MAKING THE CASE: HOW ENDING WALMART'S STOCK BUYBACK PROGRAM WOULD HELP TO FIX OUR HIGH-PROFIT, LOW-WAGE ECONOMY

ISSUE BRIEF BY **LENORE PALLADINO** AND **ADIL ABDELA** | MAY 2018

The rules that shape corporate America incentivize behavior that has led to the economic puzzle we see today: high corporate profits coupled with low and stagnant wages. "Shareholder primacy" is the practice in which corporations prioritize shareholder payouts over productive investment and employee compensation. This way of operating dominates corporate decision-making today, so employees have become a cost center to be squeezed, rather than being treated as stakeholders who should do well when a company does well.

One of the leading corporate examples of shareholder primacy is retail giant Walmart. Walmart is America's largest corporate employer, with over 1.5 million employees nationwide, and the largest private employer of women and black and Latinx workers. According to Walmart, 43 percent of its U.S. associates are people of color, and 55 percent are women.[1] The mega-corporation spent $14.4 billion in 2017 on shareholder payouts, by repurchasing its own stock and issuing dividends, and is authorized to spend $20 billion on "stock buybacks," formally known as open-market share repurchases, in 2018 and 2019. Meanwhile, Walmart's profits were just $9.8 billion in 2017, showing that it prioritizes shareholder payouts even when that requires taking on debt or spending cash reserves.

Walmart is a prime example of earnings disparity: Walmart's starting wage is $11 dollars an hour, or $19,448 a year for a full-time worker. Walmart's CEO, Doug McMillon, earned 1,188 times as much as the company's median worker.[2] While it is well-known that Walmart's business model is predicated on keeping employee wages low, what is less discussed is the opportunity costs of the billions of dollars spent on shareholder payouts.

This issue brief will describe the effects on Walmart's labor force if the company were to redirect what it spends on stock buybacks to employee compensation or to its Associate Stock Purchase Plan,[3] transforming itself into a business that invests in improving worker

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1 Walmart, *Culture Diversity and Inclusion 2017 Report*, https://cdn.corporate.walmart.com/11/0d/f9289df649049a38c14bdeaf2b99/2017-cdi-report-web.pdf.

2 Walmart reported that Doug McMillon earned $22.8 million during the 2018 fiscal year, while a median employee earned $19,177. See *WSJ*, "At Walmart, the CEO Makes 1,188 Times as Much as the Median Worker," https://www.wsj.com/articles/at-walmart-the-ceo-makes-1-188-times-as-much-as-the-median-worker-1524261608.

3 The Associate Stock Purchase Plan allows Walmart associates to purchase Walmart shares through payroll deduction.

productivity and community well-being. **By ending the practice of stock buybacks and spending $10 billion on increasing wages instead, 1 million low-wage Walmart employees would see an hourly wage increase of over $5.66.**[4] This would raise the starting wage for all employees to $16.66 and positively impact Walmart by improving employee productivity, retention, and consumption by Walmart workers and their families. For a full-time worker at the starting wage, this increase in their hourly rate would mean an annual salary of $29,455.[5]

In the alternative, Walmart could end its stock buybacks program and spend the same amount purchasing stock for employees through the Associate Stock Purchase Plan. If Walmart made direct stock grants to employees, assuming the shares were bought at the current market price of $88.05 and were distributed evenly, we estimate that each of their 1 million hourly employees could receive roughly 113 shares, giving Walmart associates the opportunity to build substantial wealth and share in the company's future prosperity.

THE RISE OF SHAREHOLDER PRIMACY AND THE ROLE OF STOCK BUYBACKS

Today, America's public companies often prioritize increasing the wealth of their shareholders (and often their executives, who are major shareholders) over the long-term growth of innovation, sales, or customer satisfaction.[6] Since firms are made up of different constituencies and allocations of profit—including employees, executives, and shareholders, as well as short- and long-term productive investment—a rising proportion of profit flowing to one set of stakeholders or uses will result in a decline in what is available for the others.

Stock buybacks, in which a company repurchases its own shares on the open market, are a core corporate practice that companies use to increase shareholder wealth.[7] The company uses cash (or, sometimes, borrows cash) to pay shareholders the market value per share. This lowers the number of outstanding shares in the open market and causes a price increase for the remaining shares, as well as a higher earnings-per-share ratio.

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4 The calculations are as follows: Walmart's full-time workweek for hourly employees is 34 hours per week. A full-time worker works 1,768 hours a year. The per-hourly employee amount available from the cessation of stock buybacks is $10,000 ($10 billion divided by 1 million employees). $10,000 / 1,768 = $5.66 per hour.

