Hager, Sandy Brian; Baines, Joseph

Working Paper

Does the US Tax Code Encourage Market Concentration? An Empirical Analysis of the Effect of the Corporate Tax Structure on Profit Shares and Shareholder Payouts

Roosevelt Institute

Does the US Tax Code Encourage Market Concentration?

An Empirical Analysis of the Effect of the Corporate Tax Structure on Profit Shares and Shareholder Payouts

By Sandy Brian Hager and Joseph Baines

December 2023

FOREWORD:

TAXING MONOPOLIES

After decades of policy choices privileging ever-larger corporate behemoths, our economy is now ruled by a small clique of super-sized, dominant firms. These corporations have concentrated markets to their liking, resulting in few checks and balances that push back against these firms hiking prices, while simultaneously depressing wages and good jobs, decreasing productivity and innovation, embrittling supply chains, and exacerbating racial injustice. In turn, super-sized firms exert super-sized political influence—crowding out popular participation and citizen decision-making in our democracy.

For good reason, excessive market power is widely decried across the political divide. Federal and state antitrust agencies have begun to reclaim their rightful roles in checking excess market power. But antitrust agencies cannot take on this important task alone. Tax policy has historically played a complementary function in trust-busting. Yet today, taxation remains overlooked both as a driver of current levels of market concentration and as a tool to remedy the problem.

Our Taxing Monopoly series explores how today's tax policies strengthen dominant, incumbent corporations at the cost of workers and small businesses, and how a rethinking and rewriting of the tax code can work alongside other antimonopoly tools to curb the excessive economic and political power of large corporations and their owners.

Our latest contribution to this series, by Sandy Brian Hager and Joseph Baines, provides fresh empirical analysis to understand the effect of the US tax code on market concentration. A vivid picture emerges from their data, which tells us a lot about how one-sided our economy has become. The largest firms in America have increasingly captured more and more of the share of profits available. Today, the top 10 percent of corporations control 95 percent of profits—compared to 75 percent in the 1970s. What role does the tax code play? The authors find that today—in contrast to five decades ago—the US tax structure contributes to profit concentration at the top of the corporate hierarchy. The tax code today, in other words, seems to be providing an important structural competitive advantage to large, super-profitable corporations over their smaller competitors. How has big business responded to its tax advantage? The authors find that contrary to the "bigger-is-better" school, the most profitable corporations—driven by a shareholder-first business model—have not used their tax advantages to increase productive capacity but instead to double down on paying out shareholders.

At a time of much uncertainty around the future of the US tax code, the aim of our Taxing Monopolies series is to help spawn a different way of thinking about taxation. Taxation raises revenue and can help redistribute economic gains—and we certainly need more of both. But tax policy also, by nature, shapes market activity. We can continue to use taxation to double down on today's brittle, winner-takes-all, hoarding economy. Or—as we hope this series illustrates—we can use the power to tax in a way that restructures markets to create a more innovative, equitable, and multiplayer economy.

– Niko Lusiani, Roosevelt Institute, Director of Corporate Power

Does the US Tax Code Encourage Market Concentration? An Empirical Analysis of the Effect of the Corporate Tax Structure on Profit Shares and Shareholder Payouts

EXECUTIVE SUMMARY

Concerns about the market power of large corporations are growing. There are good reasons why monopoly now features so prominently on the political and economic agenda. Mounting evidence shows that corporate concentration stifles innovation and investment, resulting in lower-quality goods and services and less economic dynamism. Concentration is also a catalyst for rising wealth and income inequality, as monopolistic firms are able to suppress workers' wages and charge consumers higher prices.

Most of the public policy debate has been focused on the role of antitrust law in combating the monopolistic practices of large corporations. But recently, the focus has shifted somewhat, as more and more people come to recognize the role of federal and state-level taxation in understanding corporate concentration in the US. Yet, there are still many questions about the effect of taxation on market structure: Is there a tax advantage associated with bigness, as measured by revenues? If so, is this advantage confined to a few "bad apples" or is it widespread among large corporations? What role do the domestic and foreign tax systems play in encouraging monopoly power? What does an analysis of the relationship between tax and monopoly tell us about wider macroeconomic shifts in the US economy over the past few decades?

The purpose of this brief is to address these questions by analyzing and comparing the overall effects of the US tax code on the profit share of large and smaller corporations.

Our analysis reveals a striking tax advantage for big business in the US. Specifically, we find that the total post-tax profit share of the top 10 percent of listed corporations since the mid-1980s is consistently and significantly higher than their total pre-tax profit share, indicating that the overall tax structure (domestic and foreign) fuels profit concentration at the top of the corporate hierarchy. For example, in the most recent period covered in our analysis, 2019–2022, the overall tax structure has boosted the post-tax profit share of large corporations by 2.32 percentage points relative to their pre-tax share. We then assess the contribution of different tax jurisdictions to concentration by estimating the pre-tax and post-tax profit shares of large corporations, domestically and internationally. Here, our analysis reveals that the domestic tax structure is especially influential in driving concentration. Over the past four decades, the domestic post-tax profits of large corporations have been much larger than their pre-tax share, with the domestic tax structure augmenting the profit share of large corporations by 3.79 percentage points in 2019–2022. The effect of the foreign tax structure on profit concentration is more ambiguous. In most periods it is either slightly positive or slightly negative. For 2019–2022, the foreign post-tax profit share of large corporations was 0.87 percentage points higher than their pre-tax share. Based on these findings, we argue that the tax structure, especially the domestic tax structure, plays a crucial but still underappreciated role in exacerbating the monopoly problem.

We go on to consider the wider consequences for the US economy of big business's tax advantage. The political justification for corporate tax cuts—including those that were part of the Tax Cuts and Jobs Act (TCJA) of 2017—is that they would free up money for companies to invest in productive capacity, in turn generating higher employment and wages. But as our analysis shows, the capital expenditures of large

corporations tend to decrease, not increase, when their tax advantage grows. Instead of fueling productive investment, the tax savings of large corporations are principally used to pay out dividends and buy back their own stock. This means that large corporations are less disposed to investments that may indirectly benefit ordinary workers and more disposed to shareholder value enhancement that directly benefits the asset-rich. Overall, we find that the tax system contributes in crucial ways to rising corporate concentration and to widening inequality among households.

With the objective of leveling the playing field, our findings offer powerful justification for the restoration of graduated statutory corporate income tax rates in the US alongside a global minimum effective tax rate of 25 percent and a graduated excise tax on share buybacks. The monopoly problem has become endemic to US capitalism, and corporate tax reform on its own will not solve it. Yet one clear advantage of taxation is that it has a direct, and therefore much more easily discernible, effect on distributive outcomes compared to other policy measures. A more holistic approach, combining corporate tax reform with more robust antitrust regulation, the strengthening of workers' rights, and increased public ownership in key sectors, is needed to build an economy based on equity, fairness, and prosperity for all.

INTRODUCTION

In recent years there have been growing concerns about the market power of large corporations. As ordinary Americans suffer through a period of turmoil and disruption—often described as a "polycrisis" or "permacrisis" (Spicer 2022; Tooze 2022), corporate giants continue to tighten their grip over the economy. Consider, for example, the COVID-19 pandemic, which supercharged the profits of already dominant corporations in the technology and pharmaceutical sectors. Or the energy crisis, which has breathed new life into the fossil fuel giants that, in an era of climate breakdown, many had thought (or hoped) were in a state of terminal decline. What's more, the monopoly problem isn't just about Big Tech, Big Pharma, or Big Oil (Stewart 2021). Corporate concentration pervades the entire economy, in sectors ranging from airlines to hardware stores, rental cars, health care, food and agribusiness, and pretty much everything in between (Leonhardt 2018).

The market power of large corporations has risen to the top of the political and economic agenda for good reasons. Mounting evidence shows that corporate concentration stifles innovation and investment, resulting in lower-quality goods and services and less economic dynamism. Concentration is also a catalyst for rising wealth and income inequality, as monopolistic firms are able to suppress workers' wages and charge consumers higher prices. The pricing power of large corporations has taken critical importance in the current macroeconomic environment of persistently high inflation (Konczal and Lusiani 2022). In fact, a recent study by economists at the Federal Reserve Bank of Boston found that market concentration is a key "amplifying factor" in recent inflationary dynamics (Bräuning et al. 2022).

