

Consequences of the Rise of Stock Buybacks

2019 Corporate Governance Roundtable, Harvard Law School

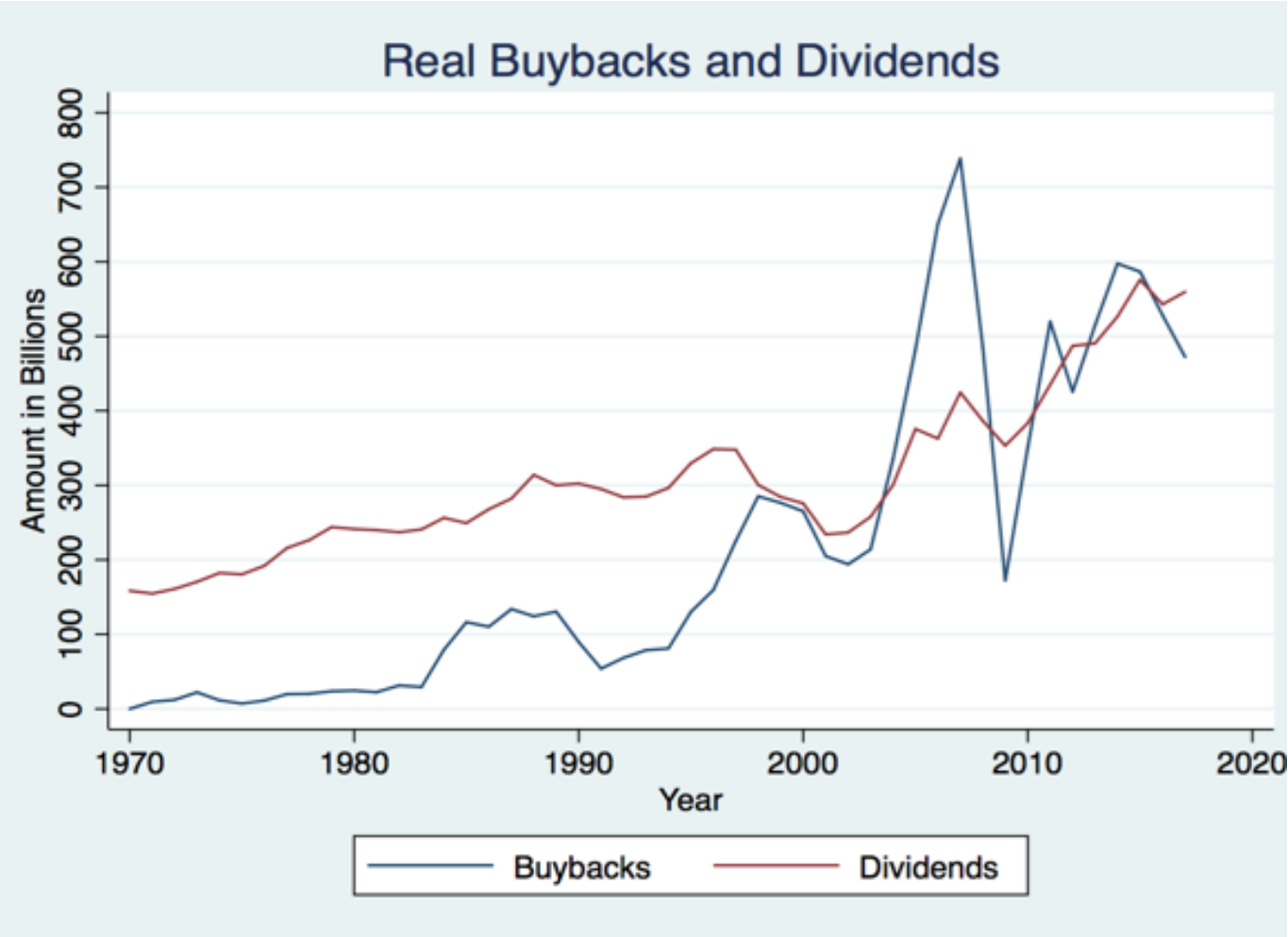
