The Daily Dish

Stock Buybacks and the TCJA

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Eakinomics: Stock Buybacks and the TCJA

The repurchase of shares, more commonly known as stock buybacks, has become the left's favorite argument that the Tax Cuts and Jobs Act (TCJA) "isn't working." A representative indictment was offered up by Senator Sheldon Whitehouse at a recent hearing of the Senate Finance Committee (at 1:46:52): "Let me ask first, Ms. Kysar and Mr. Kamin, to respond to, if you wish, Mr. Holtz-Eakin's comments, about the stock buybacks. The information that we have right now is that the tax bill has produced $260 billion in stock buybacks and $6.5 billion in bonuses and raises, which if my rough math is correct, which is about $40 in stock buybacks for every single dollar in bonuses and raises. Mr. Holtz-Eakin seemed to view that with some equanimity; I wonder what your view is of that ratio and of the value of these stock buybacks."

That's pretty standard stuff. The interesting part is that the Democrats' home team witnesses refused to bite. Rebecca Kysar: "I don't think we [can] judge too much from bonuses or buybacks. I think it's too early to tell what's happening." David Kamin: "So, I'd first agree with both Prof. Kysar and Dr. Holtz-Eakin that we are early on."

Why didn't they just agree with the question? Because it is wrong. Consider:

1. *Stock buybacks do not enrich shareholders*. The TCJA impacts the value of corporate equity investments in complicated ways. The rate cut increases the value of equity. The move to a territorial system with a tax on deemed repatriation modestly cuts this increase in value for those with large accumulated overseas earnings (other things being equal). The imposition of expensing increases the value of growing firms with new investments (again, other things equal). But stock buybacks do not make shareholders richer. A stock buyback is simply the exchange of valuable stock for the same value in cash. It has no impact *per se* on anyone's wealth.

2. *Relatively few shareholders are rich people*. According to authors from the liberal Tax Policy Center, less than one quarter of corporate stocks are held by taxable accounts (and people are not the only taxable accounts, so the number of individuals is even smaller). The largest share (37 percent) is held by retirement plans, as well as insurance companies and non-profits. Stock buybacks do not create riches and are not targeted at the affluent.

3. *The economic impact depends on the final transaction; the buyback is the first*. When the shareholder receives the cash, he or she can plow it back into the financial system in the form of another stock, bond, or the like. Those funds become available to entrepreneurs, small businesses, and companies to make investments. As they do, the quality and quantity of tangible and intangible capital rises and new business models are formed. These are the foundation of higher productivity, which will translate to higher wages. I will be the first to acknowledge that it is too early to judge the ultimate success of the TCJA in this regard. But I am dead sure that one learns nothing about this success or failure from stock buybacks.

Stock buybacks are an empty critique of the tax reform. It is a critique devoid of understanding what creates value, who directly benefits from wealth creation, and how the pursuit of better value generates widespread prosperity.

It’s also just a little weird for the left to make this argument at the same time that it is busily turning state and local tax codes into pretzels in order to deliver a direct tax benefit to relatively wealthy Americans (who are the ones most affected by limits on state and local tax deductibility). Weird is in the eye of the beholder. But their economic logic around stock buybacks is just wrong.