5 Walmart's full-time workweek for hourly employees is 34 hours per week. $16.66 per hour x 1,768 per year = $29,455.

6 For more background on this trend, see William Lazonick, *Profits not Prosperity*, https://hbr.org/2014/09/profits-without-prosperity.

7 Recent legislation has proposed making stock buybacks impermissible. For more information on the practice of stock buybacks, see Lenore Palladino, *Stock Buybacks: Driving a High-Profit, Low-Wage Economy*, http://rooseveltinstitute.org/stock-buybacks-high-profit-low-wage/.

When companies engage in stock buybacks, they are choosing to not spend that corporate cash on investments in their employees, higher wages, or research and development. Such investments are the foundation of long-term innovation and economic growth. Supporters of buybacks argue that companies conduct buybacks when they no longer have productive uses for their cash: i.e., they do not have productive investment opportunities; the cash returned to shareholders will find a more efficient use at another company through the capital markets. However, this argument has many flaws.

First, investing in a company's *workforce* by raising wages and benefits improves a company's long-term prosperity and potential for innovation.[8] Second, the claim is based on the faulty premise that only companies without opportunities for productive investments are engaging in stock buybacks; in fact, money is flowing out of firms at a much higher rate than money is returning to them—according to one estimate, $6 is withdrawn for every $1 that is invested.[9] Finally, proponents of buybacks often ignore the primary reason why companies engage in buybacks: to quickly increase share price and thus boost shareholder and executive wealth.

The decision to allocate corporate profits to shareholders at the expense of other stakeholders—namely, workers—has real-world effects on the well-being of workers and our economy.

THE CASE OF WALMART: THE IMPACT OF REDIRECTING PROFITS SPENT ON STOCK BUYBACKS TO EMPLOYEE COMPENSATION

The case of Walmart is instructive. Walmart has spent $121 billion paying out shareholders over the last decade, compared with $147 billion it earned in profits (revenue minus expenses). Specifically, Walmart spent $67.8 billion on stock buybacks (46 percent of profits) and an additional $53.7 billion on dividends. Shareholder payouts have *exceeded* profits over the past two years, meaning they are financing payouts through taking on debt or using cash reserves on top of using profits (see Table 3). Meanwhile, Walmart issued no new shares in recent years, meaning that money in the capital markets is flowing only in one direction: out of Walmart and into shareholders' hands. Table 3 provides a detailed description of Walmart's shareholder payout to net income ratios over the past 10 years. Walmart's Board recently authorized an additional $20 billion to be spent on stock buybacks in 2018 and 2019.

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8 Zeynep Ton, *Why "Good Jobs" Are Good for Retailers*, https://hbr.org/2012/01/why-good-jobs-are-good-for-retailers.

9 See J.W. Mason, "Understanding Short-Termism: Questions and Consequences," http://rooseveltinstitute.org/wp-content/uploads/2015/11/Understanding-Short-Termism.pdf.

If Walmart redirected $10 billion out of what is authorized for stock buybacks in 2018 to employee compensation for hourly workers instead, 1 million[10] hourly Walmart employees would see an hourly wage increase of $5.66.[11] This would bring the starting wage for a Walmart worker, currently set at $11 dollars an hour, to $16.66 an hour. For a worker currently earning the starting wage and working Walmart's full-time workweek of 34 hours per week, this increase in their hourly rate would mean an annual salary increase from $19,448 to $29,455. The additional income of $10,000 per year would have a major impact on working families nationwide.

Table 1 shows our estimates assuming that Walmart would spend half of its authorized $20 billion in 2018 on employee compensation.[12] For completeness, we show the impact on hourly wages from a range of reductions in Walmart's stock buybacks program, from 25 percent to 100 percent.

TABLE 1. STOCK REPURCHASES IN 2018 AND THE POTENTIAL FOR INCREASED WAGES AND STOCK PURCHASE PLANS FOR 1 MILLION EMPLOYEES

Reduction Level	Stock Repurchase Total	Redirected Amount	Increased Wage	Stock Price	Shares Per Employee
100%	**$10 billion**	**$10 billion**	**$5.66**	**$88.05**	**113.57**
75%	$10 billion	$7.5 bllion	$4.24	$88.05	85.18
50%	$10 billion	$5 billion	$2.83	$88.05	56.79
25%	$10 billion	$2.5 billion	$1.41	$88.05	28.39

Table 2 shows specific estimates of how much Walmart could have compensated employees in 2017 by redirecting some or all of its *actual* spending on buybacks.[13] Had Walmart redirected its entire 2017 stock buybacks program to employee wages, it could have raised the wage for 1 million employees by $4.69 per hour. For a new hourly worker, this translates to a salary of $15.69 per hour and an annual salary of $27,740.

[10] See Walmart's press release, "More than 1 Million Associates Benefit from Combined Wage and Benefit Changes," https://news.walmart.com/2018/01/11/walmart-to-raise-us-wages-provide-one-time-bonus-and-expand-hourly-maternity-and-parental-leave.

[11] These are conservative estimates as it assumes all low-wage employees work 34 hours a week. Only full-time employees work this amount and many, if not the majority of hourly associates, work less than 20 hours a week.

[12] Walmart has spent at least $1.2 billion out of the $20 billion authorized in October 2017, per its March 20, 2018 10-K. There is no accurate way to predict what portion of the remaining buybacks would be executed in 2018 versus 2019, or if the entire amount will actually be executed. Thus, we use $10 billion as a midpoint estimate for what Walmart could spend on buybacks in 2018.

[13] 2017 spending on stock buybacks includes actual buybacks conducted pursuant to previous buybacks authorization.

TABLE 2. STOCK REPURCHASES IN 2017 AND THE POTENTIAL FOR INCREASED WAGES AND STOCK PURCHASE PLANS FOR 1 MILLION EMPLOYEES					
Reduction Level	**Stock Repurchase Total**	**Redirected Amount**	**Increased Wage**	**Stock Price**	**Shares Per Employee**
100%	$8.2 billion	$8.2 billion	$4.69	$88.05	94.22
75%	$8.2 billion	$6.2 billion	$3.52	$88.05	70.66
50%	$8.2 billion	$4.1 billion	$2.35	$88.05	47.11
25%	$8.2 billion	$2.1 billion	$1.17	$88.05	23.55

Another form of employee compensation is Walmart's stock purchase plan, called the "Associate Stock Purchase Plan." The plan allows Walmart associates to purchase stock through paycheck deduction and provides a 15 percent match up to $1,500 per year. However, most hourly associates at Walmart do not earn enough to afford putting some of their paycheck into stock purchases, and therefore they do not receive any company match. Instead of stock buybacks, Walmart could spend the same $10 billion on stock distributions to employees. In Tables 1 and 2, the right-hand columns present the shares that could be purchased per hourly employee at current share price.[14] Each Walmart associate would receive $10,000 worth of Walmart shares, a significant contribution to their family's wealth.

WALMART'S RECENTLY ANNOUNCED WAGE INCREASES AND BONUSES ARE A FRACTION OF WHAT COULD BE AVAILABLE TO ITS EMPLOYEES

In December 2017, President Donald Trump signed the Tax Cuts and Jobs Act, reducing the corporate tax rate from 35 percent to 21 percent. The plan was sold to the public as a job-creation policy, but companies have responded by increasing shareholder payouts and merger and acquisition (M&A) activity. One analysis found that companies had announced $171 billion in new spending on stock buybacks, while only $6 billion was allocated for employee compensation.[15]

Following passage of the tax law, Walmart announced that it will spend $400 million in 2018 on one-time bonuses. Depending on length of service, employees can expect to receive up to $1,000. There is no indication that the one-time bonuses provided to Walmart employees,

[14] Note that these are mutually exclusive.

[15] JUST Capital analysis, found here: https://justcapital.com/news/tax-reform-rankings/.

purportedly as a result of the Tax Cuts and Jobs Act, are going to continue as the corporate tax rate remains low. The company also announced that they will spend $300 million on increasing their starting hourly wage to $11 per hour—a legal requirement in many states, and an action that is likely necessary to continue to compete with other retailers[16] given today's relatively low unemployment rate. This much-touted $700 million of new spending on employee compensation totals just 7 percent of the $10 billion Walmart could spend on stock buybacks in 2018.[17]

CONCLUSION

Walmart—as our country's largest retailer and the largest private employer of women and black and Latinx workers—is a tremendous force in our economy. Today, however, the starting wage its associates earn still falls below the federal poverty line. With over 1 million hourly employees, ending Walmart's stock buyback program and redirecting those funds toward investments in employee compensation would provide a huge benefit to American workers, families, and our economy at large.

The Walton Family Illustrates America's Skewed Economy

Walmart is notable because over half of its shares are owned by the Walton family, and there are three Walton family members on Walmart's Board of Directors, including the chair of the board. It is the board that authorizes spending on stock buybacks. As of April 2018, the Walton family is the wealthiest in the world, with over $152 billion in holdings.[18] **The six heirs of Sam Walton's empire have more wealth than the bottom 30 percent of Americans.**[19] So though it is Walmart's 1 million associates who work every day to serve the company's customers, it is the Walton family who will take home over half of the wealth created as a result of Walmart's stock buybacks program.

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16 Last October, Target announced that they would increase wages to $11 per hour and committed to a minimum wage of $15 an hour by 2020.

17 Again, assuming for simplicity that the $20 billion authorized in October 2017 is spent evenly across years.

18 See "Meet the Family Worth more than Jeff Bezos, Warren Buffett, or Bill Gates," https://www.cnbc.com/2018/05/15/the-walton-family-is-worth-more-than-jeff-bezos-or-bill-gates.html.

19 See "The Few, the Proud, the Very Rich," http://blogs.berkeley.edu/2011/12/05/the-few-the-proud-the-very-rich/.

APPENDIX

Here, we present more detail on Walmart's history of shareholder payouts and profits.

TABLE 3. STOCK BUYBACKS, DIVIDEND, AND NET INCOME OVER THE PAST 10 YEARS (IN MILLIONS)

Year	Stock Buybacks Total	Dividend Total	Shareholder Payout Total	Profit	Buybacks/ Profit Ratio	Dividend/ Profit Ratio	Payouts/ Profit Ratio
2008	$3,521	$3,746	$7,267	$13,400	26.3%	28.0%	54.2%
2009	$7,276	$4,217	$11,493	$14,335	50.8%	29.4%	80.2%
2010	$14,776	$4,437	$19,213	$16,389	90.2%	27.1%	117.2%
2011	$6,298	$5,048	$11,346	$15,699	40.1%	32.2%	72.3%
2012	$7,600	$5,361	$12,961	$16,999	44.7%	31.5%	76.2%
2013	$6,683	$6,139	$12,822	$16,022	41.7%	38.3%	80.0%
2014	$1,015	$6,185	$7,200	$16,363	6.2%	37.8%	44.0%
2015	$4,112	$6,294	$10,406	$14,694	28.0%	42.8%	70.8%
2016	$8,298	$6,216	$14,514	$13,643	60.8%	45.6%	106.4%
2017	$8,296	$6,124	$14,420	$9,862	84.1%	62.1%	146.2%
Total	**$67,875**	**$53,767**	**$121,642**	**$147,406**	**46.0%**	**36.5%**	**82.5%**

The table below shows that Walmart is not alone in allocating a high percentage of profits to shareholder payouts. Walmart's status as an industry leader means that any changes it makes would likely inform the entire industry.

TABLE 4. TOP 10 RETAIL COMPANIES BY REVENUE IN 2017 (IN MILLIONS)

Rank	Company Name	Revenue	Revenue Share	Buybacks	Dividends	Payout	Profit	Payout Ratio
1	Walmart Inc	$499,956	29.13%	$8,296	$6,124	$14,420	9862	146.22%
2	CVS Health Corp	$184,765	10.77%	$4,361	$2,049	$6,410	6622	96.80%
3	Amazon.com Inc	$177,866	10.36%	$0	$0	$0	3033	0.00%
4	Costco Wholesale Corp	$129,025	7.52%	$469	$3,904	$4,373	2679	163.23%
5	Walgreens Boots Alli	$118,214	6.89%	$5,220	$1,723	$6,943	4078	170.26%
6	Home Depot Inc	$100,904	5.88%	$8,000	$4,212	$12,212	8630	141.51%
7	Express Scripts Hold	$100,065	5.83%	$2,938	$0	$2,938	4517.4	65.04%
8	Lowe's Companies Inc	$68,619	4.00%	$3,192	$1,288	$4,480	3447	129.97%
9	Best Buy Co Inc	$42,151	2.46%	$2,004	$409	$2,413	1000	241.30%
10	Macy's Inc	$24,837	1.45%	$1	$461	$462	1547	29.86%

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ACKNOWLEDGMENTS

The author thanks Steph Sterling for her comments and insight, and Catherine Ruetschlin, Amy Traub, Tamara Draut, and Heather McGhee of Demos for their groundbreaking work on this topic. Roosevelt staff Nell Abernathy, Kendra Bozarth, Katy Milani, and Steph Sterling, as well as Roosevelt Fellow Mike Konczal, all contributed to the project.

This report was made possible with the generous support of the Arca Foundation, Ford Foundation, and W.K. Kellogg Foundation. The contents of this publication are solely the responsibility of the author.

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