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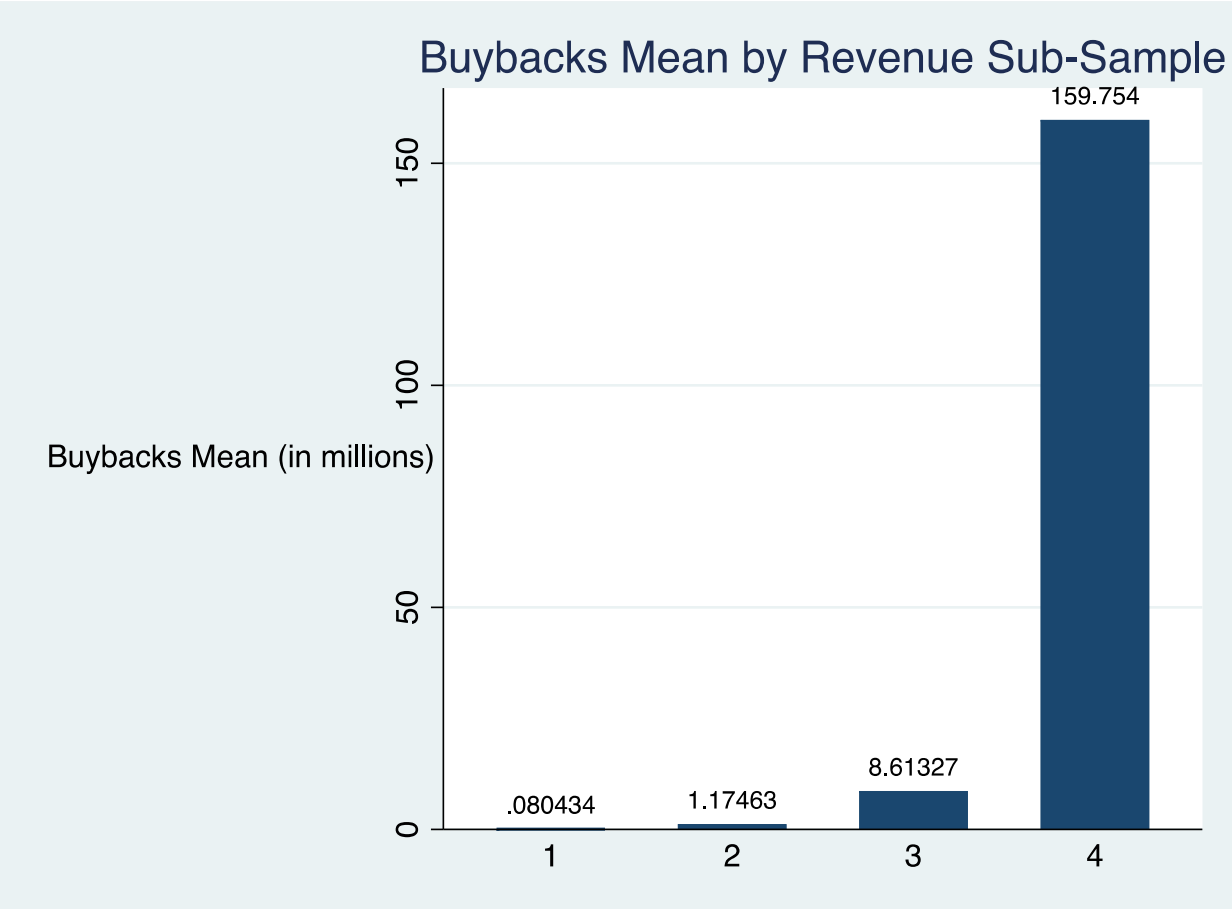
University of Massachusetts Amherst

