

SELECT SUBCOMMITTEE ON THE CORONAVIRUS CRISIS

PRIORITIZING WALL STREET: **THE FED'S CORPORATE BOND** **PURCHASES DURING THE** **CORONAVIRUS PANDEMIC**

STAFF ANALYSIS
SEPTEMBER 23, 2020



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On March 23, 2020, the Federal Reserve System (Fed) announced that, for the first time in its more than 100-year history, the Fed would directly purchase corporate debt as part of its response to the economic crisis caused by the coronavirus pandemic.ⁱ The announcement sent bond markets surging, resulting in record-breaking issuances of corporate debt. In June 2020, the Fed began purchasing individual corporate bonds through its Secondary Market Corporate Credit Facility, a lending facility backed by CARES Act funds.ⁱⁱ Since June, the Fed has purchased corporate bonds issued by approximately 500 large companies.

The Secondary Market Corporate Credit Facility lacks taxpayer and worker protections included in other programs funded by the CARES Act. In particular, the facility imposes no conditions requiring companies to save jobs or limit payments to executives or shareholders to become eligible issuers of bonds purchased by the Fed.

Select Subcommittee on the Coronavirus Crisis staff analyzed the Fed's most recent disclosures about its corporate bond purchases and compared the transactions to public data on layoffs, dividend payouts, and legal violations. Staff found that the companies that issued bonds purchased by the Fed conducted substantial layoffs and paid billions in dividends to shareholders during the pandemic, raising concerns that the Fed's bond purchasing program may be exacerbating economic inequities and contributing to an economic recovery that benefits wealthy executives and investors but leaves behind American workers. Staff also found that the Fed bought bonds issued by companies who had been accused of illegal conduct, and that Fed bond purchases were disproportionately weighted towards oil, gas, and coal companies.

Fed Chair Jerome Powell testified in June that "the intended beneficiaries of all of our programs are workers."ⁱⁱⁱ In May, he justified purchasing corporate bonds that had been downgraded to junk status since the start of the coronavirus crisis by stating that, because of the Fed's intervention, "those companies have been able to go out and finance themselves. They've been able to avoid big layoffs. That is the point of all this."^{iv} However, the Select Subcommittee's analysis indicates that many large layoffs have occurred among the companies whose bonds were purchased by the Fed, suggesting that the primary beneficiaries of the program have been corporate executives and investors, not workers.

Select Subcommittee staff found that the Fed bought corporate bonds issued by:

- Companies that **laid off a total of more than one million** workers since March 2020;
- **383 companies that paid dividends** to their shareholders during the pandemic;
- **227 companies accused of illegal conduct** since 2017; and
- A disproportionate number of **fossil fuel companies**, which accounted for 10% of the Fed's bond purchases but employ just 2% of workers at larger companies.

I. COMPANIES THAT FURLOUGHED OR LAID OFF A TOTAL OF MORE THAN ONE MILLION WORKERS SINCE MARCH 2020

Of the approximately 500 companies that issued bonds purchased by the Fed, roughly 140 conducted furloughs or layoffs during the coronavirus crisis, affecting approximately 1,001,000 workers.^v Examples include:

- **Boeing** turned down a CARES Act loan, which would have imposed job retention requirements, limitations on executive pay, and restrictions on payouts to shareholders. Instead, it issued a massive corporate bond offering following the Fed's announcement of its corporate credit facilities, thanking the Fed for its intervention in the market.^{vi} Boeing then laid off more than ten percent of its workforce, totaling about 16,000 employees.^{vii}
- **Raytheon** announced this month that it will lay off 15,000 employees, an increase from the 8,500 layoffs the company planned in July.^{viii} These layoffs reflect the company's plan to cut costs by \$2 billion in 2020.^{ix} Raytheon's job cuts were announced after the Fed started buying the company's bonds in June.
- **Schlumberger Ltd.**, the world's largest oil-field services company, cut about 21,000 jobs in July, approximately one-fifth of its workforce, after the Fed started purchasing its bonds.^x

II. 383 COMPANIES THAT PAID DIVIDENDS TO THEIR SHAREHOLDERS DURING THE PANDEMIC

The Fed has purchased bonds issued by 383 companies that have paid out dividends to their shareholders since April 1, 2020.^{xi} 95 of these companies issued dividends while also conducting layoffs, prioritizing their shareholders over their workers in the midst of the pandemic. For example:

- Food service company **Sysco Corp.** laid off about a third of its workforce just one month before paying a dividend to its shareholders.^{xii}
- **Caterpillar** announced a \$500 million distribution to shareholders on April 8, about two weeks after indicating that operations at some plants would stop, furloughing workers.^{xiii}
- **Stanley Black & Decker** announced a \$106 million dividend to shareholders two weeks after it announced that it was planning significant furloughs and layoffs.^{xiv}

III. 227 COMPANIES ACCUSED OF VIOLATING THE LAW SINCE 2017

Almost half of the companies whose bonds were purchased by the Fed have been accused of illegal conduct since 2017, including violations of workplace safety and environmental standards, as well as allegations of defrauding the government.^{xv} These violations resulted in \$19.75 billion in penalties for these companies over just the last three years. For example:

