borrowing or dipping into other reserves to fund shareholder payouts. This is consistent with other research showing that an increasing number of companies are borrowing money to fund shareholder payouts (Mason 2015). One study found that 42 percent of industrial public U.S. firms with positive payout initiate an equity or net-debt issue during the same year, and that the vast majority of them—36 percent of all payers—could not have funded their payouts without the proceeds of these issues (Farre-Mensa, Michaely, and Schmalz 2018). Goldman Sachs points to stock buybacks as a major driver of corporate borrowing in the last decade (Alloway 2015; Bird 2015).

The top five corporate spenders on buybacks during this period were McDonald’s, YUM Brands (Taco Bell/Pizza Hut/KFC), Starbucks, Restaurant Brands International (Burger King/Tim Hortons/Popeye’s), and Domino’s Pizza. These five companies spent, on average, 172 percent of their profits on buybacks. Almost all of these companies’ spending on stock buybacks outpaced their yearly profit—with Domino’s Pizza spending more than three times its profits on buybacks (See Table 1 and Figure 2).

RESTAURANT INDUSTRY’S TOP BUYBACK SPENDERS AND PERCENT OF PROFIT SPENT ON BUYBACKS, 2015-2017								
Rank	Company	Average Number of Workers, Globally	Total Spent on Buybacks, 2015-2017	Total Spent on Dividends, 2015-2017	Total Shareholder Payouts	Average Annual Spending on Buybacks	Average Annual Profits	Ratio of Total Buyback Spending to Total Profits
1	MCDONALD’S	1,900,000	\$21,955,900,000	\$9,377,700,000	\$31,333,600,000	\$7,320,053,000	\$4,802,600,000	152%
2	YUM BRANDS	1,500,000	\$8,562,000,000	\$1,728,000,000	\$10,290,000,000	\$2,854,000,000	\$1,417,333,000	201%
3	STARBUCKS	256,333	\$5,474,200,000	\$3,778,300,000	\$9,252,500,000	\$1,824,733,000	\$2,819,933,000	65%
4	RESTAURANT BRANDS INTL	513,800	\$3,629,600,000	\$1,649,800,000	\$5,279,400,000	\$1,209,867,000	\$898,200,000	135%
5	DOMINO’S PIZZA	286,667	\$2,103,060,000	\$224,697,000	\$2,237,757,000	\$701,020,000	\$228,457,300	307%

TABLE 1 Source: The authors’ analysis of Standard and Poor’s Compustat database, 2015-2017; SEC filings, 2015-2017; company websites; and the Economic Census. **Note:** All dollar values used in calculations are nominal and unadjusted for inflation.

RESTAURANT INDUSTRY BUYBACK SPENDING AS SHARE OF PROFITS, 2015-2017

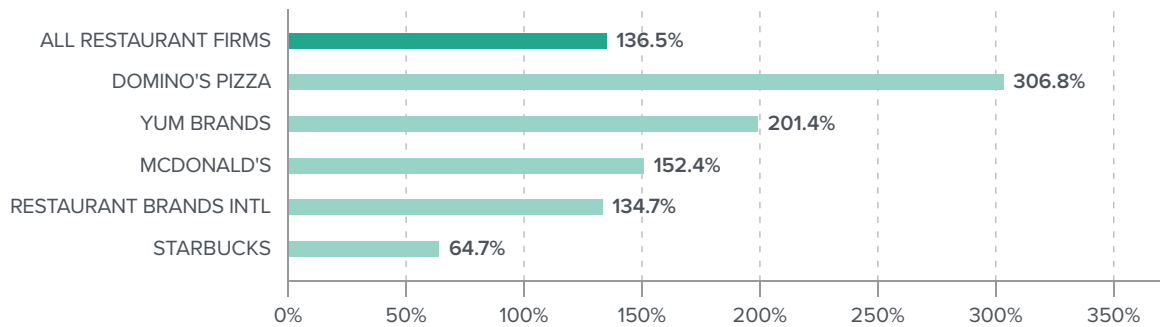


FIGURE 2 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; and SEC filings, 2015-2017.

The CEOs of these five restaurant chains stood to gain enormously from the share purchases that drive up the value of their stock-based compensation. These CEOs received 56 percent of their pay in stocks and stock options in 2017, and thus earned nearly \$39 million in stock-based compensation. This is in stark contrast to the low pay that workers in this industry receive; median hourly wages are \$9.57 for front-line fast food workers (BLS 2017).

These five companies could pay the median worker in their companies an average of 25 percent more each year if the money spent on stock buybacks was, instead, spent on workers' compensation. For many restaurant employees, having a job does not necessarily mean they are paid enough to make ends meet; 40 percent of fast food workers live in poverty, and nearly 52 percent must rely on public assistance programs (Jacobs, Perry, and MacGillvary 2015).