November 6, 2019

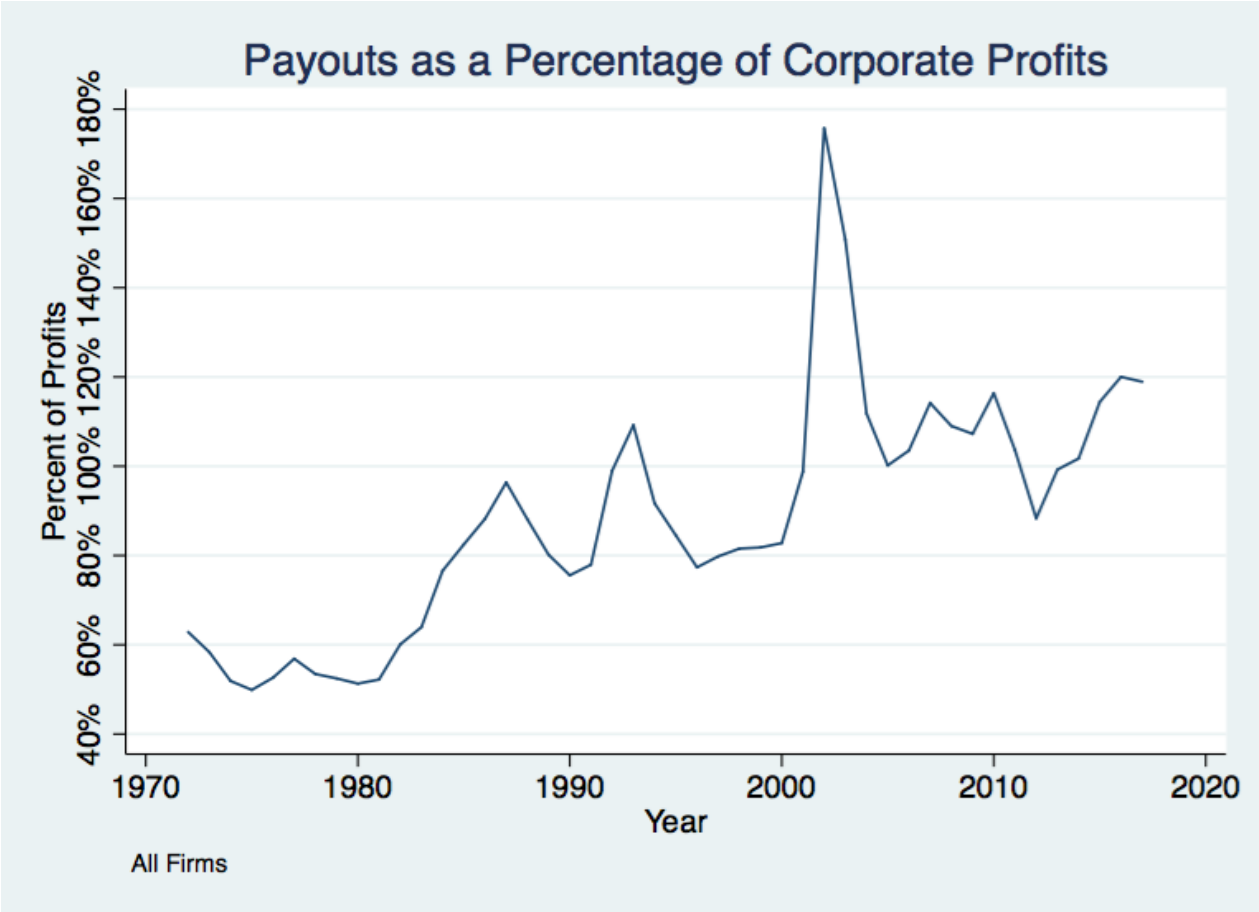
Growth of Shareholder Payments & Stock Buybacks



Buybacks are Concentrated in Large Firms



Profits are Increasingly Devoted to Shareholder Payments



Stock Buybacks, Dividends and Profits over the past 10 years

(in millions) (non-FIRE, publicly-traded corporations, as reported in Compustat)

