The Aviation Industry and Stock Buybacks as a Wall Street Greed Tool

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Stock buybacks enrich wealthy investors and corporate executives while artificially inflating the value of remaining stocks, increasing economic inequality, and putting Wall Street power before workers. Aviation unions are fighting to change this with their No Stock Buyback campaign.

What are stock buybacks? How much has the airline industry invested in stock buybacks in the last decade?

Stock buybacks occur when a company purchases its own stock shares on the open market. Companies do this for two reasons. First, stock buybacks are one way that companies distribute profits to shareholders. Second, because stock buybacks reduce the number of shares on the open market, the value of the remaining stocks typically increases. Shareholders and company executives with stock options benefit from both the money they receive when their shares are bought back by the company, as well as the increased value of the remaining shares that they continue to own.

In the aviation industry, stock buybacks have proliferated as a way of funneling airlines' profits into the pockets of wealthy shareholders and executives instead of investing the money in the workforce and aviation operations that improve travelers' flying experience. From 2010 to 2019, major U.S. airlines spent 96% of free cash flow on stock buybacks.

Stock buybacks prioritize the short-term distribution of profits to a privileged few over reinvesting the money in the longer-term stability, growth, and operations of the company, particularly in preparation for unforeseen circumstances and market changes. In the five years before the COVID-19 pandemic, United, Southwest, American and Delta spent more than $39 billion in stock buybacks. Airlines spent profits enriching wealthy investors for over a decade, and when hard times hit the airline industry in 2020, travelers and workers immediately felt the impact of the aviation industry's investment in Wall Street instead of employees, operations, and cash reserves.

As airlines post their highest earning in years, aviation unions are currently calling for airlines to prioritize investing in safe staffing numbers on flights and at airports, as well as operational stability that benefits travelers and reduces flight cancelations and delays, before spending one dime on Wall Street stock buybacks for the rich.

How is it legal for a company to buy its own stocks and inflate the price of remaining shares? What is the history and current impact of stock buybacks?

Because stock buybacks inflate the value of remaining shares, before 1982 they were generally considered a form of market manipulation by the United States Securities and Exchange Commission (SEC) under the Securities and Exchange Act of 1934. While the SEC proposed rules during the 1970s to regulate stock buybacks, they ultimately adopted a deregulatory stance that more fully legalized stock buybacks in 1982 with SEC Rule 10b-18, which serves as a "'safe harbor' from liability for manipulation."

In other words, by legalizing stock buybacks in 1982, Wall Street has been able to siphon trillions of dollars to wealthy investors and executives instead of fair compensation for workers and improved services for consumers. Since the passage of SEC Rule 10b-18 in 1982, the practice of corporate stock buybacks has skyrocketed. In 1980, U.S. corporations bought back $6.6 billion of their own stock. However, in 2021, companies spent an astronomical $881.7 billion on stock buybacks, breaking quarterly and annual records. In 2021, companies spent 69.9% more on stock buybacks than in 2020 and a staggering 13,259% more than in 1980 before the SEC deregulated and further legalized stock buybacks.

Following a theory of "shareholder primacy," corporate boards privilege shareholders' investments and financial risk by paying out short-term profits through stock buybacks. While corporations have a responsibility to maximize value for their shareholders, stock buybacks are a short-sighted method of distributing profit instead of reinvesting in the longer-term development of the workforce and airline operations. In other words, shareholders' short-term gains lead to long-term pain for workers and consumers as stakeholders who generate value for companies but face staffing shortages, increased costs, and reduced company investment in operations.

For instance, while U.S. families and workers struggled with financial hardships coming out of the 2020 COVID pandemic, including shifts in the job markets and increased costs for food, gas, and other necessities, in 2021 Wall Street lined the pockets of wealthy investors and corporate executives with hundreds of billions of dollars in record-breaking stock buybacks. Consumers faced increased costs that were, in part, the result of corporate "greedflation," where unfettered and under-regulated accumulation of profits concentrated increased wealth in the hands of a privileged few able to increase consumer prices, suppresses employee wages, and authorize stock buybacks for personal financial gain. Additionally, investors pay minimal taxes on buybacks versus dividend payments meaning that the rich amass more personal wealth instead of paying a fair-share of taxes that support schools, fire fighters, libraries, and other shared public services.

How do stock buybacks impact economic, racial, ethnic, and gender inequality in the United States?

Airlines' established practice of massive stock buybacks mirrors a pattern of behavior by U.S. corporations in which, instead of investing in their future operational stability and current workforce, companies have redirected profits to executive compensation and buybacks that drive up remaining stock prices. These stock buybacks contribute to expanding and accelerating economic inequality in the United States, benefiting the rich at the expense of fairly compensating workers who provide the labor that creates corporate wealth in the first place.

Stock ownership is concentrated in the hands of the wealthiest Americans with middle and working class families in the lower 60% income bracket in the U.S. owning only 7% of stocks by value. Moreover, stock ownership and buybacks exacerbate racial and ethnic economic disparities. While over half of white families own stock, only one-third of Black families and one-quarters of Latino families have stock holdings.

The disparity between stock ownership based on economic, ethnic, and racial factors results in an unprecedented concentration of wealth in the hands of the top 1% who own 53% of stocks. As a result, in 2021, the top 1% of earners held more wealth than the entire middle class in the U.S. combined. During the height of the pandemic, the wealth of the world's ten richest people – all men – doubled, growing from $700 billion to $1.5 trillion from March 2020 and November 2021. In contrast, particular populations, such as Black women, have felt especially acute economic impacts of the pandemic, including 36% of Black mothers not working or working less because of pandemic childcare and education disruptions.

So it's not just the airlines that use this tool – workers and consumers across industries feel the effects of extracting cash from the business. While the richest 1% in the U.S. and global elite have benefited from unprecedented gain, particularly during the pandemic, the majority of workers have seen their wages functionally decrease with inflation and their work hours become more insecure and unpredictable. Aviation workers even put negotiations on hold for years, delaying negotiations over working conditions and pay, to contribute to the airline industry's recovery and stability. Also, travelers have felt the crunch of canceled flights, higher fares, and added expenses for things like seating assignments, luggage, or food and beverage service, even as airlines such as United and American have returned to post-pandemic profitability. Now is the time to make sure that aviation workers receive a fair contract and airline travelers have dependable flight scheduling and service.

How do workers combat Wall Street greed and economic inequality through their unions?

When workers come together to form unions, they establish a democratic structure that gives employees a voice in their workplace. While unions might function on national or international levels, their base and source of power are the local workers and members who compose the union.

Historically, when union density is high, economic inequality decreases. In other words, when more workers are part of unions, the gap between the rich and the working class decreases. Why? Workers in unions engage in collective bargaining, a process through which employees negotiate a legally binding contract with their employer that addresses wages, hours, benefits, and other terms and conditions of employment. In non-unionized workplaces, bosses unilaterally dictate pay and other working conditions. However, in unionized workplaces, workers are able to join together in solidarity to bargain a contract that guarantees employees get their fair share of the wealth their labor creates. In unionized workplaces, employees covered by a collective bargaining agreement make about 13% higher wages than workers with similar education, experience, and jobs in a non-unionized facility. This increase in wages mean that workers have more money to spend in their communities on goods and services.

Unions serve as a vital counterbalance to an ever-widening gap between CEO and median worker pay that contributes to economic inequality in the United States. As union membership across the United States has decreased over that last 50 years, the CEO to median worker pay gap has increased. In 1965, CEOs were paid about 15 times more than a median worker. By 2020, CEOs made an average of 235 times more than the typical worker in the middle pay range. For S&P 500 companies, the CEO-to-worker pay gap was 342 to 1 in 2021.

Moreover, during the same period that CEO pay has ballooned, workers have become more productive, but the income that they generate is not proportionately reflected in workers' pay, leading to a growing worker productivity–pay gap. If wages kept up with increases in worker productivity, the federal minimum wage in the United States would be over $20 today instead of $7.25, which it has remained at for 13 years, the longest period in U.S. history since federal minimum wage legislation was passed in 1938 as part of the Fair Labor Standard Act. As more people become aware of the escalating wage and productivity gaps that workers face, it is, perhaps, unsurprising that in 2022, U.S. approval rate of unions hit 71%, the highest since 1965.