RESTAURANT INDUSTRY BUYBACK SPENDING PER WORKER COMPARED TO CEO PAY, 2015-2017

Rank	Company	Median Worker Annual Pay, 2017	Buyback Spending per Worker per Year, Globally	As % of Median Worker Annual Pay	CEO Annual Pay, 2017	CEO Pay Ratio, 2017	% of CEO Compensation that is Stock-based	Average Year Over Year Change in Stock Price, 2015-2017
1	MCDONALD'S	\$7,017	\$3,853	54.9%	\$21,761,052	3,101 to 1	48.8%	22%
2	YUM BRANDS	\$9,111	\$1,903	20.9%	\$12,368,607	1,358 to 1	54.2%	8%
3	STARBUCKS	N/A	\$7,119	N/A	\$17,980,890	N/A	88.9%	-2%
4	RESTAURANT BRANDS INTL	\$20,505	\$2,355	11.5%	\$4,152,266	202 to 1	35.9%	28%
5	DOMINO'S PIZZA	\$17,226	\$2,445	14.2%	\$7,939,727	461 to 1	50.5%	31%

TABLE 2 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; SEC filings, 2015-2017; company websites; and the Economic Census. **Note:** All dollar values used in calculations are nominal and unadjusted for inflation.

Among the top five buybacks spenders, McDonald's spent \$21 billion between 2015 and 2017 on buybacks, the most in the industry by dollar value. McDonald's could give each of its 1.9 million workers worldwide almost \$4,000 in additional compensation each year if it didn't spend that money on share repurchases (see Table 2 and Figure 3). That's more than a 50 percent income increase for the median McDonald's worker. Starbucks spent the most per worker, and it could afford to give each worker a more than \$7,000 raise if it reallocated funds from buybacks to compensation.

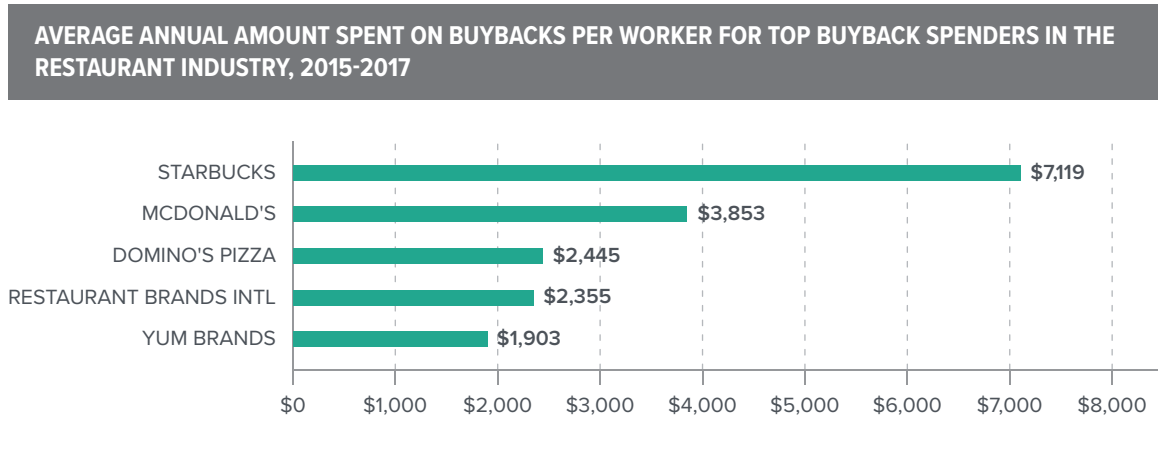


FIGURE 3 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; SEC filings, 2015-2017; company websites; and the Economic Census. Note: All dollar values used in calculations are nominal and unadjusted for inflation.

Given that front-line fast food workers are mostly female and people of color, low wages combined with high buyback activity benefiting corporate executives and speculative investors deepen gender and racial income disparities. Seven out of ten front-line fast food workers are women (Tung, Sonn and Lathrop 2015), and fast food workers are also disproportionately African American and Latinx. African Americans make up about 12 percent of the total workforce, and they account for 21.4 percent of front-line fast food workers. Similarly, Latinxs constitute 16.5 percent of the workforce, but account for 26 percent of front-line fast food workers (Tung, Sonn, and Lathrop 2015). Curbing buybacks is an important step not only to reducing economic inequality overall, but also to addressing racial income disparities.

2.2 RETAIL INDUSTRY: LOW-WAGE RETAILERS CAN AFFORD TO PAY WORKERS THOUSANDS MORE PER YEAR

Employing more than 1 in 10 private sector workers in the U.S., the retail sector plays a vital role in today's economy (BLS 2018b; BLS 2018c). The retail industry on a whole spent 79.2 percent of profits on stock buybacks between 2015 and 2017, but the top spenders on buybacks (Home Depot, Walmart, CVS, Lowe's, and Target, as shown in Table 3 and Figure 4) outpaced the industry by spending 87 percent of their profit on buybacks on average.