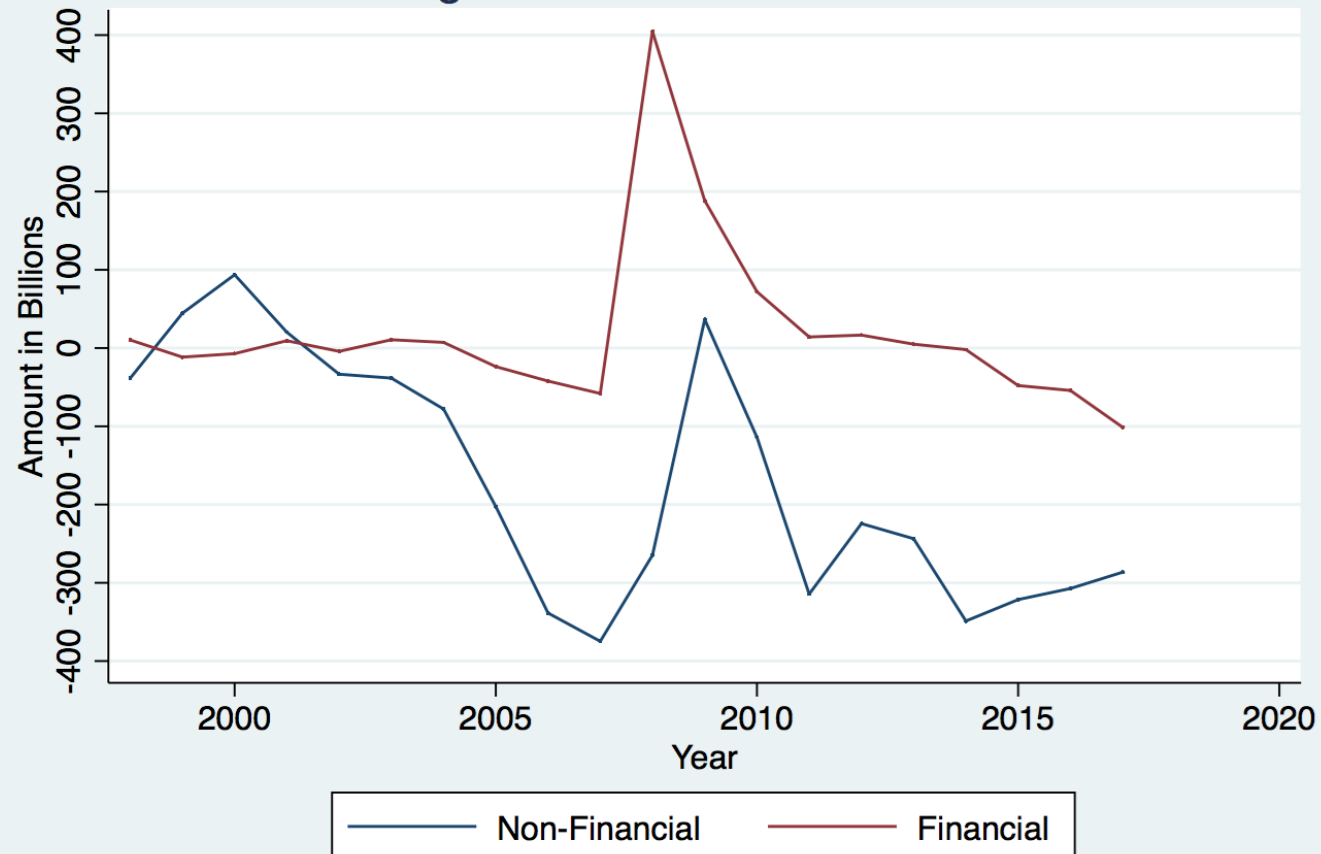
Year	Buybacks/ Profit Ratio	Dividend/ Profit Ratio	Shareholder Payments/ Profit Ratio
2008	90%	72%	161%
2009	20%	42%	62%
2010	32%	35%	67%
2011	43%	35%	78%
2012	42%	49%	91%
2013	47%	44%	91%
2014	59%	52%	112%
2015	92%	86%	178%
2016	64%	64%	128%
2017	45%	50%	95%
AVERAGE	50%	50%	100%