Most of the public policy debate has been focused on the role of antitrust law in combating the monopolistic practices of large corporations. But recently the focus has shifted somewhat, as more and more people come to recognize the role of taxation in understanding corporate concentration (Clausing 2023; Lusiani 2022). With an estimated federal income tax rate of just 6 percent, the e-commerce giant Amazon offers a striking example of how the tax code fosters monopoly (Gardner 2022). As Stacy Mitchell

and Susan Holmberg (2023) show, from the mid-1990s to 2018, Amazon exploited loopholes to avoid charging sales tax to its customers residing in states in which it lacked physical presence. In Amazon's early phase of development, this loophole allowed it to gain a crucial advantage over its rivals, predominantly brick and mortar retailers that had a physical presence in most states and that were therefore forced to collect sales tax. In addition to promising job creation in exchange for tax breaks and development subsidies, Amazon has also engaged in elaborate schemes to shift profits to low-tax jurisdictions such as Luxembourg. Mitchell and Holmberg argue that Amazon has used profits that could have been taxed to consolidate its dominance over cloud computing and to expand into new sectors including groceries and health care.

Awareness of the ways in which taxation fosters monopoly is growing. But there are still many questions that require more systematic research about the relationship between tax and market structure. Is the tax advantage confined to a few "bad apples," or is it widespread among large corporations? What role do the domestic and foreign tax systems play in encouraging monopoly power? What does an analysis of the relationship between the tax system and monopoly tell us about wider macroeconomic shifts in the US economy over the past few decades?

The purpose of this brief is to address these questions by analyzing and comparing the aggregate effects of the US tax code on the profit share of large and small corporations. If the profit share of large corporations decreases after taxes are paid, this suggests that the tax code reduces market concentration. If, on the other hand, the profit share of large corporations increases post tax, the tax code could be said to be increasing market concentration on balance. This method of comparing pre-tax and post-tax income shares has commonly been used in tax incidence studies to gauge the distributive effect of government policy (see Piketty et al. 2018). As far as we are aware, ours is the first study to apply this method in the context of corporate profit concentration (i.e., inequality between corporations rather than individuals). Profit shares in this sense serve a dual function in this study: Not only do they allow us to assess the role of tax in redistributing profit, they are also a proxy for the extent to which large corporations have control over markets. In other words, the higher the post-tax profit share of large corporations, the more their implied market power (and vice versa). Higher profit shares signal market power because they entail greater resources to raise prices, as well as to lobby the government to shape policy in the interests of large corporations (Kalecki 1971; Konczal and Lusiani 2022).

The brief is organized into three sections. Section 1 maps out the overall pre-tax and post-tax profit shares of the top 10 percent of listed corporations, then disaggregates this analysis domestically and internationally. Section 2 examines the consequences of the uncovered tax advantages of big business. Section 3 briefly concludes with some proposals on how to redesign the tax system such that it curbs, rather than incentivizes, monopolistic tendencies by US corporations.

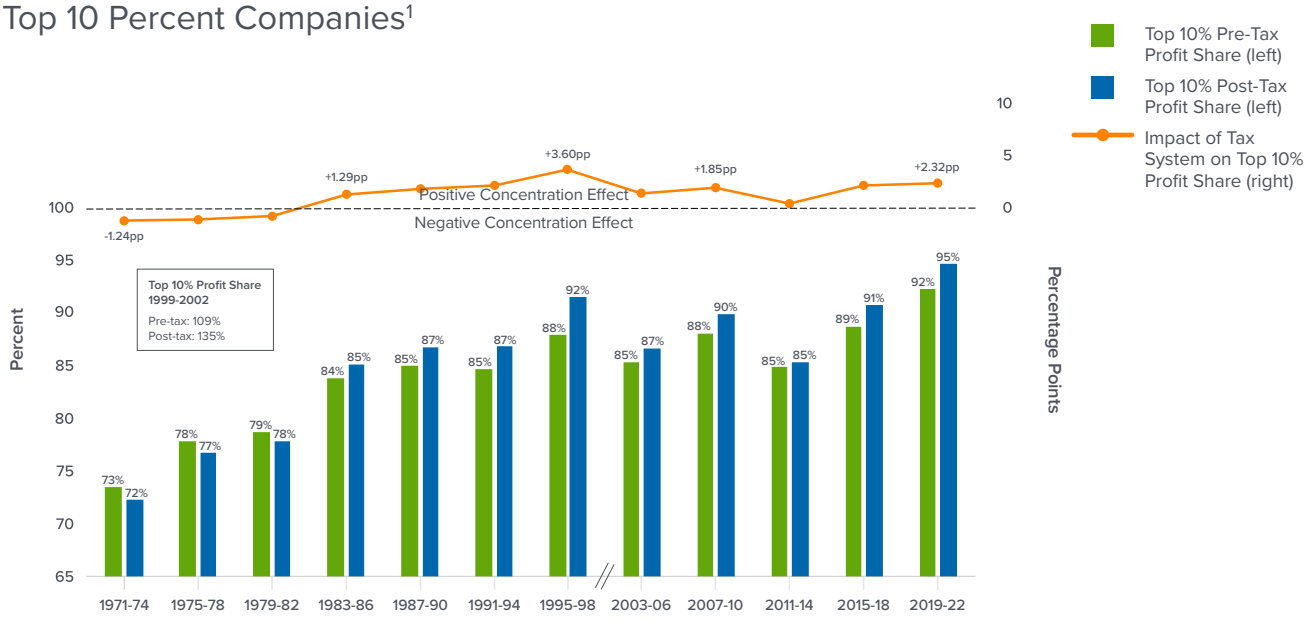
I. WHAT DOES THE DATA SAY ON THE TAX ADVANTAGES OF BIG BUSINESS?

Our analysis focuses on US-headquartered, publicly listed nonfinancial corporations. The data in this study is drawn from Compustat, a financial database for publicly traded companies. In the appendix at the end of this brief we provide information on the variables employed, the rationale for examining pre- and post-tax profit shares, and the filtering procedures. To formulate our size cohorts, we rank corporations by revenues, using the top 10 percent as our proxy for large corporations, and the bottom 90 percent as our proxy for smaller and medium-sized corporations which actually compete with the largest corporations.

OVERALL PROFIT SHARES

Figure 1 shows the overall distribution of profit in the nonfinancial corporate sector. The green bars at the bottom of the figure indicate the pre-tax profit share of large corporations and the blue bars their post-tax profit share. The line above the bars shows the net effect of tax on the level of corporate concentration. When the pre-tax profit share of the top 10 percent is higher than the post-tax share, this means, by definition, that the tax structure has a negative effect on (i.e., reduces) concentration (and vice versa). As we see, from the 1970s to the early 1980s, the overall tax structure—combining both domestic and foreign—had a negative effect on concentration, reducing the profit share of large corporations. But from the mid-1980s onwards, the tax structure starts to increase concentration by reducing the tax burden of the top 10 percent at the expense of smaller corporations.

Figure 1. Overall Pre- Versus Post-Tax Profit Share of the Top 10 Percent Companies[1]



1 Source: Compustat.

For decades now, smaller corporations have been at a distinct disadvantage, as the overall tax structure has contributed to profit concentration at the top of the corporate hierarchy. The tax advantage for big business coincides with a series of other developments fueling corporate consolidation, including accelerated globalization and a changing regulatory environment brought in part by the loosening of antitrust policy (Abernathy et al. 2019). It should therefore come as no surprise that the tax structure's persistent positive effect on concentration has taken place simultaneously with an increase in the post-tax profit share of large corporations. In the early 1970s, the top 10 percent of corporations took home 72 percent of post-tax profits. Today, this share has climbed to 95 percent. In this sense, the growing tax advantage of large corporations and their rising market power are two sides of the same coin.