RETAIL INDUSTRY TOP BUYBACK SPENDERS AND PERCENT OF PROFIT SPENT ON BUYBACKS, 2015-2017								
Rank	Company	Average Number of Workers, Globally	Total Spent on Buybacks, 2015-2017	Total Spent on Dividends, 2015-2017	Total Shareholder Payouts	Average Annual Spending on Buybacks	Average Annual Net Income	Ratio of Total Buyback Spending to Total Profits
1	HOME DEPOT INC	401,333	\$21,880,000,000	\$10,647,000,000	\$32,527,000,000	\$7,293,333,000	\$7,865,333,000	93%
2	WALMART INC	2,266,667	\$20,706,000,000	\$18,634,000,000	\$39,340,000,000	\$6,902,000,000	\$12,733,000,000	54%
3	CVS HEALTH CORP	246,333	\$13,823,000,000	\$5,465,000,000	\$19,288,000,000	\$4,607,667,000	\$5,725,333,000	80%
4	LOWE'S COMPANIES INC	181,667	\$10,712,000,000	\$3,484,000,000	\$14,196,000,000	\$3,570,667,000	\$3,028,000,000	118%
5	TARGET CORP	336,333	\$8,190,000,000	\$4,093,000,000	\$12,283,000,000	\$2,730,000,000	\$3,011,333,000	91%

TABLE 3 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; and SEC filings, 2015-2017. Note: All dollar values used in calculations are nominal and unadjusted for inflation.

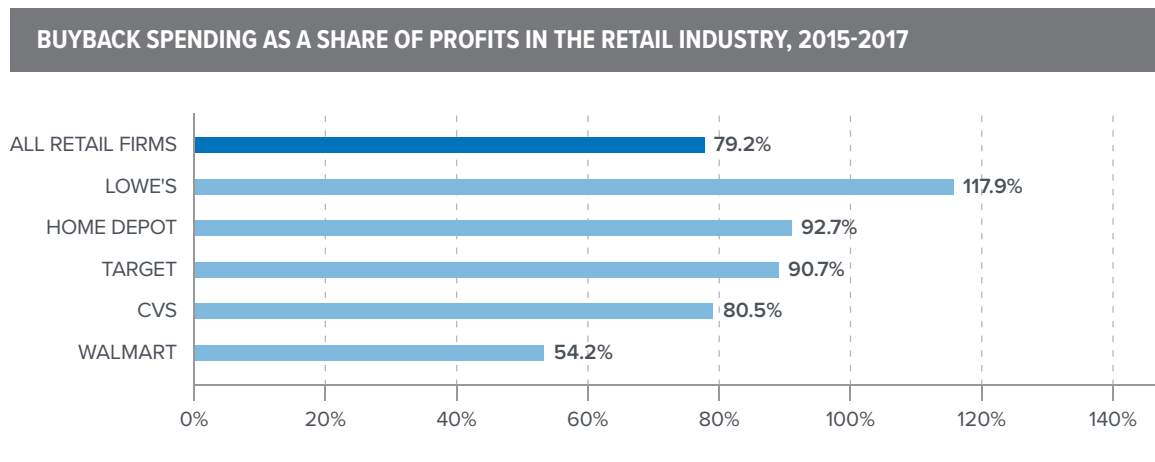


FIGURE 4 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; and SEC filings, 2015-2017. Note: All dollar values used in calculations are nominal and unadjusted for inflation.

Home Depot spent \$21.8 billion on buybacks (Table 3), representing 93 percent of its profits. If the company redirected what it spends on buybacks to workers, the company could pay its employees an additional \$18,172 per year on average (as shown in Table 4). CVS also spent a large share of its profits on buybacks, spending \$13.8 billion—more than 80 percent of its profits. Per employee, this totals \$18,705 each year. Lowe’s spent more than it made in net profits on buybacks between 2015 and 2017, laying out 117.9 percent of net profits on buybacks (Table 3). Per worker, they could increase pay by almost \$20,000 each year (Table 4). These numbers stand out given that many workers in the retail industry barely receive that much in yearly earnings (as shown in Table 4 and Figure 5). Walmart is one of the largest retailers in the U.S., and, with over 1.5 million employees nationwide, it is the largest corporate employer. Walmart is also the largest private employer of women and black and Latinx workers; these groups represent 55 percent and 43 percent of the company’s workers, respectively (Palladino and Abdela 2018). It is also the largest spender in total shareholder payouts (buybacks and dividend spending combined) (Table 3).

RETAIL INDUSTRY BUYBACK SPENDING PER WORKER COMPARED TO CEO PAY, 2015-2017										
Rank	Company	Median Worker Annual Pay, 2017	Buyback Spending per Worker per Year, Globally	As % of Median Worker Annual Pay	CEO Annual Pay, 2017	CEO Pay Ratio, 2017	% of CEO Compensation that is Stock-based	Stock Awards	Options Awards	Average Year Over Year Change in Stock Price, 2015-2017
1	HOME DEPOT INC	\$21,095	\$18,173	86.1%	\$11,641,012	552 to 1	64%	5,955,804	1,459,987	21%
2	WALMART INC	\$19,177	\$3,045	15.9%	\$22,791,276	1,188 to 1	69%	15,692,464	0	28%
3	CVS HEALTH CORP	\$38,372	\$18,705	48.7%	\$12,266,076	320 to 1	55%	3,374,960	3,374,998	-14%
4	LOWE'S COMPANIES INC	\$23,905	\$19,655	82.2%	\$11,208,658	469 to 1	68%	6,422,849	1,179,070	12%
5	TARGET CORP	\$20,581	\$8,117	39.4%	\$8,399,210	408 to 1	24%	0	2,000,001	-5%

TABLE 4 Source: The authors’ analysis of Standard and Poor’s Compustat database, 2015-2017; and SEC filings, 2015-2017. Note: All dollar values used in calculations are nominal and unadjusted for inflation.