If workers' pay isn't keeping up with their increased productivity, where does the additional profit that workers produce go? In simplest terms, the money ends up in the pockets of CEO's. The disparity between CEO and worker pay is greatest at the 300 U.S. companies with the lowest paid employees, such as Amazon, Lowes, Target, Best Buy and other retail chains. At these low-workers-wage companies, on average, CEOs make 670 times more than their median workers. This means that the CEO makes more in half a day than the typical worker makes in an entire year! Forty-nine of these low-worker-wage companies paid CEOs an egregious 1,000 times more than the median worker. Amazon topped the list, paying its CEO 6,474 times that of the typical Amazon worker.

How does this relate to stock buybacks? In 2021, two-thirds of low-worker-wage companies where employee pay was cut nonetheless spent billions of dollars on stock buybacks, including 67 companies that spent $43.7 billion on stock buybacks, while worker pay did not keep pace with inflation or productivity. Overall, in 2021, corporations spent record amounts on stock buybacks while overall worker pay decreased when adjusted for inflation and productivity, which has continued to outpace compensation steadily since the 1970s. meaning that employers are extracting more labor from workers while offering them less pay.

However, through their unions, aviation workers are currently bargaining contracts with major airlines to assure workers get their fair share of profits, are able to staff flights at safe levels for travelers, and can meet public demands during operational challenges. Additionally, workers and their unions have been successful in lobbying for legislation that that protects both aviation workers and maintains the airline industry for travelers during the pandemic.

Why am I hearing more about airline stock buybacks in the news? How do stock buybacks effect the airline industry, my travel experience, and the aviation workforce?

While airline stock buybacks are not new, they were briefly paused during 2020-2022. Specifically, money that airlines received through the Payroll Support Program (PSP), initially part of the 2020 CARES Act and extended under subsequent legislation, set financial regulations on airlines receiving program funds, including capping executive compensation and banning stock buybacks for a period of time.

The inclusion of these strict rules in the Payroll Support Program was significantly shaped by aviation workers' unions lobbying for the needs of their members and recognizing that, in addition to their workers, travelers also benefit from airlines' investment in operations and staffing instead of spending money on executive and shareholder profits. Airline unions originally proposed banning stock buybacks for seven years after the relief period ended to ensure the industry could fully recover with new labor contracts and a better passenger experience, but the political makeup of Congress and the White House at the time the CARES Act was negotiated leaned heavily toward Wall Street and the ban was set at just one year beyond the relief period.

The ban on airline stock buybacks is set to expire September 30, 2022. After a "summer of airline chaos" for aviation workers and air travelers, airlines are poised to return to investing in stock buybacks when, through August 2022, over one million flights had been delayed and flight cancellations were 11% higher than before the pandemic.

Stock buybacks not only result in potential market manipulation and increased economic inequality; they direct profits away from investment in long-term employee compensation and operational improvements. The No Stock Buybacks campaign calls on the airline industry to "invest in the people on planes and all the workers who make them fly." Specifically, airlines should address operational issues, staff the airlines with enough people to meet the demands of the American public, and conclude contract negotiations before one dollar is sent to Wall Street through stock buybacks. With about 45,000 canceled flights and 472,000 delays between June 1 to August 18, 2022, airline travelers deserve operational stability over corporate greed. Aviation employees deserve fair contracts that recognize the contribution of airline workers in sustaining the industry through the pandemic, as well as the health and safety challenges they continue to report, including the 85% of flight attendants who dealt with unruly passengers; 17% who were physically assaulted by passages; and 60% who were subjected to racist, sexist or homophobic slurs during incidents during the pandemic.

What can I do to make a difference?

Support for the No Stock Buybacks campaign represents one significant step in holding corporations responsible for prioritizing how they treat their employees and consumers, not just their executives and investors. Add you name to the “Invest in People, Not Wall Street Petition”!

To learn more about how Wall Street greed shapes the aviation industry see: Wall Street Privity Equity Investment in the Big Four U.S. Airlines