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Biden, Schumer lead charge against stock buybacks

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Forgive them because they cannot help themselves. Progressives have a metabolic urge to boss around the private sector. It is not just that, as is said, progressives do not care what people do as long as it is compulsory. Progressives want to be compellers because they think they know *exactly* what people must be made to do if progress is to arrive.

On a recent morning, a *Wall Street Journal* front-page headline said, "Buybacks Set Pace for Record," and the *New York Times*'s lead Page 1 story reported that semiconductor manufacturers seeking government subsidies must curtail buybacks — corporations repurchasing their stock. Hostility to buybacks arises from foggy economic thinking that is encouraged by the progressive animus against the people and processes that create the wealth that progressives delight in redistributing.

The question is: What should corporations do when their profits exceed their needs for internal investments? Progressives know what they should not do: buybacks.

Sen. Chuck Schumer, D-N.Y., who has spent as much time as an NFL linebacker as he has in private enterprise, calls buybacks "despicable." Of his two recommendations for corporations,

one is as predictable as the other is vague: Money spent on buybacks should instead fund "significant" increases in employees' wages, or "meaningful" investments.

Schumer seems sure that employees are generally paid below-market wages. Or that the market is less competent than senators are at measuring workers' value-added. Or that paying wages higher than necessary to attract or retain workers somehow counts as investing. Or that corporations always have at hand investments that are "meaningful," whatever that means.

President Joe Biden thinks that quadrupling the two-month-old 1% tax on buybacks would "encourage long-term investments" by discouraging stock repurchases that reward "CEOs and shareholders." His two linked assumptions are that corporate leaders always have economically efficient opportunities for long-term investments in their companies, but often prefer to use profits for buybacks because these raise the value of stock they own — and sometimes their compensation is linked to share prices.

Biden is particularly cranky about "Big Oil" spending on buybacks rather than on increased production. He dislikes buybacks more than fossil fuels. Gosh.

John H. Cochrane, the "Grumpy Economist" of Stanford University and the Hoover Institution, recommends considering *why* buybacks raise share prices, if they do so at all. Yes, buybacks increase short-term demand for the company's shares, sometimes producing a small price increase. But, Cochrane says, the main reason buybacks sometimes slightly raise a stock's price is that the stock market recognizes this: Buybacks redirect cash from suboptimum uses within the repurchasing company to optimum uses elsewhere, often in companies that have immediate investment needs.

So, Cochrane says, giving management stock options and allowing them to profit from buybacks, incentivizes managers to make decisions that benefit the company's shareholders, its *long-*

term prospects and the economy's efficient allocation of capital. Money spent on buybacks does not disappear like rain into sand; it changes hands and trajectories, and continues to work.

Cato Institute tax policy analyst Adam N. Michel notes that a stock buyback does not by itself "create or destroy any wealth, it is simply a voluntary exchange of cash for the value of the stock." And "according to one estimate, about 95 percent of resources returned through stock buybacks are reinvested in other public companies."

Buybacks — worth more than $5 trillion in the past decade — seem not to have hurt the buying companies' efficiency: These companies have, on average, outperformed the market, long-term. This, says James Surowiecki, writing in the Atlantic, "suggests that companies generally do a good job of buying their stock when it's undervalued." And that executives who sell shares during their companies' buybacks "are usually giving up sizable future gains."

Hostility to buybacks is so firmly lodged in the catechism of the Church of Progressivism, it is impervious to mere evidence and arguments. Nevertheless, it is worth hearing from Omaha, which can be considered the Vatican of U.S. capitalism.

Warren Buffett's grandfatherly persona was absent when, his patience exhausted, he recently wrote: "When you are told that *all* repurchases are harmful to shareholders *or* to the country, *or* particularly beneficial to CEOs, you are listening to either an economic illiterate or a silver-tongued demagogue (characters that are not mutually exclusive)."

Biden, to whom the private sector is a region as foreign as Outer Mongolia, says buybacks are pernicious. Buffett, who has caused the creation and distribution of wealth that dwarfs his net worth, disagrees. You decide who to believe.