As in the restaurant industry, CEOs and shareholders in the retail industry gain enormously from share repurchases. On average, the CEOs of these five firms received 56 percent of their pay in stocks and stock options in 2017—with Walmart’s CEO earning almost 70 percent of his compensation from stock awards. The average ratio of CEO pay to median worker compensation among these five companies in the retail industry is 587 to 1—with the average CEO total compensation over \$13 million. Walmart, which has the highest CEO annual pay of almost \$23 million, has a CEO pay ratio of 1,180 to 1—with the median worker earning \$19,177.

**AVERAGE ANNUAL AMOUNT SPENT ON BUYBACKS PER WORKER FOR TOP SPENDERS
ON BUYBACKS IN RETAIL, 2015-2017**

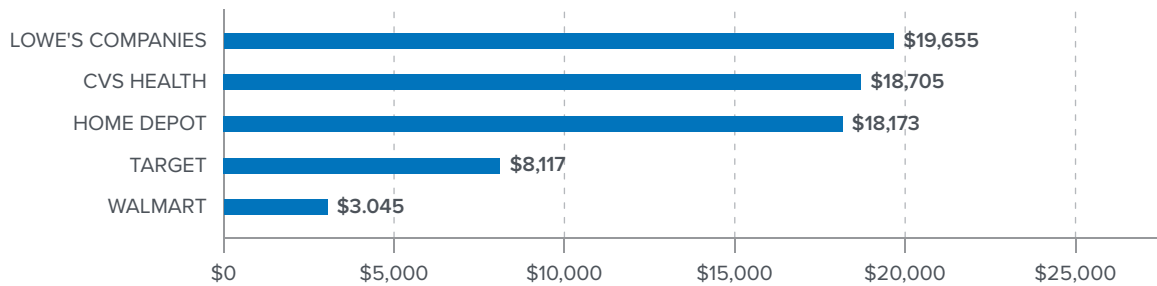


FIGURE 5 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; and SEC filings, 2015-2017. Note: All dollar values used in calculations are nominal and unadjusted for inflation.

Median hourly wages in the U.S. are \$10.12 for retail cashiers (BLS 2017); and, as with many other low-wage occupations, women and people of color are overrepresented (Tung, Sonn, and Lathrop 2015). Low wages in retail are compounded by less-than-full-time hours and unpredictable schedules; and retail workers report higher rates of involuntary part-time schedules than many other industries (McKenna 2015). This analysis discredits the case many corporate executives make that they are unable to increase work compensation—the resources are clearly available.

2.3 FOOD MANUFACTURING: IF CORPORATE PROFITS WEREN'T MISUSED ON STOCK BUYBACKS, FOOD MANUFACTURING WORKERS COULD EARN TENS OF THOUSANDS MORE

Employing more than a million and a half American workers, the food manufacturing sector has long been a cornerstone of the U.S. economy (BLS 2018). About 43 percent of food manufacturing workers are Latinx or African American, compared with 29 percent of the workforce overall (BLS 2017b). In the food manufacturing industry, all publicly traded firms together spent 58.2 percent of profits on share repurchases. The top five corporate spenders on buybacks were PepsiCo, Mondelez International (owner of brands such as Nabisco, BelVita, Ritz, Oreo, Honey Maid, and Cadbury), Kraft Heinz, Archer Daniels Midland (ADM), and Tyson Foods.³ The top five spenders in the food manufacturing industry spent on average 67 percent of their profits on buybacks. As Table 5 and Figure 6 show, these companies spend the equivalent of more than half of their profits—between 50 and 80 cents on the dollar—on stock buybacks.

³ Kraft and Heinz merged in 2015. In that year, Kraft also issued \$10 billion dollars in new stock.

FOOD MANUFACTURING INDUSTRY TOP BUYBACK SPENDERS AND PERCENT OF PROFIT SPENT ON BUYBACKS, 2015-2017

Rank	Company	Average Number of Workers, Globally	Total buyback spending 2015-2017	Total Spent on Dividends, 2015 -2017	Total Shareholder Payouts	Average Annual Spending on Buybacks	Average Annual Profits	Ratio of Total Buyback Spending to Total Profits
1	PEPSICO	263,333	\$10,017,000,000	\$12,891,000,000	\$22,908,000,000	\$3,339,000,000	\$5,546,000,000	60.2%
2	MONDELEZ INTERNATIONAL	90,667	\$8,397,000,000	\$3,381,000,000	\$11,778,000,000	\$2,799,000,000	\$3,949,333,000	70.9%
3	KRAFT HEINZ	40,667	\$8,320,000,000	\$8,994,000,000	\$17,314,000,000	\$2,773,333,000	\$5,088,333,000	54.5%
4	ARCHER-DANIELS-MIDLAND	31,800	\$3,790,000,000	\$2,118,000,000	\$5,908,000,000	\$1,263,333,000	\$1,574,333,000	80.2%
5	TYSON FOODS	116,333	\$3,299,000,000	\$734,000,000	\$4,033,000,000	\$1,099,667,000	\$1,587,333,000	69.3%

TABLE 5 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; and SEC filings, 2015-2017. **Note:** All dollar values used in calculations are nominal and unadjusted for inflation.