Accompanied by Rising Corporate Debt



Funds are Not Recirculating to Other Publicly-Traded Companies

Figure 1. Total Net Issuances

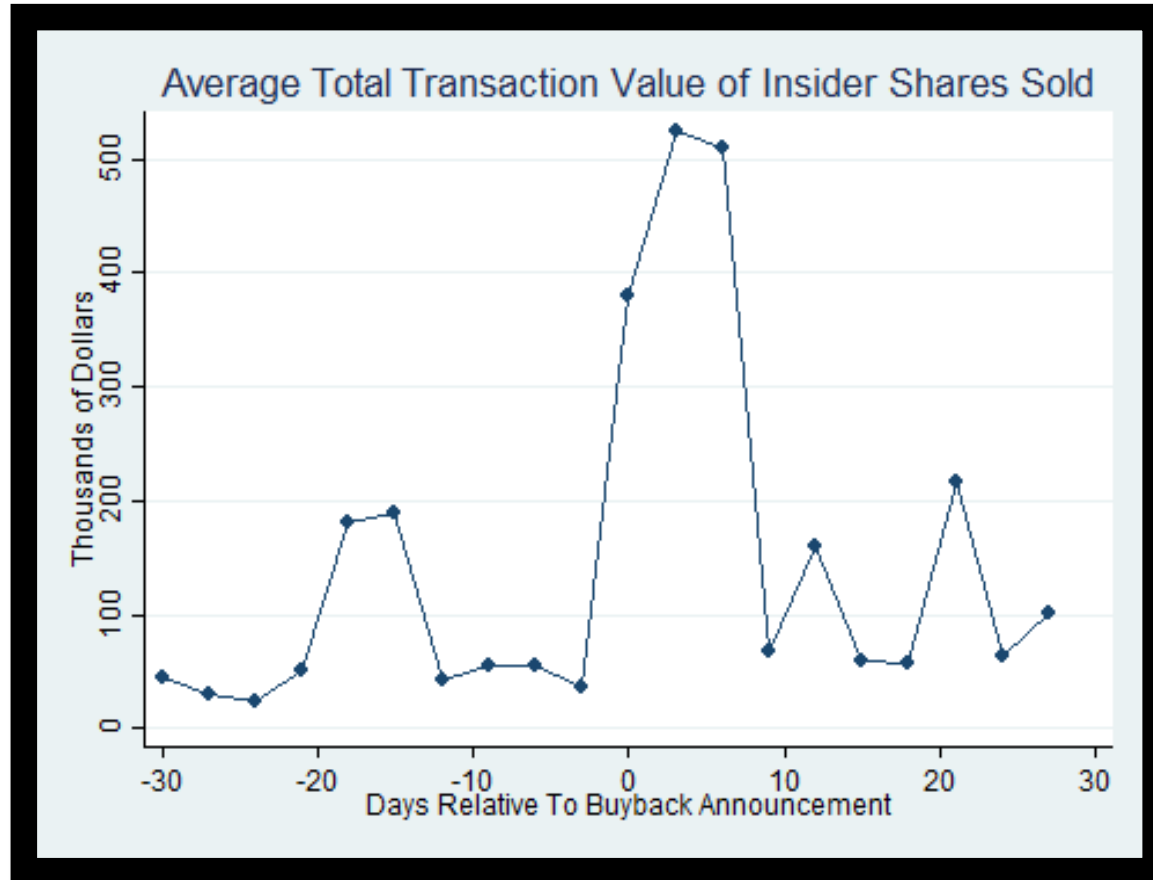


Net issuances (new equity issuances – stock buybacks) negative for all but one of the last fifteen years for non-financial corporations.

TABLE 1. NET EQUITY ISSUANCES BY SECTOR		
Sector	Total Net Issuances (in Billions)	
	1998 to 2007	2008 to 2017
Agriculture, Forestry, Fishing, and Hunting	\$0.83	-\$12.27
Mining, Quarrying, and Oil and Gas Extraction	-\$1.21	\$158.90
Utilities	\$5.18	\$86.33
Construction	-\$2.98	-\$7.90
Manufacturing	-\$645.02	-\$1,478.24
Wholesale Trade	-\$5.11	-\$14.94
Retail Trade	-\$170.15	-\$396.80
Transportation and Warehousing	\$20.20	\$74.31
Information	-\$82.09	-\$577.25
Finance and Insurance	-\$197.11	\$228.70
Real Estate and Rental and Leasing	\$87.70	\$266.80
Professional, Scientific, and Technical Services	\$16.91	-\$62.81
Administrative and Support and Waste Management and Remediation Services	-\$11.41	-\$29.07
Educational Services	-\$2.27	-\$5.96
Health Care and Social Assistance	-\$24.66	-\$20.66
Arts, Entertainment, and Recreation	\$3.20	\$2.09
Accommodation and Food Services	-\$32.83	-\$90.03
Other Services (except Public Administration)	-\$2.73	-\$3.08
Unknown	-\$11.86	-\$11.32

The table expresses the change in net equity issuances over time for all two-digit sectors, using data on publicly traded corporations from Compustat.

Do Corporate Insiders use Stock Buybacks for Personal Gain?



- Executives and other employees compensated in stock are motivated to buy back stock because they are **profiting from the resulting inflated share prices.**
- They are selling personal holdings more often and at a higher value in the days immediately after a buyback announcement than at other times. **There are no legal barriers in the U.S. to disincentive announcing buyback programs and personally benefitting.**

Joint Occurrences of Corporate Insider Share-Selling and Stock Buybacks

Full Sample (N = 120,391)	Net Insider Sales Qtr.	Neutral Qtr.	Net Insider Purchase Qtr.
Buyback Quarter	36.74%	60.8%	2.47%
Non-Buyback Quarter	20.41%	77.48%	2.11%

Top 25% by Revenue (N = 30,346)	Net Insider Sales Qtr.	Neutral Qtr.	Net Insider Purchase Qtr.
Buyback Quarter	45.55%	52.27%	2.18%
Non-Buyback Quarter	37.50%	60.04%	2.46%

Joint Occurrences of Corporate Insider Share-Selling and Stock Buybacks

Lagged Insider Sales	Coefficient	Std. Error	P Value
Same Quarter	0.056	0.009	0.000***
One-quarter lag	0.034	0.007	0.000***
Two-quarter lag	0.019	0.007	0.014
Four-quarter lag	0.007	0.007	0.356
Eight-quarter lag	-0.019	0.008	0.159

Research from “Do Corporate Insiders use Stock Buybacks for Personal Gain?”
Available Here: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3472047