

Worst Coronavirus Idea: A Ban on Share Buybacks

They're good for ordinary investors and for economic growth.

By Donald L. Luskin and Chris Hynes

Democrats insist that any government aid to businesses laid low by the Covid-19 crisis be conditioned on compliance with a laundry list of progressive demands. Sen. Elizabeth Warren would require, among other things, that to receive aid firms must institute a \$15 minimum wage, set aside board seats for workers, and obtain shareholder approval for any political expenditures. Of all her proposals, perhaps the most damaging economically in the long run is her insistence that companies receiving aid be permanently barred from executing share buybacks, even after the aid is repaid.

This is an opportunistic mutation of the left's longstanding claim that buybacks are a uniquely evil form of predatory capitalism. In reality, buybacks create benefits for shareholders large and small, and are a valuable source of cash for many of the people progressives claim to care about, especially retirees.

For some reason progressives don't object when companies pay money out to shareholders through dividends. Buybacks are superior because they give shareholders a choice. Shareholders must receive a dividend when it's declared and pay taxes on it. In a share buyback, investors who want cash can sell some shares and pay taxes. If they don't want cash, they can choose to hold on to their shares.

This is exactly why Warren Buffett's Berkshire Hathaway has never paid dividends but does buy back its stock. Progressives love to quote Mr. Buffett when he argues for higher tax rates. But they never mention his view on buybacks.

Some opponents of buybacks—including Sen. Marco Rubio, hardly a progressive—argue that they waste company cash that ought to be reinvested in plant and equipment. But not every company is in growth mode, and even those that are might have more cash than growth ideas. Within Mr. Buffett's portfolio of companies, if See's Candies is showing a huge profit, do we really need to insist that it build more stores? Maybe there are already enough.

Paying money out to shareholders frees them to reinvest in new companies with big growth ideas. This is the best way to promote growth for the economy as a whole. At a time like this, when so many sacrifices are being made for the sake of the health of the overall community, surely we don't want to force companies to hoard their capital, any more than we want people to hoard toilet paper.

Democrats are trying to use the firms most in distress now to set a precedent for depriving ordinary investors—and the economy as a whole—of the benefits of share buybacks. We can

have a debate about buybacks, and the \$15 minimum wage, and everything else on the progressive list of demands. But let's have debate, not blackmail, and let's have it after the crisis has passed.

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