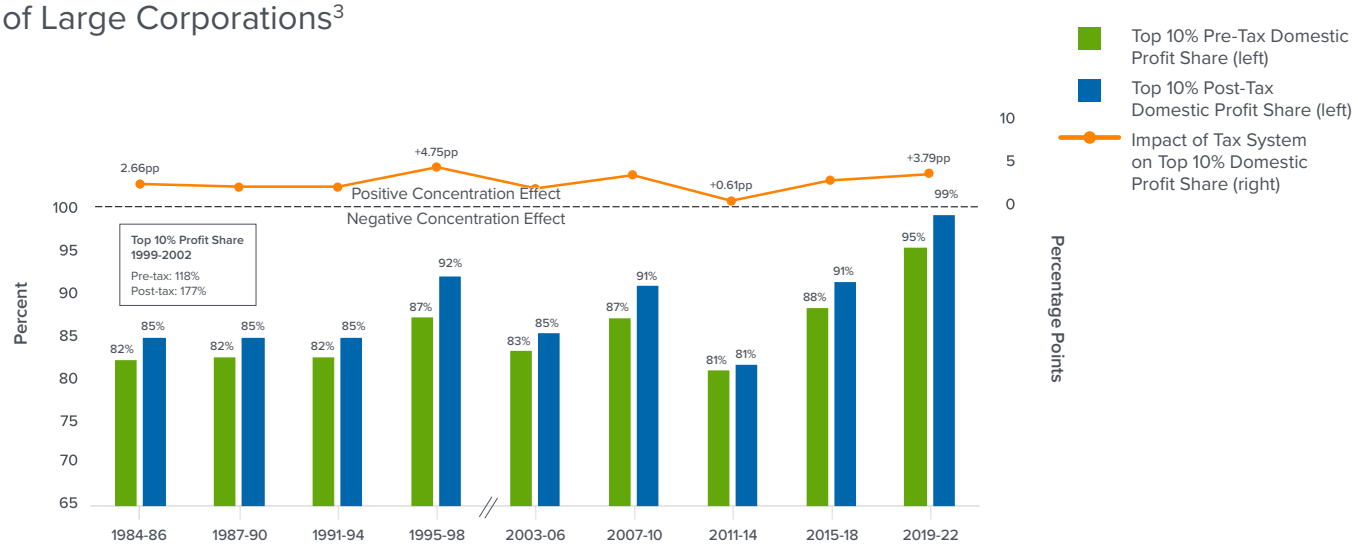
DISAGGREGATING PROFIT SHARES BY JURISDICTION

To get a sense of what is driving the concentration effect of the overall corporate tax structure since the mid-1980s, we now turn to an analysis of pre- and post-tax profit shares broken down by tax level or jurisdiction. Our dataset allows us to break down total profits and total taxes into their foreign and domestic components. This means that we can measure the profits US corporations receive domestically, as well as the taxes they pay to the federal and state governments, to formulate domestic profit shares. Similarly, we can measure the profits US corporations receive abroad, as well as the taxes they paid to foreign governments, to formulate foreign profit shares.

We start by analyzing the effect of the federal and state tax codes on domestic profit shares at the top. Figure 2 provides a breakdown of profit shares for the top 10 percent of US nonfinancial corporations before and after imposition of US federal and state taxes. What immediately stands out in Figure 2 is the severe and persistent concentration effect of the domestic tax structure in a positive direction. In each period, the federal and state tax structure works to redistribute profits in favor of large corporations. In the most recent period from 2019–2022 we see that large corporations capture almost 4 percent more of the domestic profit share when factoring in state and federal taxes. We also see that the profit share of the top 10 percent has been gradually climbing, from 85 percent in 1984–1986 to 99 percent in 2019–2022.[2]

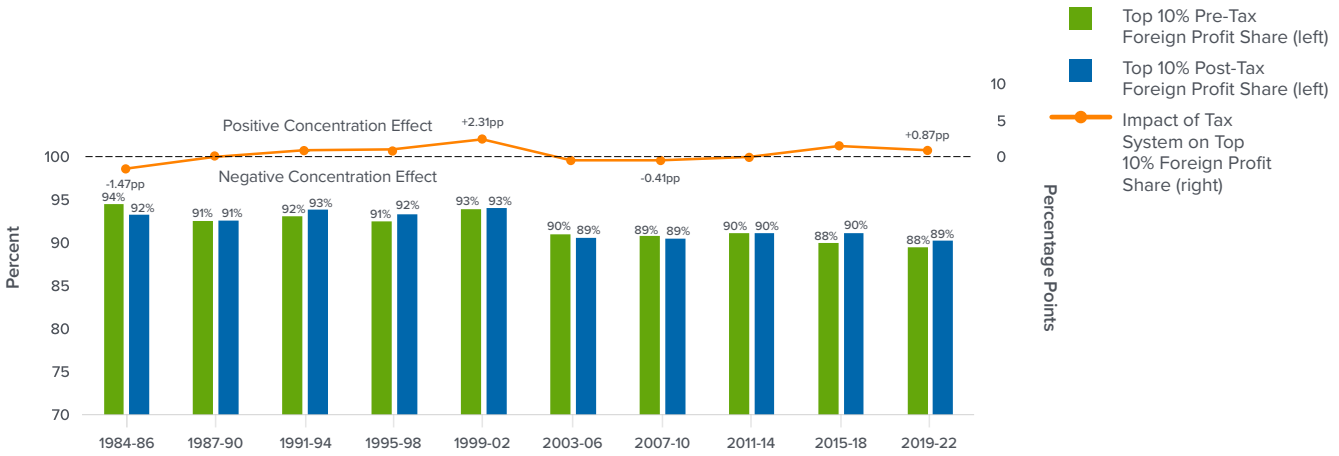
2 Note that due to the prevalence of losses (negative profits) within the bottom 90 percent, the profit share of the top 10 percent could technically climb above 100 percent.

Figure 2. Effect of Federal and State Tax on the Domestic Profit Share of Large Corporations[3]



Next, we analyze the effect of foreign taxation on foreign profit shares. In Figure 3 we see a measure of the foreign pre- and post-tax foreign profit share of the top 10 percent. When it comes to the foreign tax structure, the situation is less clear-cut. Aside from the period from 1999–2002 when the foreign tax structure boosted the profit share of the top 10 percent by 2.31 percentage points, the concentration effect tends to be either mildly positive or mildly negative. In the most recent period from 2019–2022, the foreign tax structure lifted the foreign profit share of the top 10 percent by 0.87 percentage points. The foreign profit share of the top 10 percent has fallen slightly from 92 percent in 1984–1986 to 89 percent in 2019–2022. Even though large US corporations receive an outsized share of the foreign profits generated by US companies, this share has decreased slightly through the era of globalization and is not nearly as significant as their domestic profit share.

Figure 3. Effect of Foreign Tax on the Foreign Profit Share of Large Corporations[4]



3 Source: Compustat.

4 Source: Compustat.

What may seem counterintuitive in these figures is the fact that the domestic federal and state tax structure seems to have more of an effect on the concentration of profits than the foreign tax structure. When we think of the tax advantage of big business, we tend to think of giant multinationals with the power and resources to shift profits to low-tax jurisdictions, especially tax havens. Large corporations have a slight foreign tax advantage. But as Figures 2 and 3 make clear, the federal and state tax structures play an even more significant role in our analysis. Further research is needed into why and how these differences in the tax structures have unfolded over time. The data presented here does, however, suggest that the domestic tax structure should be emphasized in accounting for the persistent tax advantages of big business.[5]

II. WHY DOES THE TAX ADVANTAGE OF BIG BUSINESS MATTER?

Our mapping of pre- and post-tax profit shares reveals a persistent tax advantage for big business in the US, one that is driven inordinately by the federal and state tax structure. What are we to make of this tax advantage of big business? In other words, what are the consequences of the tax system persistently redistributing profits in favor of large corporations? Proponents of supply-side economics, for example, are unlikely to be concerned with the findings presented above. According to the textbook supply-side logic, any corporation with a tax advantage will enjoy a lower cost of capital, which should incentivize it to increase productive investment. As companies expand productive capacity in response to favorable tax conditions, they will hire more workers, increasing the demand for labor which in turn can drive up wages.