- **Marathon Petroleum**, the 33rd worst air polluter in the nation,^{xvi} has repeatedly violated environmental laws, including violating state emissions limits near Detroit fifteen times, releasing 35,800 gallons of diesel into a river in Indiana, and spending \$334 million to settle a dispute over refinery pollution.^{xvii}
- **Tyson Foods**, a multinational food processing company, has been cited by the Department of Labor for at least thirty-five workplace safety or health violations since 2017 and at least five environmental violations from the Environmental Protection Agency. Tyson Foods also failed to take adequate precautions to protect workers from the spread of the coronavirus. Outbreaks in its facilities have led to the deaths of more than 24 employees and over 7,000 infections.^{xviii}
- **AmerisourceBergen**, a wholesale drug company, and its subsidiaries paid \$885 million in 2017 and 2018 to resolve criminal and civil allegations that it illegally repackaged lifesaving cancer drugs to increase profits by overcharging federal health care programs.

IV. A DISPROPORTIONATE NUMBER OF FOSSIL FUEL COMPANIES

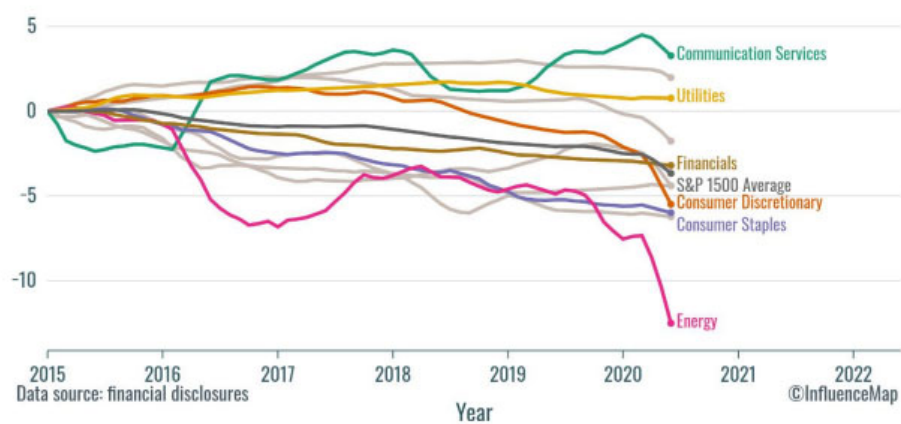
More than ten percent of the Fed's bond purchases are from fossil fuel companies, even though fossil fuel firms only employ two percent of all workers among the S&P 1500 stock market index.^{xix}

The Fed developed a "Broad Market Index" to guide its corporate bond purchases and states that its purchases generally track the weight of eligible issuers along twelve sectors.^{xx} However, recent analysis shows that the only sector in which the Fed is consistently overweight is the energy sector, which exclusively contains oil, gas, and coal companies.^{xxi}

Investing in oil, gas, and coal companies not only fuels climate change, but it is also a risky investment given longer term declines in the sector. In July and August 2020, 13 oil and gas producers filed for bankruptcy, and bankruptcies this year are up 62 percent over this time last year.^{xxii} Prior to January 2020, the energy sector showed the most deterioration in credit risk across all sectors over the past five years and the second worst deterioration over the past 20 years. The sector has shown a further five percent decline since the start of 2020, reflecting the recent decline in oil and gas prices.^{xxiii}

Change in Bond Ratings of Sectors in the S&P 1500

Change in the 3-month running average of issuer ratings since 2015 (%)



BlackRock—which executes the bond purchases on behalf of the Fed—has recognized that “climate risk is investment risk.”^{xxiv} Yet the Fed, acting on behalf of U.S. taxpayers, has purchased a disproportionate amount of fossil fuel bonds.

ENDNOTES

ⁱ Federal Reserve, *Press Release: Federal Reserve Announces Extensive New Measures To Support the Economy* (Mar. 23, 2020) (online at www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm).

ⁱⁱ *The Fed Begins Purchases of Up to \$250 Billion in Individual Corporate Bonds*, Business Insider (June 15, 2020) (online at <https://markets.businessinsider.com/news/stocks/federal-reserve-begins-individual-corporate-bond-purchases-secondary-market-relief-2020-6-1029309910#>).

ⁱⁱⁱ Committee on Financial Services, Testimony of Chair Jerome H. Powell, Board of Governors of the Federal Reserve System, *Hearing on Monetary Policy and the State of the Economy* (June 17, 2020) (online at <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=406614>).

^{iv} *Powell Says Fed Policies ‘Absolutely’ Don’t Add to Inequality*, Bloomberg (May 29, 2020) (online at www.bloomberg.com/news/articles/2020-05-29/powell-says-fed-policies-absolutely-don-t-add-to-inequality).

^v To calculate this number, Select Subcommittee staff reviewed public reporting about each of the companies that issued bonds purchased by the Fed, including media reports, Worker Adjustment and Retraining Notifications (WARN) Act notices, and public filings.