FOOD MANUFACTURING BUYBACK SPENDING AS SHARE OF PROFITS, 2015-2017

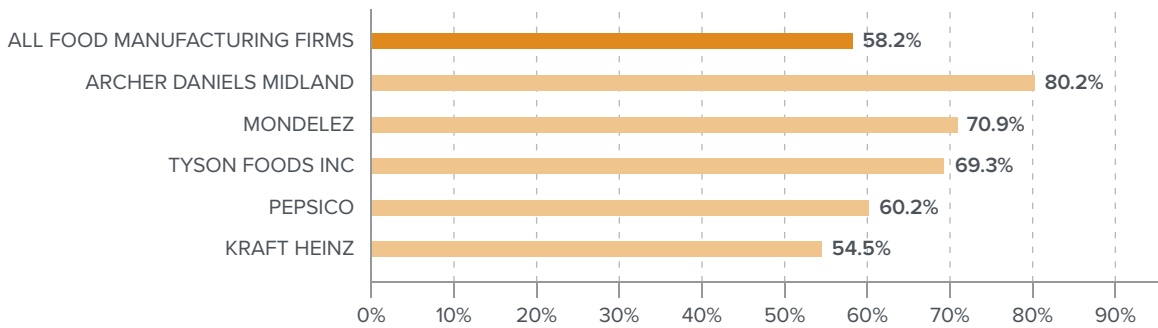


FIGURE 6 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; and SEC filings, 2015-2017. **Note:** All dollar values used in calculations are nominal and unadjusted for inflation.

The five CEOs of these companies received, on average, almost 60 percent of their pay in stock-based compensation, totaling more than \$60 million in stocks and stock options in 2017.

FOOD MANUFACTURING INDUSTRY BUYBACK SPENDING PER WORKER COMPARED TO CEO PAY, 2015-2017								
Rank	Company	Median Worker Annual Pay, 2017	Buyback Spending per Worker per Year, Globally	As % of Median Worker Annual Pay	CEO Annual Pay, 2017	CEO Pay Ratio, 2017	% of CEO Compensation that is Stock-based	Average Year Over Year Change in Stock Price, 2015-2017
1	PEPSICO	\$47,801	\$12,680	26.5%	\$31,082,648	650 to 1	29.7%	10%
2	MONDELEZ INTERNATIONAL	\$47,801	\$30,871	72.0%	\$17,304,919	403 to 1	62.8%	-2%
3	KRAFT HEINZ	\$46,006	\$68,197	148.2%	\$4,194,179	91 to 1	65.1%	5%
4	ARCHER-DANIELS-MIDLAND	\$57,345	\$39,727	69.3%	\$15,875,055	276 to 1	76.6%	6%
5	TYSON FOODS	N/A	\$9,453	N/A	\$8,905,623	N/A	57.0%	24%

TABLE 6 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; and SEC filings, 2015-2017. Note: All dollar values used in calculations are nominal and unadjusted for inflation.

While compensation in food manufacturing is slightly higher than in the restaurant or retail industries—with a median hourly wage of \$14.80 (BLS 2017)—the amount of buyback spending per worker also trends in the tens of thousands of dollars—higher than in restaurants and retail. Of the top five, PepsiCo was the biggest spender, with a total of more than \$10 billion between 2015 and 2017. Archer Daniels Midland devoted the biggest share of profits, spending 8 out of every 10 dollars of its profits on buybacks. Kraft Heinz spent a whopping \$68,197 on average per worker on buybacks (Figure 7). These five companies could pay the median worker in their company an average of 79 percent more each year if corporate resources were diverted away from buybacks to workers.

AVERAGE ANNUAL AMOUNT SPENT ON BUYBACKS PER WORKER FOR TOP SPENDERS ON BUYBACKS IN FOOD MANUFACTURING, 2015-2017

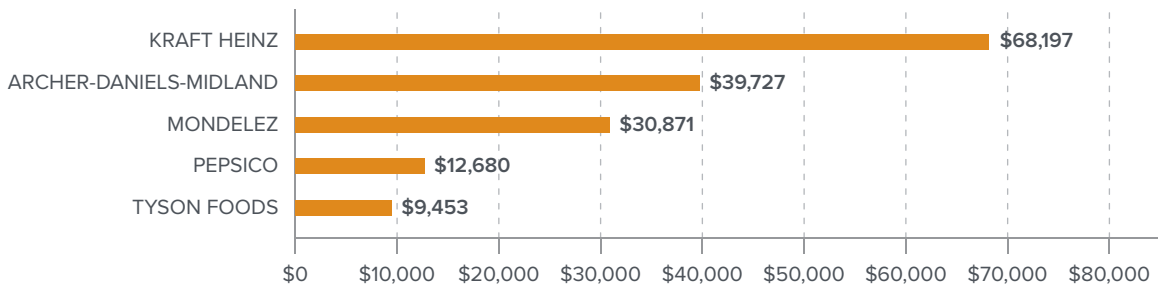


FIGURE 7 Source: The authors' analysis of Standard and Poor's Compustat database, 2015-2017; and SEC filings, 2015-2017. Note: All dollar values used in calculations are nominal and unadjusted for inflation.

While spending exorbitant sums on buybacks in recent years, some of these companies were simultaneously committing egregious workplace abuses. In 2016, for example, the National Labor Relations Board (NLRB) found Archer Daniels Midland guilty of violating federal labor laws and intimidating and interrogating workers seeking to organize a union (Lusvardi 2016). Tyson Foods factories have been major offenders within the health and safety crisis in the meatpacking industry—in which more than a third of workers are Latinx (BLS 2017). The company ranks among the highest in the country in the number of severe injuries reported, with workers suffering amputations of fingers and hands when the companies failed to provide machine safety guards, adequate training, or mandatory protective equipment (Berkowitz and Hedayati 2017). Additionally, the U.S. Department of Labor and state and federal courts have found that the company owes millions in unpaid wages to workers over years and years (Ruckelshaus 2015).

BUYBACKS VS. DIVIDENDS

Buybacks are one form of shareholder payouts available to corporations. Before buybacks became commonplace, corporations generally distributed profits to shareholders in the form of the cash dividend, a payment from corporate earnings made to investors in the form of cash. While buyback spending exploded over recent decades, firms have also increased dividends, albeit at a lower rate (Buttonwood 2015). Companies typically pay dividends in cash on a quarterly basis, although some dividends are paid as stocks or as one-time “special dividends.”

If policymakers restrict or ban buybacks, dividend payouts are bound to increase. Corporate dividend practices are not without problems, and a wholesale shift from buybacks to dividend payments wouldn't solve the problems of low worker compensation, underinvestment, and excessive shareholder payouts. However, restricting shareholder payouts to dividends has potential advantages under certain circumstances.

Compared to buybacks, issuing cash dividends (regular or special) has a less predictable and manipulative impact on a

company's stock price—and thus is less prone to gaming by executives or activist investors for their own gain (Moreano 2012). Dividends also do not have the same potential as buybacks to mask the market and balance sheet impacts of increasing executives' stock-based compensation (Brightman, Kalesnik and Clements 2015; Buttonwood 2015).

Dividends (with the exception of “special dividends”—a one time distribution of earnings) require a longer-term commitment on the part of corporations than do stock buybacks. Once a company has instituted a dividend, investors expect payments to be permanent and to increase steadily over time. Presumably, executives treat the decision to issue dividends in relation to the future profitability and growth of the company (Maubossin 2012). This form of shareholder payout is, hypothetically, not oriented toward plundering a company's resources at the cost of a company's long-term wellbeing.

Historically, corporate dividend activity has been much less volatile than buyback activity, which can rise and fall quickly, and more closely track the stock market and the business cycle (Leary and Roni Michaely 2011). For this reason, long-term investors in need of a steady income stream—such as retirement plans, pensions, and endowments—prefer dividends over buybacks and could stand to gain if dividends overall increased (Appell 2012).

Shifting payouts from buybacks to dividends may be preferable from the standpoint of public revenue generation, especially if capital gains taxes are increased to the same rate as income from work. Currently, buybacks and “qualified” dividends, which include most dividend issuances, are taxed at the same capital gains rate. However, unlike dividends, shareholders only pay capital gains taxes on buybacks when they sell their shares—making it possible for taxpayers to delay paying those taxes and rendering the tax revenue from buyback activities more unpredictable. Especially at the state level, fluctuations in revenue can compromise core public services and contribute to overall fiscal instability (Rueben and Randall 2017). Repealing the 2003 tax cut that created the category of “qualified” dividends would also help improve public revenue generation.

Of course, swapping stock buybacks for dividends will not end the extraction and funneling of corporate profits out of a company via executive compensation and shareholder payouts. However, by reducing the paths for extraction, it brings us one important step closer to a more stable and sustainable economy for all.

SECTION THREE

Policies to Curb Buybacks and Foster Broad-Based and Sustainable Growth

The rise of stock buybacks over the last 40 years is both a symptom and a cause of the high-profit, low-wage corporate sector we see today (Palladino 2018). This extractive corporate behavior hurts workers and families and is hollowing out our economy. Ending the practice of stock buybacks is a bold but crucial step in reversing this. Beyond banning buybacks, we must also adopt a range of policies to rein in the power of corporate executives and shortsighted shareholders, while simultaneously building real, countervailing power that will induce companies to invest profits back into workers and the real economy.

To end the use of stock buybacks and foster sustainable economic growth, federal policymakers should:

Ban Stock Buybacks

Congress or the Securities and Exchange Commission (SEC) should affirmatively ban open-market share repurchases (Palladino 2018). Ending this practice alone will not incentivize firms to improve employee compensation or invest in long-term productivity. (Corporations could continue to divert profits out of the firm through increased dividends, or they could hoard larger piles of cash.) However, ending the ability of companies to engage in stock buybacks closes one major channel through which billions of dollars currently exit the nation's public companies and that could instead be used for productive circulation. It is a fundamental step toward achieving more sustainable and shared prosperity for all—one that removes a significant source of perverse incentives for corporate executives, curbs a driver of unsustainable corporate debt and market volatility, and ends a form of stock market manipulation that benefits the few at the expense of the many.

Tax Wealth at the Same Rate as Work

Congress should also raise the capital gains tax to be comparable with taxes on labor income, and it should move to a mark-to-market accounting system rather than waiting until stocks are sold for taxes to be levied. Taxing wealth (i.e., capital) at the same rate as

labor income would curb executive pay by making stock options, which have played a large role in driving high levels of CEO pay, less tax advantageous. A higher capital gains tax rate would also help to discourage stock repurchases, particularly relative to dividends, whose tax liability cannot be deferred by delaying realization.

Constrain Executive Pay

Congress should work to limit executive compensation (both salary and stock-based compensation) relative to other employees, and there are a few ways to do so. First, imposing a surtax on companies whose chief executives earn more than one hundred times the median pay of their workers would directly constrain skyrocketing CEO pay, which in turn should drive greater corporate investment in wages, new jobs, and new equipment. Second, Congress should implement a luxury tax on excessive CEO pay; for every dollar over \$6 million that a company pays an executive (in any type of compensation), that company should also have to pay a dollar in a luxury or penalty tax. Finally, raising the top marginal tax rate would disincentivize executives from bargaining for even higher salaries (Piketty 2011).

While reining in the excessive power corporate executives and some shareholders hold at the top of the firm, policy solutions should also strengthen the power of workers as a countervailing force within the corporation, so that they can bargain for their fair share:

Require Worker Participation on Corporate Boards

Involving workers in company decision-making repositions workers as necessary long-term stakeholders. Congress should require companies to provide one-third of corporate board seats to representatives elected by the company's workers (Holmberg 2017). Giving workers a formal role in a company's direction-setting would bolster worker voice and ensure they are considered co-equal stakeholders in the company. To have meaningful structural change, worker representation on corporate boards would need to go hand in hand with the following policies to effectively increase the power of workers relative to other corporate stakeholders.

Remove Obstacles That Prevent Workers from Unionizing

Making it possible for workers to unionize allows them to counter the downstream effects of executive and shareholder power by enabling collective action to negotiate for higher wages and better working conditions. The current statutory and regulatory rules embodied in the National Labor Relations Act (NLRA) more often act to undermine rather than protect and advance the right of workers to form a union and collectively bargain. Congress should amend the law to ensure that workers have access to the information they need about their right to form a union, that they can exercise that right free of employer intimidation and coercion, and that the processes governing union elections and collective bargaining actually facilitate workers' choices.

Establish Sectoral Bargaining

The NLRA regime encourages worksite-based bargaining or, at best, firm-based bargaining. As a countervailing pressure against shareholder and executive power, workers should be able to bargain at the sectoral level—i.e., across all retail workers, restaurant workers, etc.—instead of at the firm level, which in many cases leaves groups of workers facing the same predicaments isolated from each other.

Absent stronger federal policies, states and localities can lead the way by reining in buybacks, reducing the power of corporate executives, and supporting workers:

Impose Additional Taxes on Companies Engaging in Excessive Buyback Activity and Redirect Collected Funds toward Job Creation

States and localities should apply a corporate income tax surcharge to companies that spend excessively on buybacks. States can and should apply such a surcharge not only to firms incorporated in the state, but also to all publicly traded corporations doing significant business in the state. (This is sometimes referred to as an “economic nexus standard” and could apply, for example, to corporations with sales of \$1 million or more to in-state customers during the taxable year.) Revenues raised through the surcharge should be earmarked for use in the creation of new and better quality jobs, which should also meet higher standards for wages and benefits.

Impose a Tax on Companies with Excessive Pay Differentials

States and localities should impose higher taxes on firms with excessive pay. For example, Portland, Oregon, now imposes a 10 percent business tax surcharge on companies with top executives making over 100 times their median worker pay—and a 20 percent surcharge on firms with pay gaps beyond 250 times. Voters in San Francisco, California, will vote on a similar measure in November of 2018. At the state level, lawmakers in Minnesota, Rhode Island, Connecticut, Illinois, and Massachusetts are also considering these kinds of policies.

Require Corporations to Provide Detailed Reporting on Their Share Repurchase Activity

States should require companies doing business in their state to disclose detailed and timely information about buybacks executed. Some of the buyback activity may be illegal under the Exchange Act. Currently, neither the public nor the enforcing parties (such as the SEC and states' attorneys general) have access to enough information to determine whether a company's buyback activity actually meets legal requirements. Collecting information on daily buybacks would greatly enable state and federal enforcement of buyback regulations.

Conclusion

As we illustrate, funneling corporate profits up and out of a company via stock buybacks—instead of investing these profits back into workers and the firm—means that there is less available for the kinds of activities that encourage broad-based economic growth. By highlighting three core industries—restaurant, retail, and food manufacturing, in which millions of our nation’s workers struggle to make ends meet in low-wage, economically insecure jobs—we demonstrate the magnitude of buyback spending compared to worker compensation in today’s high-profit, low-wage economy, as well as how workers could benefit if corporate managers and CEOs chose to divert stock buybacks toward investment in workers.