If we operate within the supply-side logic, the expectation is that large corporations will respond to any persistent tax advantage by ramping up investment, ensuring prosperity for all. According to this view, all corporations—whether large or small—are compelled by the forces of competition to reinvest any tax gains back into productive capacity, otherwise they will lose ground to their rivals.

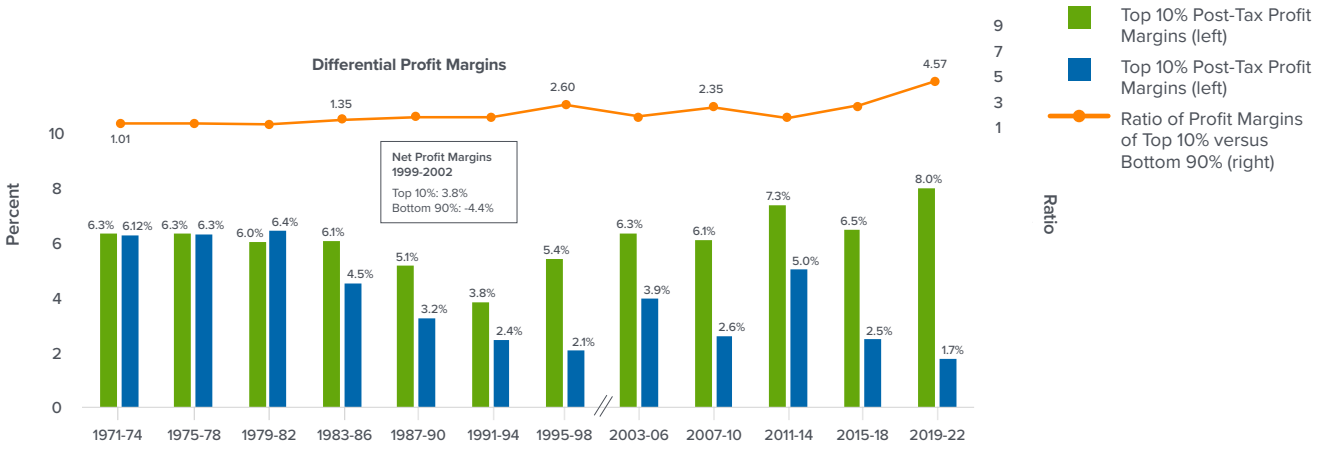
The main problem with the supply-side argument is that the assumption of perfect competition simply doesn't fit with the empirical reality. In fact, the persistent tax advantage of large corporations since the mid-1980s has been accompanied by a consolidation in their monopoly power. As we showed in Section 1 of this brief, as the tax structure has redistributed profit toward large corporations, their share of post-tax profits—a proxy for their control over markets—has increased.

Figure 4 shows further evidence of the extent of this monopoly power. Specifically, the graph shows the net profit margins of large and smaller companies. This can be seen as indexing the markup that Polish economist Michal Kalecki (1971) famously identified as a proxy for the "degree of monopoly" at the level of the firm (Nitzan and Bichler 2009). Put simply, the higher a company's market power, the more it is able to increase its net profit margin, using that power to extract more income from its sales. We see that the

5 Although outside the scope of this brief, a fine-grained qualitative analysis of the key legislative moments that enabled the domestic tax advantage of big business, from the Tax Reform Act of 1986 to the TCJA of 2017, would complement our data-driven approach.

same period in which the overall tax structure benefited smaller US companies (as shown earlier in Figure 1) coincided with the period in which profit margins of the top 10 percent and bottom 90 percent were more or less equal, suggesting a high degree of competition in the US economy. But as the tax structure shifted to benefit large corporations from the mid-1980s onwards, so too did the relative profit margins of large corporations become higher than those of smaller ones. Though we make no claims about the direction of causality, this data illustrates how the tax advantage of big business coincides with a higher degree of monopoly.

Figure 4. Net Profit Margins of the Top 10 Percent and Bottom 90 Percent of US Listed Corporations Over Time[6]

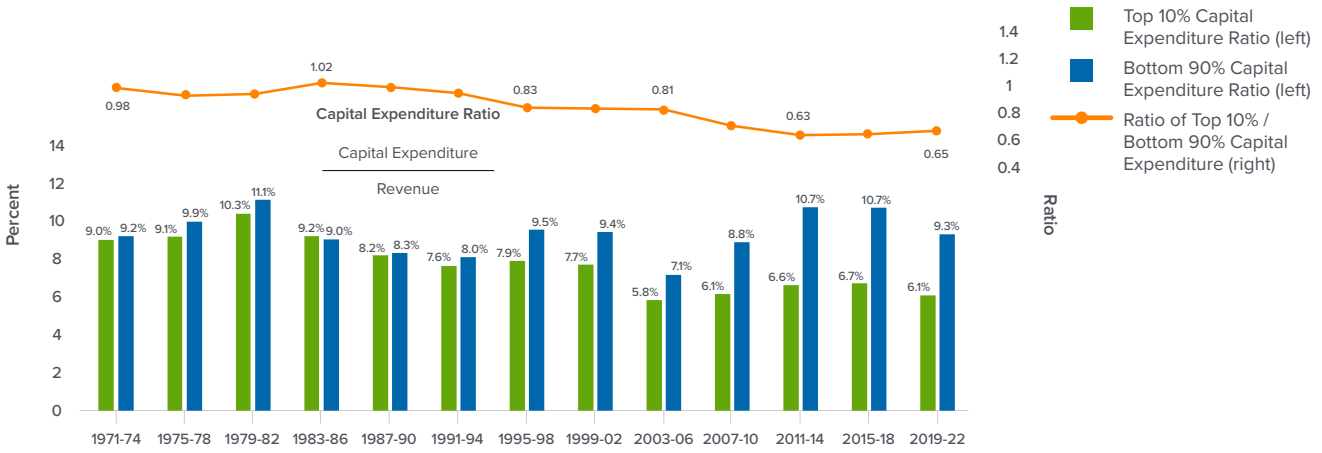


In a real-world economy characterized by monopoly power, there are no guarantees that large corporations will respond to favorable tax conditions by funneling the tax savings back into productive investment (Bivens 2021; Brun et al. 2023; Clausing 2023). After all, in a market structure lacking competitors, companies with monopoly power have very little incentive to invest in the first place, as more investment may entail more output, lower prices, and thinner profit margins.

We next turn to the relationship between the overall corporate tax structure and productive investment. Figure 5 shows capital expenditures, one of the most common measures of investment, for large and smaller corporations as a percentage of their total revenues. We see that the capital expenditures of large corporations have fallen roughly in line with the increase in their tax advantage (as shown in Figure 1). In relative terms, we see that in the 1970s and early 1980s, when the overall tax structure benefited smaller corporations, the capital expenditures of large and smaller corporations were equal. But as the tax advantage of big business persisted and deepened, we see a dramatic fall in the relative capital expenditures of large corporations. In recent years, the capital expenditures of large corporations as a percentage of revenues were 0.65 times the size of smaller corporations.