^{vi} *Boeing’s Debt Now Larger than New Zealand’s After Huge Bond Sale: Boeing Rejects Government Bailout Money But Takes on \$25 Billion in New Debt To Do So*, Washington Post (May 1, 2020) (online at www.washingtonpost.com/business/2020/04/30/boeing-raises-25-billion-massive-bond-sale-turns-down-bailout-funds/).

^{vii} *Boeing Plans More Job Cuts On Top of 16,000 Announced This Spring*, CNN (Aug. 18, 2020) (online at www.cnn.com/2020/08/18/business/boeing-more-job-cuts/index.html).

^{viii} *Raytheon to Lay Off 15,000 Employees Amid \$2B Cost-Savings Initiative*, Hartford Business Journal (Sept. 17, 2020) (online at www.hartfordbusiness.com/article/raytheon-to-lay-off-15000-employees-amid-2b-cost-savings-initiative).

^{ix} *Raytheon Earnings Beat as Costs Slashed Amid Aviation Collapse*, Investor’s Business Daily (July 28, 2020) (online at www.investors.com/news/raytheon-earnings-q2-2020-raytheon-stock-rtx/).

^x *Schlumberger Cuts 21,000 Jobs Amid Historic Oil Downturn*, Wall Street Journal (July 24, 2020) (online at www.wsj.com/articles/schlumberger-cuts-21-000-jobs-amid-historic-oil-downturn-11595591476).

^{xi} To calculate this number, Select Subcommittee staff compared the list of companies that issued bonds purchased by the Fed with publicly available data about dividend distributions.

^{xii} *The Fed Helped Companies Borrow Money. Some Laid Off Thousands Anyway*, NPR (June 10, 2020) (online at www.npr.org/2020/06/10/873190315/the-fed-is-throwing-money-around-not-everyone-is-reaping-the-benefits).

^{xiii} *U.S. Companies Cut Thousands of Workers While Continuing to Reward Shareholders During Pandemic*, Washington Post (May 5, 2020) (online at www.washingtonpost.com/business/2020/05/05/dividends-layoffs-coronavirus/).

^{xiv} *Id.*

^{xv} To conduct this analysis, Subcommittee staff used data from Good Jobs First’s Violation Tracker. *See* Violation Tracker, Good Jobs First (online at www.goodjobsfirst.org/violation-tracker).

^{xvi} Political Economy Research Institute, *Marathon Petroleum* (online at <https://grconnect.com/tox100/ry2017/index.php?search=yes&company2=4274>) (accessed on Sept. 19, 2020).

^{xvii} *The Fed Invested Public Money in Fossil Fuel Firms Driving Environmental Racism*, Bailout Watch (Sept. 15, 2020) (online at <https://bailoutwatch.org/blog/fed-invested-public-money-in-fossil-fuel-firms>).

^{xviii} *COVID-19 Outbreaks at Tyson Foods Plants Sicken Nearly 5,000 Workers*, Expert Institute (June 25, 2020) (online at www.expertinstitute.com/resources/insights/covid-19-outbreaks-at-tyson-foods-plants-sicken-nearly-5000-workers/); *Tyson Reverts to its Pre-Pandemic Absentee Policy. More Than 7,100 Workers Have Tested*

Positive for COVID-19, Including Hundreds in Recent Weeks, Business Insider (June 8, 2020) (online at www.businessinsider.com/tyson-ends-covid-19-policy-as-more-workers-get-sick-2020-6).

^{xix} *The Fed Invested Public Money in Fossil Fuel Firms Driving Environmental Racism*, Bailout Watch (Sept. 15, 2020) (online at <https://bailoutwatch.org/blog/fed-invested-public-money-in-fossil-fuel-firms>).

^{xx} Federal Reserve Bank of New York, *FAQS: Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility* (Aug. 14, 2020) (online at www.newyorkfed.org/markets/primary-and-secondary-market-faq/corporate-credit-facility-faq).

^{xxi} *A Financial Analysis of the US Federal Reserve's Corporate Bond Market Interventions*, InfluenceMap (Sept. 18, 2020) (online at <https://influencemap.org/report/Is-the-Fed-Being-Sector-Neutral-3a1294e4de3b6275fae9370d6f68cc70>).

^{xxii} Haynes & Boone, LLP, *Oil Patch Bankruptcy Monitor* (Aug. 31, 2020) (online at www.haynesboone.com/-/media/Files/Energy_Bankruptcy_Reports/Oil_Patch_Bankruptcy_Monitor).

^{xxiii} *Necessary Intervention or Excessive Risk? Corporate Bond Risk Before and After COVID-19 Amid the Fed's Buying Programs*, InfluenceMap (June 2020) (online at <https://influencemap.org/report/Necessary-Intervention-or-Moral-Hazard-5e42adc35b315cc44a75c94af4ead29c>).

^{xxiv} Letter from Chairman and CEO Larry Fink, BlackRock, to CEOs (Jan. 14, 2020) (online at www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter).