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Vanishing the People's Wealth to Make the Bosses Richer

By Ralph Nader
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Imagine you are a shareholder in a big company and the top executives are sitting on huge amounts of cash and are not interested in putting it to work through productive capital investments, research and development, reducing company debt or paying employees a higher wage. What would you want done about it? Since you and other shareholders are the owners of the company, you'd likely say "give us back our money in cash dividends."

“No way,” say your hired hands, the company managers, who have spent a staggering \$2.1 trillion of your money in the last five years on stock buybacks allegedly to increase the company’s earnings per share ratio, instead of increasing shareholder dividends. Overall this tactic has not been working over time except to make the corporate bosses richer, which is the real reason for many buybacks.

What is the incentive for this cash burning frenzy? According to University of Massachusetts scholar, William Lazonick, in 2012 the 500 highest-paid executives received 52% of their remuneration from stock options and another 26% from stock awards.

Call it self-interest, or conflict of interest with their shareholder-owners, they continue to get away with this massive heist, this clever transfer of wealth. They do not need to get the approval of their owners – the stockholders – under what is called the “business judgement rule” (BJR). Developed by corporate attorneys and adopted with few boundaries by the Delaware courts – the state where corporate bosses go for pioneering leniency – the BJR strips the owners of corporations of meaningful control over the company executives and boards of directors other than to sell their stock, thereby leaving the rascals in charge.

Here is the definition of the BJR by the Delaware courts: “The business judgement rule…is a presumption that in making a business decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation.”

How’s that for a legally entrenched entitlement during a growing decades-long corporate crime wave that largely goes unprosecuted by politically and budgetarily strapped enforcement agencies? A crime wave that in 2008 brought a criminally-speculative, self-enriching Wall Street down, draining trillions of dollars in pension fund and mutual fund assets – the very institutions that owned the most shares on the major stock exchanges!

Making matters worse, as *Business Insider* concludes, “all the evidence shows that – in recent years – they’ve [stock buybacks] not actually helped boost the stock values at all.” The bosses are eating the company’s seed corn. Indeed, before 1982 when the obeisant Securities and Exchange Commission (SEC) opened the floodgates for this executive rampage, buybacks were illegal. They were considered *insider trading* by the top company executives.

How do these trillions of dollars of inert money accumulate? From conniving management that doesn’t know how or want to deploy it to increase the value of the company and its stakeholders. The money flows from consumers, taxpayers (corporate welfare) and from the sacrifices of workers whose needs and increased productivity could be rewarded with better pay and pensions.

Walmart’s buyback binge brings the impact closer to Hometown, USA. The company, whose controlling stock is held by the super-rich Walton family, has spent \$70 billion in stock buybacks since 2004. Its poorly paid laborers, often without full-time hours, have a high turnover rate and cannot make ends meet for their families, not to mention a harsh paucity of benefits.

Looking at Costco and other big competitors, that pay better and experience lower turnover and higher worker morale, Walmart has inched its workers toward a minimum of $10 an hour in the past two years. How much family anguish and deprivation would have been avoided over the years if Walmart's bosses did not waste tens of billions of dollars and instead followed founder Sam Walton's practice of "retain and reinvest," that built the company's model?

Warren Buffett, in his letter to shareholders back in 1999, declared that "all too often," repurchases of stock are made for an "ignoble reason: to pump or support the stock price." Only now it's mostly not even working for that narcissistic objective.

Massive stock buybacks have bizarrely resulted, since the mid-1980s, declares Mr. Lazonick, in corporations "funding the stock market rather than vice versa. Over the past decade net equity issues of non-financial corporations averaged minus $376 billion per year." So much for stock markets raising investment capital.

In 2009, President Barack Obama pushed through Congress a modest $831 billion stimulus bill spread over a decade. The money was allocated to federal tax incentives, infrastructure, education and expansion of social welfare benefits such as unemployment compensation.

Republicans in the Congress hit the ceiling, attacking the bill as wasteful government spending. In a private enterprise, free market economy, they say it is not the government's business to create jobs. Apparently, their big corporate paymasters believe that it's not the business of business to use trillions of dollars of profits to create jobs either.