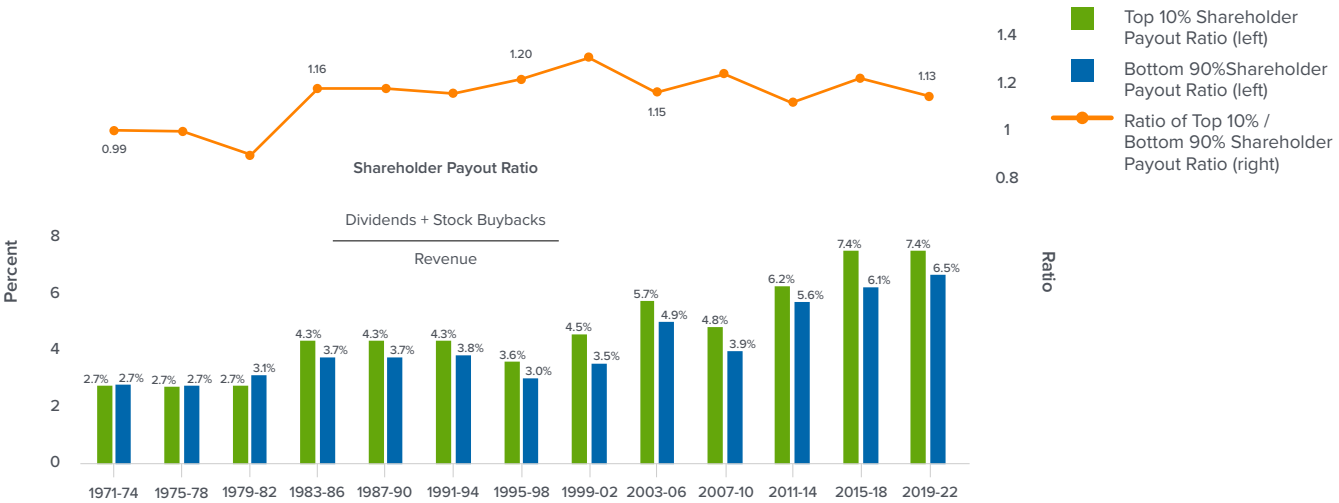
6 Source: Compustat.

Figure 5. Top 10 Percent and Bottom 90 Percent Capital Expenditure Ratios[7]



The evidence in the graph flies in the face of supply-side logic. Over the long-term, large corporations have responded to more favorable tax conditions by scaling back their productive investment rather than increasing it. The empirical picture painted here raises a crucial question. If large corporations have not responded to this tax advantage with higher investment, then what exactly are they doing with increased profit shares that the tax system facilitates? Part of the answer is that they are using that money to enrich their shareholders through increased dividend payments and stock buybacks. Figure 6 plots the amounts that large and smaller corporations spend on dividends and stock buybacks as a percentage of their revenues. We can see that the shareholder payouts of all US publicly listed nonfinancial corporations have been increasing over time, but that the payouts of larger ones have consistently been higher.

Figure 6. Top 10 Percent and Bottom 90 Percent Shareholder Payout Ratios[8]



7 Source: Compustat.

8 Source: Compustat.

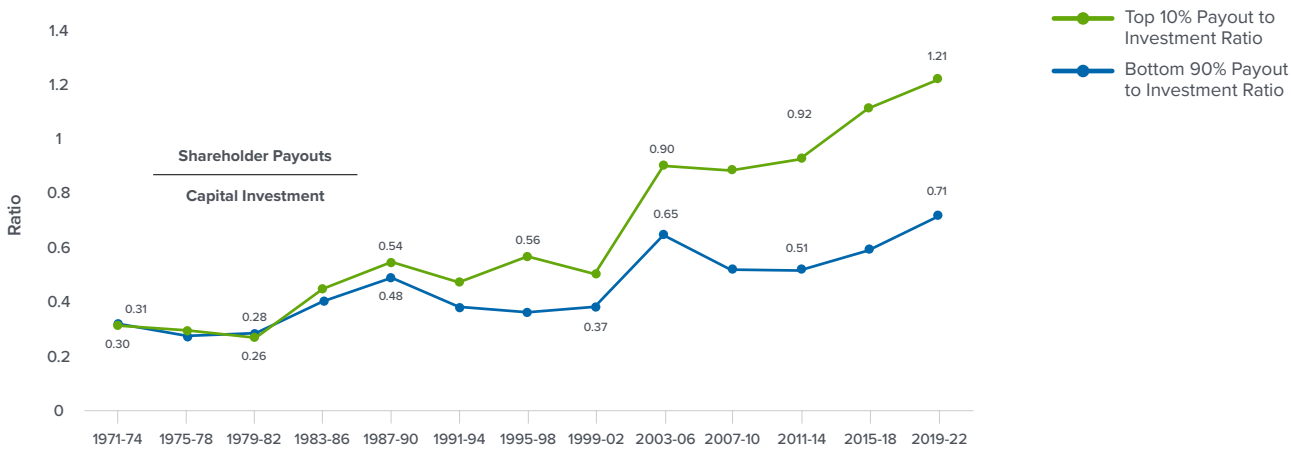
According to the data in Figures 5 and 6, large corporations conform closely to what William Lazonick and Mary O'Sullivan (2000) identified as the "downsize and distribute" model of corporate governance. As an increasingly prominent feature of the US business landscape since the 1980s, this model involves scaling back productive investment in order to maximize value for shareholders. Our research suggests that the tax advantage of big business plays a vital role in facilitating this model of corporate governance, freeing up resources for shareholder enrichment. What is noteworthy in the figure is that smaller corporations have also become more oriented toward shareholder value maximization. Although they have embraced the "distribute" side of the model, they have not downsized their operations, as evidenced in consistently high capital expenditures as a percentage of revenue. It therefore appears that smaller corporations are caught in a bind. On the one hand, like their larger counterparts, they are facing pressures from financial markets to increase the amounts distributed to shareholders. On the other hand, unlike their larger counterparts, they are facing pressures in product markets to increase their productive capacity to surmount significant barriers to entry. This bind has put smaller corporations into acute financial distress, as evidenced in their growing debt servicing costs, a topic we explore elsewhere (Baines and Hager 2021).

We can use the data on capital expenditures and shareholder payouts to make sense of shifting power relations within the firm. In Figure 7, we present an index of shareholder power, which is simply a ratio of shareholder payouts to capital expenditures. Here, we assume that shareholder payouts are a reasonable proxy for the interests of shareholders and managers, while capital expenditures are a reasonable proxy for the interests of ordinary workers.[9] The shareholder power indices offer a staggering picture of transformations in firm-level power relations over the past few decades. From the early 1970s to early 1980s, when the overall tax structure benefited smaller corporations and competition was relatively high, the ratio of shareholder power in large and smaller corporations were more or less identical. But as the overall tax structure started to benefit large corporations from the mid-1980s onwards, we see a divergence, with the power of shareholders becoming much more pronounced in large corporations. In the most recent period from 2019–2022, for every dollar of capital expenditure, large corporations have spent $1.21 enriching their shareholders. Our analysis shows that the rise in shareholder value is universal, but that it has different effects on power relations within large and smaller corporations.

Big business has not responded to its tax advantage by increasing productive capacity. Instead, large corporations have become more oriented toward short-term shareholder value enhancement and less disposed to long-term capital expenditures. According to the Federal Reserve's Distributional Financial Accounts (2023), 89 percent of corporate equities and mutual fund shares are now owned by the wealthiest 10 percent of Americans. The Fed estimates also suggest that white Americans own 90 percent of corporate equities and mutual funds, while Black and Hispanic Americans own 1.1 percent and 0.5 percent respectively (Federal Reserve 2023). Given these wide disparities, we argue that the corporate tax structure is bound up not only with corporate concentration but also widening class and racial inequality.

9 The association of shareholder payouts with shareholder interests should be straightforward. Managers benefit from dividends and stock buybacks because executive pay has become increasingly tied to stock market performance through restricted stock and stock options. Ordinary workers benefit from capital expenditures because they provide the foundation for employment and wage growth.

Figure 7. Top 10 Percent and Bottom 90 Percent Payout to Investment Ratios[10]



III. CORPORATE TAXES AND MONOPOLY POWER: WHAT ROLE IS THERE FOR POLICY?

The research in this brief contributes to a small but growing body of research highlighting the centrality of corporate taxes to America's monopoly problem. For decades now, and increasingly since the early 2000s, big business has enjoyed a clear tax advantage that reinforces its dominant position and fuels rising household inequality. What role then should public policy and regulation play in addressing the unequal power relations at the heart of the tax structure?