Workers, their families, and the broader economy need bold, more inclusive rules that prioritize workers and foster robust, shared prosperity. Policy reforms to curb the use of buybacks is a crucial (though alone an insufficient) step toward reducing the growing pay disparities between workers and executives and addressing increasing economic and racial inequality. However, while ending buybacks alone will not ensure that workers get their fair share of corporate profits, it would close one major channel through which billions of dollars are currently siphoned from America’s public companies and begin to lay the foundation for an economy that works for everyone.

Appendix: Methodological Notes

Data Sources

Our main sources of data for the report were company filings with the SEC (10-K annual reports and proxy statements) and Standard and Poor's Compustat North American Daily database, which compiles financial, statistical, and market information on global companies throughout the world. This study uses three years of annual, firm-level Compustat data covering 2015 to 2017, which includes all firms traded at the New York Stock Exchange that are covered by the database.

In total, our study analyzed 24,225 observations representing 9,302 firms. We conducted our analysis using all data available for the years in question at the time of publication. We have focused our analysis on stock buybacks, separate from dividends (the other major form of shareholder payouts) to highlight the particular problems with buybacks. One important note regarding data for the restaurant industry is that there are SEC filings and Compustat entries for both Restaurant Brands International, Inc. and its subsidiary, Restaurant Brands International, LP. We limit our analysis to data pertaining to the parent company Restaurant Brands International, Inc. Regarding our analysis of the retail industry, we excluded the company Express Scripts Holding Company, which is classified under NAICS as a retail company but whose primary business activity is not retail sales.

Compustat Variables Used for Analysis

- **PRSTKC:** Purchase of Common and Preferred Stock
- **PSTK:** Sale of Common and Preferred Stock
- **NI:** Net Income
- **DVT:** Dividend Total
- **PRCC_F:** Price Close - Annual - Fiscal Year
- **PRSTKC/ NI:** Buybacks as a Share of Profits
- **NAICS:** North American Industry Classification System

Other Variables

- Number of global employees collected from Annual 10-Ks.
- Median pay collected from annual 10-Ks from company websites
- CEO compensation from SEC company filings

Industry Classification for Top 5 Spenders

- “Retail industry” includes any firm with the first two digits of the NAICS code being “44” or “45”
- “Restaurant industry” includes any firm with the five-digit NAICS code “72251”
- “Food Manufacturing industry” includes any firm with the three-digit NAICS code “311”

Period of Study

Our analysis spans the three years with the most recent annual data available (2015 to 2017). It is important to note that in anticipation of the Trump administration’s tax agenda, U.S. corporations likely withheld payouts to shareholders—both buybacks and dividends—in 2017. Despite this, we did not find that spending on buybacks dipped significantly in 2017.

Measuring Buyback Activity

All of the stock buyback dollar amounts for the 15 companies mentioned in this brief are as reported to the SEC. We did not adjust for new issuances of equity by the firms in question because in all but one case, firms issued zero or very little new stock between 2015 and 2017. The only company that issued a substantial amount of new stock in relation to the amount of buybacks executed was Kraft in 2015. They issued \$10 billion in new equity in order to raise money for their acquisition of Heinz that year. For the buyback spending as a share of profits, we summed the total amount of buybacks spent by each company within that industry for 2015 to 2017 and divided that by the total net income.

For the percentage of firms that spent over 50 percent of their profits on buybacks, we divided the number of companies that had an amount of money spent on stock repurchases greater than 50 percent of their net income by the total number of companies in our dataset. We also followed the same methodology for each two-digit NAICS industry to compare different industries. For “average spending per buyback worker,” we divided the average amount spent on stock repurchases by the number of employees from 2015 to 2017.

Estimating Number of Workers for Companies in the Restaurant Industry

For companies that use a franchise business model (McDonald's, YUM Brands, Restaurant Brands International, and Domino's), we did not use employment figures from their 10-K filings, which only report corporate employees but exclude employees of franchisee establishments. For McDonald's, YUM Brands, and Dominoes, we referenced the company websites, which publish the approximate numbers of global workers, including employees of franchisees. Restaurant Brands International does not publish such a figure, but its website does state that it has more than 24,000 restaurant locations worldwide and that it is 100 percent franchised. We estimated its global workforce by multiplying the number of locations with an average number of employees for U.S. franchised establishments (21.15) according to data available from the most recent Economic Census in 2012.

Median Worker Pay and CEO Pay Ratio

Note that the SEC has a suggested methodology for filers to determine median worker salary. Companies may have interpreted SEC guidance on reporting median employee salary differently. We use the reported figures for median worker pay and CEO pay ratio and do not make any adjustments. Refer to each company's publicly available proxy statements for detailed descriptions of their methodologies. Note also that in many cases, the number of employees a company reports in the proxy statement for the purposes of determining median worker pay is different than the number of employees it reports in the 10-K. We use the number reported in the 10-K.

For "as a percent of median pay," we divided our calculation of buyback spending per worker (2015-2017) calculation by the median worker pay for each company in 2017, which is publicly available in SEC files proxy statements. For the "average year-over-year stock price change," we used the stock price at the end of each fiscal year.

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