Our findings offer powerful justification for short-term measures like an excess profits tax, which have been gaining prominence in policy debates through the COVID-19 pandemic and the energy crisis. Rather than targeting specific sectors, measures such as those proposed by Senator Bernie Sanders (2022), which would apply to the excess profits of all large corporations, are particularly well-suited to address the tax advantage of big business, given its widespread nature. One obvious limitation of short-term measures like excess profits taxes is that they are indeed short-term, intended to redress a temporary, unexpected spike in profits.

10 Source: Compustat.

As our analysis has demonstrated, tax advantages for large corporations and a high degree of monopoly existed long before the current turmoil and are likely to persist long after any excess profits taxes have expired. To meaningfully address the tax advantage of big business there must also be long-term efforts to overhaul the tax code (Wamhoff 2022). At the federal level, the tax advantage of big business could be diminished through the restoration of graduated statutory corporate income tax rates (Avi-Yonah 2020; Clausing 2023), which were eliminated with the introduction of a flat rate of 21 percent with the TCJA. Prior to the TCJA, statutory rates were mildly progressive: 15 percent was levied on the first $50,000 of profit, which gradually increased to a 35 percent rate for profits of $10 million and above. The restoration of graduated statutory rates with much steeper progressivity than the pre-TCJA regime would ensure longer-lasting change to even the playing field (e.g., a rate of 50 percent on profits of $10 billion and above).

Any effort to reform the domestic corporate tax structure must be mindful of the global context in which US business operates. In response to changes that make the corporate tax code more progressive, large corporations could very well threaten to move their activities and shift their profits to lower-tax jurisdictions. The findings in this brief illustrate the need for global tax coordination along the lines of the Organisation for Economic Co-operation and Development (OECD)-led global minimum effective tax rate of 15 percent, which is set to come into force in 2024. Though the global minimum tax is a step in the right direction, we agree with Gabriel Zucman and Gus Werek (2021) that a significantly higher rate is needed to stem the global race to the bottom in tax competition. Their proposed global minimum rate of 25 percent would therefore have a much greater impact than the current OECD provisions.

Finally, our analysis of the consequences of big business's tax advantage suggests that more needs to be done to stem wealth extraction at the top of the corporate hierarchy. The Biden administration acknowledged the problem by including a 1 percent excise tax on stock buybacks in the Inflation Reduction Act (IRA) of 2022. This blanket charge of 1 percent does not, however, address the fact that wealth extraction is concentrated at the top of the corporate hierarchy. As our findings show, it is large corporations that pay out the most to shareholders, and most importantly, large corporations that pay out most to shareholders relative to productive investment. Excise taxes on stock buybacks should reflect these asymmetries. A graduated increase in the excise tax based on the size of the stock buyback (1 percent for annual buybacks below $1 billion, 5 percent between $1 billion and $10 billion, and 10 percent above $10 billion), would better reflect the empirical reality of uneven wealth extraction.

The monopoly problem has become endemic to US capitalism, and corporate tax reform on its own will not solve it. Yet one clear advantage of taxation is that it has a direct, and therefore much more easily discernible, effect on distributive outcomes compared to other policy measures. A more holistic approach, combining corporate tax reform with more robust antitrust regulation, the strengthening of workers' rights, and increased public ownership in key sectors, is needed to build an economy based on equity, fairness, and prosperity for all.

REFERENCES

Abernathy, Neil, Darrick Hamilton, and Julie Margetta Morgan. 2019. *New Rules for the 21st Century: Corporate Power, Public Power, and the Future of the American Economy*. New York: Roosevelt Institute. https://rooseveltinstitute.org/new-rules-for-the-21st-century-learn-more/.

Avi-Yonah, Reuven S. 2020. "A New Corporate Tax." University of Michigan Law & Econ Research Paper No. 20-047. *Tax Notes* Federal 27, (July): 653-650. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3743202.

Avi-Yonah, Reuven S., and Yaron Lahav. 2012. "The Effective Tax Rates of the Largest US and EU Multinationals." *Tax Law Review* 65, no. 3: 375-390. https://repository.law.umich.edu/cgi/viewcontent_cgi?article=2473&context=articles.

Baines, Joseph, and Sandy Brian Hager. 2021. "The Great Debt Divergence and Its Implications for the COVID-19 Crisis: Mapping Corporate Leverage as Power." *New Political Economy* 26, no. 5 (January): 885-901. https://www.tandfonline.com/doi/abs/10.1080/13563467.2020.1865900.

Bivens, Josh. 2021. "The American Jobs Plan's Tax Provisions are Valuable but not the Limit on Possible Spending." *Working Economics Blog* (blog). Economic Policy Institute. April 12, 2021. https://www.epi.org/blog/the-american-jobs-plans-tax-provisions-are-valuable-but-not-the-limit-on-possible-spending/.

Bräuning, Falk, José L. Fillat, and Gustavo Joaquim. 2022. *Cost-Price Relationships in a Concentrated Economy*. Boston, MA: Federal Reserve Bank of Boston, Current Policy Perspectives. https://www.bostonfed.org/publications/current-policy-perspectives/2022/cost-price-relationships-in-a-concentrated-economy.aspx.

Brun, Lídia, Ignacio González, and Juan Montecino. 2023. "New Macroeconomic Model Shows TCJA Corporate Tax Cuts were Harmful to the Economy in Both Aggregate and Distributional Terms." Institute for Macroeconomic and Policy Analysis, April 17, 2023. https://impamodel.org/wp-content/uploads/sites/174/IMPA-Corporate-Tax-Brief-FINAL.pdf.

Clausing, Kimberley A. 2023. "Capital Taxation and Monopoly Power." UCLA School of Law; Peterson Institute for International Economics, April 15, 2023. http://dx.doi.org/10.2139/ssrn.4419599.

Federal Reserve. 2023. "Distributional Financial Accounts Overview." Board of Governors of the Federal Reserve. Last updated September 22, 2023. https://www.federalreserve.gov/releases/z1/dataviz/dfa/.

Gardner, Matthew. 2022. "Amazon Avoids More than $5 Billion in Corporate Income Taxes, Reports 6 Percent Tax Rate on $35 Billion of US Income." Just Taxes Blog, February 7, 2022. https://itep.org/amazon-avoids-more-than-5-billion-in-corporate-income-taxes-reports-6-percent-tax-rate-on-35-billion-of-us-income/.

Hager, Sandy Brian, and Joseph Baines. 2020. "The Tax Advantage of Big Business: How the Corporate Tax Structure Fuels Concentration and Inequality." *Politics & Society* 48, no. 2 (March): 275-305. https://journals.sagepub.com/doi/10.1177/0032329220911778 .

Kalecki, Michal. 1971. *Selected Essays on the Dynamics of the Capitalist Economy*, 1933-1970. Cambridge, UK: Cambridge University Press.

Konczal, Mike, and Niko Lusiani. 2022. "Prices, Profits, and Power: An Analysis of 2021 Firm-Level Markups." Roosevelt Institute, June 21, 2021. https://rooseveltinstitute.org/publications/prices-profits-and-power/.

Lazonick, William, and Mary O'Sullivan. 2010. "Maximizing Shareholder Value: A New Ideology for Corporate Governance." *Economy and Society* 29, no. 1 (December): 13-35. https://www.tandfonline.com/doi/abs/10.1080/030851400360541.

Leonhardt, David. 2018. "The Monopolization of America." *New York Times*, November 26, 2023. https://www.nytimes.com/2018/11/25/opinion/monopolies-in-the-us.html.

Lusiani, Niko. 2022. "Tax and Monopoly Focus: Reframing Tax Policy to Reset the Rules of the Monopoly Game." *Tax Justice Focus Series* 12, no. 2 (October). https://rooseveltinstitute.org/publications/tax-and-monopoly-focus-reframing-tax-policy-to-reset-the-rules-of-the-monopoly-game/.

Mitchell, Stacy, and Susan Holmberg. 2023. "Tax Dodging Is a Monopoly Tactic: How Our Tax Code Undermines Small Business and Fuels Corporate Concentration." Roosevelt Institute and Institute for Local Self-Reliance, March 30, 2023. https://rooseveltinstitute.org/publications/tax-dodging-is-a-monopoly-tactic-how-our-tax-code-undermines-small-business-and-fuels-corporate-concentration/.

Nitzan, Jonathan, and Shimonson Bichler. 2009. Capital as Power: A Study of Order and Credorder, London: Routledge.

Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman. 2018. "Distributional National Accounts: Methods and Estimates for the United States." *The Quarterly Journal of Economics* 133, no. 2 (May): 553-609. https://academic.oup.com/qje/article/133/2/553/4430651.

Sanders, Bernie. 2022. "Sanders Introduces Legislation to Reinstate the WWII Windfall Profit Tax to Combat Rising Inequality, Inflation, and Corporate Profiteering." Press release, Bernie Sanders US Senator for Vermont, March 25, 2022. https://www.sanders.senate.gov/press-releases/news-sanders-introduces-legislation-to-reinstate-the-wwii-windfall-profit-tax-to-combat-rising-inequality-inflation-and-corporate-profiteering/.

Spicer, André. 2022. "If 'Permacrisis' is the Word of 2022, What Does 2023 Have in Store for Our Mental Health?" *The Guardian*, December 30, 2022. https://www.theguardian.com/commentisfree/2022/dec/30/permacrisis-word-of-2022-2023-mental-health.

Stewart, Emily. 2021. "America's Monopoly Problem Stretches Far Beyond Big Tech." *Vox*, July 15, 2021. https://www.vox.com/the-goods/2021/7/15/22578388/biden-hearing-aids-executive-order-lina-khan.

Tooze, Adam. 2022. "Welcome to the Polycrisis." *Financial Times*, October 28, 2022. https://www.ft.com/content/498398e7-11b1-494b-9cd3-6d669dc3de33.

Wamhoff, Steve. 2022. "Excess Profits Tax Proposals Meet the Moment, but Lawmakers Should Keep Their Eye on Fundamentally Fixing Our Corporate Tax." *Just Taxes* (blog). March 25, 2022. https://itep.org/excess-profits-tax-proposals-meet-the-moment-but-lawmakers-should-keep-their-eye-on-fundamentally-fixing-our-corporate-tax/.

World Bank. n.d. "Listed Domestic Companies, Total - United States." World Federation of Exchanges Database. Accessed November 20, 2023. https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?locations=US.

Zucman, Gabriel, and Gus Wezerek. 2021. "This Is Tax Evasion, Plain and Simple." *New York Times*, July 7, 2021. https://www.nytimes.com/interactive/2021/07/07/opinion/minimum-corporate-tax.html.

APPENDIX: METHODOLOGY

The data in this study is drawn from Compustat, a financial database for publicly listed companies. By limiting itself to public corporations, Compustat does not give a comprehensive view of the US business landscape, as it excludes data on pass-through entities such as sole proprietorships, partnerships, and S corporations. Despite these limitations, there is still a wide variation in the size of companies within the bottom 90 percent (see Table A2 below for sample size). For example, the 2022 sample for the bottom 90 percent includes well-known firms such as JetBlue Airways (with assets over $13 billion), as well as more obscure companies such as DriveItAway (with assets of just $293,000).

One method for exploring the relationship between corporate concentration and tax is simply to compare effective tax rates (ETRs)—the actual amount of tax corporations pay as a percentage of their total profits—for large and small corporations (see Hager and Baines 2020). This method has intuitive appeal, but when studying the corporate sector, mapping ETRs is complicated by the prevalence of loss-making (negative profits), especially among smaller corporations. Negative profits render ETRs ambiguous: There is no way to discern whether a negative ETR is the result of paying negative income tax with positive income (a good thing from the perspective of an individual corporation), or paying positive tax with negative income (a bad thing from the perspective of an individual corporation).

There are two ways of dealing with the problem of loss-making in the study of ETRs. One way is to follow Reuven Avi-Yonah and Yaron Lahav's (2012) method of aggregation. Rather than calculate the yearly ETR for each individual company and then average those individual rates, this aggregate method of calculating the ETR sums together the income taxes of all companies in a given sample during a certain period and divides them by the pre-tax income of all companies in that sample during that same period. But even when aggregating tax rates for long periods of five or ten years, we still find that there are negative income tax rates for smaller corporations as a group. What is more, the prevalence of loss-making for smaller corporations means that even positive aggregate ETRs deviate wildly from the statutory tax rates inscribed in law, making them difficult if not impossible to interpret. The other method for dealing with the issue of negative pre-tax income is to simply exclude loss-making companies from the sample. For the purposes of this study, we argue that excluding loss-making companies is misleading because small and medium-sized companies tend to report negative pre-tax income more often than large companies, leading to an overly sanguine picture of the competitive position of the former which may not track with reality (see Hager and Baines 2020).

Comparing pre- and post-tax profit shares instead of ETRs has two main advantages. First, it allows us to retain loss-making companies. Second, it serves as a dual measure, not only of tax advantages but also as a proxy for market power. Simply comparing the ETRs of large and small companies, though important, tells us nothing about how tax advantages translate into control over wider market processes.

Compustat data for the overall pre- and post-tax profit shares are available from 1971 to 2022. To smooth the data, we have chosen four-year intervals simply because it gives us 13 consistent observations over the entire 52 years of coverage. In addition to the data on total taxes and total pre-tax income for the overall profit shares, Compustat also contains data on foreign taxes and foreign pre-tax income, as well as domestic taxes and domestic pre-tax income, allowing us to calculate foreign and domestic profit shares.

For jurisdictional profit shares, the data are available from 1984 to 2022. Even with smoothing in four-year intervals, we still end up with some results that do not lend themselves to orderly presentation. For example, sharp losses in the bottom 90 percent in 1999–2002 mean that the total pre- and post-tax profit shares of the top 10 percent rise above 100 percent (see Figure 1). This is also observed over the same period for domestic profit shares (see Figure 2). During this period, we also observe negative profit margins for the bottom 90 percent (see Figure 4). To ensure the consistent presentation of the findings, this data is presented separately in the figures.

To filter out the financial sector, we have excluded all firms with a Standard Industrial Classification (SIC) code starting with "6." Furthermore, to filter out all foreign corporations we have only included firms with an ISO country code for their headquarters (LOC) of "USA" and with a company currency code (CURCD) of "USD." As shown in Table A1, to remove problematic entries, we have excised all observations for a firm in any given year that records negative values for revenues. We drop all firm year observations with missing data for pretax income, revenue, and current income taxes and we impute zero for firm year observations with missing data for dividends, purchase of common and preferred stock, and capital expenditures. Where data is missing for jurisdictional taxes and income streams, we triangulate data where possible. For example, where there is no data for domestic pre-tax income, but there is data for total pre-tax income and foreign pre-tax income, we subtract foreign pre-tax income from pre-tax income to calculate the domestic pre-tax income.

As shown in Table A2, our sample of companies for overall tax, profit margin, capital investment and shareholder payout calculations steadily increases until reaching a peak in 1993–2002, then declining at that point. This is reflective of wider changes in the number of listed firms in the US (World Bank n.d.) as stock market flotation gives way to firm-level consolidation and delisting in relative significance through time.

Table A2. Sample Size for Data Presented in Each Figure

	1971-74	1975-78	1979-82	1983-86	1987-90	1991-94	1995-98	1999-02	2003-06	2007-10	2011-14	2015-18	2019-22
Fig. 1 & 4-7	3077	4628	4539	5093	5177	5662	6682	6008	4947	4151	4141	3790	3660
Fig. 2 & 3	-	-	-	4591	4876	5299	6093	5360	4470	3799	3882	3573	3450

Note: Data pertains to average annual firm-year observations in each period. The first year for firm observations for data presented in Figures 2 and 3 is 1984.

Finally, categories like the top 10 percent and bottom 90 percent can seem abstract. To give the reader some context, Table A3 includes the list of companies in the top 10 percent for 2022.

Table A3. Top 10 Percent Companies as Ranked by Revenues, 2022

1st - 35th Firm		36th - 70th Firm		71st - 105th Firm	
1	Walmart Inc	36	T-Mobile US Inc	71	Nucor Corp
2	Amazon.com Inc	37	United States Postal Service	72	General Dynamics Corp
3	Berkshire Hathaway	38	ConocoPhillips	73	HF Sinclair Corp
4	Exxon Mobil Corp	39	Albertsons Cos Inc	74	Dollar General Corp
5	Apple Inc	40	General Electric Co	75	Arrow Electronics Inc
6	CVS Health Corp	41	Sysco Corp	76	Occidental Petroleum Corp
7	McKesson Corp	42	Raytheon Technologies Corp	77	Northrop Grumman Corp
8	AmerisourceBergen Corp	43	Boeing Co	78	Honeywell International Inc
9	Chevron Corp	44	Lockheed Martin Corp	79	3M Co
10	Costco Wholesale Corp	45	Intel Corp	80	US Foods Holding Corp
11	Microsoft Corp	46	HP Inc	81	Warner Bros Discovery Inc
12	Cardinal Health Inc	47	TD Synnex Corporation	82	Lennar Corp
13	Marathon Petroleum Corp	48	Intl Business Machines Corp	83	D R Horton Inc
14	Valero Energy Corp	49	HCA Healthcare Inc	84	Jabil Inc
15	Phillips 66	50	Caterpillar Inc	85	Cheniere Energy Inc
16	Ford Motor Co	51	Merck & Co	86	Broadcom Inc
17	Home Depot Inc	52	World Fuel Services Corp	87	Starbucks Corp
18	General Motors Co	53	Enterprise Product Partners	88	Uber Technologies Inc
19	Kroger Co	54	Plains GP Holdings LP	89	Netflix Inc
20	Verizon Communications Inc	55	Plains All Amer Pipelne -LP	90	NRG Energy Inc
21	Walgreens Boots Alliance	56	Dow Inc	91	Mondelez International Inc
22	Comcast Corp	57	Charter Communications Inc	92	Danaher Corp
23	AT&T Inc	58	Tyson Foods Inc -CL A	93	Salesforce Inc
24	Meta Platforms Inc	59	Deere & Co	94	CarMax Inc
25	Target Corp	60	Cisco Systems Inc	95	Micron Technology Inc
26	Dell Technologies Inc	61	Delta Air Lines Inc	96	Paramount Global
27	Archer-Daniels-Midland Co	62	TJX Cos Inc (The)	97	Southern Co
28	United Parcel Service Inc	63	American Airlines Inc	98	United Natural Foods Inc
29	Pfizer Inc	64	CHS Inc	99	Paccar Inc
30	Lowe's Cos Inc	65	Performance Food Group	100	Duke Energy Corp
31	Energy Transfer LP	66	PBF Energy Inc	101	Lilly (Eli) & Co
32	PepsiCo Inc	67	Best Buy Co Inc	102	Hewlett Packard Enterprise
33	Disney (Walt) Co	68	Thermo Fisher Scientific Inc	103	Dollar Tree Inc
34	Tesla Inc	69	Qualcomm Inc	104	Lithia Motors Inc -CL A
35	United States Postal Service	70	Coca-Cola Co	105	Schlumberger Ltd

220th - 257th Firm		258th - 295th Firm		296th - 332nd Firm	
220	Laboratory Corp	258	FirstEnergy Corp	296	NVR Inc
221	CSX Corp	259	Hormel Foods Corp	297	Eastman Chemical Co
222	Hunt (JB) Transport Svcs	260	Alcoa Corp	298	Graybar Electric Co Inc
223	Fidelity National Info Svcs	261	Intl Flavors & Fragrances	299	Insight Enterprises Inc
224	Berry Global Group Inc	262	DISH DBS Corp	300	Hershey Co
225	Sempra Energy	263	Dicks Sporting Goods Inc	301	News Corp
226	DXC Technology Co	264	Eversource Energy	302	Toll Brothers Inc
227	O'Reilly Automotive Inc	265	Wayfair Inc	303	Ulta Beauty Inc
228	Leidos Holdings Inc	266	Community Health Syst	304	Biogen Inc
229	Omnicom Group Inc	267	Regeneron Pharma	305	UGI Corp
230	Tractor Supply Co	268	Liberty Media Corp	306	Owens & Minor Inc
231	Corning Inc	269	Qurate Retail Inc	307	QVC Inc
232	Keurig Dr Pepper Inc	270	Analog Devices Inc	308	Quest Diagnostics Inc
233	Sonic Automotive Inc -CL A	271	Ryder System Inc	309	Public Service Entrp Grp
234	Fox Corp	272	Avis Budget Group Inc	310	eBay Inc
235	Entergy Corp	273	Mohawk Industries Inc	311	MasTec Inc
236	Fluor Corp	274	Expedia Group Inc	312	Owens Corning
237	Vistra Corp	275	United Rentals Inc	313	Virginia Electric & Power
238	Otis Worldwide Corp	276	VF Corp	314	Altice USA Inc
239	Carvana Co	277	DaVita Inc	315	Alaska Air Group Inc
240	Republic Services Inc	278	Georgia Power	316	SpartanNash Co
241	Universal Health Svcs Inc	279	Univar Solutions Inc	317	Diamondback Energy Inc
242	VMware Inc -CL A	280	Chesapeake Energy Corp	318	UFP Industries Inc
243	Consolidated Edison Co	281	Hess Corp	319	WEC Energy Group Inc
244	AECOM	282	Seaboard Corp	320	EnLink Midstream LLC
245	MGM Resorts International	283	CF Industries Holdings Inc	321	Newell Brands Inc
246	Progress Energy Inc	284	S&P Global Inc	322	Constellation Brands
247	DuPont de Nemours Inc	285	Advance Auto Parts Inc	323	Olin Corp
248	Crown Holdings Inc	286	MPLX LP	324	CenterPoint Energy Inc
249	Textron Inc	287	Emcor Group Inc	325	CommScope Holding Co
250	LKQ Corp	288	Williams Cos Inc	326	KLA Corp
251	Norfolk Southern Corp	289	APA Corp	327	JetBlue Airways Corp
252	Intuit Inc	290	Interpublic Group of Cos	328	Motorola Solutions Inc
253	Air Products & Chemicals	291	CVR Energy Inc	329	Coterra Energy Inc
254	Boston Scientific Corp	292	TravelCenters of America	330	Avery Dennison Corp
255	Henry Schein Inc	293	Caesars Entertainment Inc	331	PVH Corp
256	AES Corp (The)	294	Molson Coors Beverage	332	Liberty Media SiriusXM
257	Tennessee Valley Authority	295	Huntington Ingalls Ind Inc		

ABOUT THE AUTHORS

Sandy Brian Hager is a senior lecturer in international political economy at City, University of London. He is the author of *Public Debt, Inequality and Power: The Making of a Modern Debt State* (University of California Press, 2016). More information about his research and publications can be found at sbhager.com.

Joseph Baines is a senior lecturer in international political economy at King's College London. His research spans the fields of energy, food, tax, debt, supply chains, and financialization. Beyond his academic articles, he has published papers for the Common Wealth think tank and his analysis has been featured in the *Financial Times*, *The Guardian*, and other news media.

ACKNOWLEDGMENTS

Thanks to Reuven Avi-Yonah, Kimberly Clausing, and Steve Wamhoff for providing critical feedback on an earlier draft of this brief. Thanks also to Ivan Cazarin, Matt Hughes, Suzanne Kahn, and Niko Lusiani at the Roosevelt Institute for their edits and feedback. The authors are especially grateful to Niko for his care, patience and insight in guiding this project through to publication. Sonya Gurwitt and Claire Greilich also contributed to this project.

Roosevelt Institute

ABOUT THE ROOSEVELT INSTITUTE

The Roosevelt Institute is a think tank, a student network, and the nonprofit partner to the Franklin D. Roosevelt Presidential Library and Museum that, together, are learning from the past and working to redefine the future of the American economy. Focusing on corporate and public power, labor and wages, and the economics of race and gender inequality, the Roosevelt Institute unifies experts, invests in young leaders, and advances progressive policies that bring the legacy of Franklin and Eleanor into the 21st century.