Minnesota House Taxes Committee
Informational Hearing
"Corporate Profits & Monopoly Power: The Critical Role of Tax Policy"
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Chair Gomez, Vice Chair Norris, and members of the Committee. Thank you for inviting me to speak at this informational hearing. My name is Niko Lusiani, and I'm the Director of Corporate Power at the Roosevelt Institute, an economic think tank. Before coming to the Roosevelt Institute, I worked on corporate tax transparency—collaborating closely with academics, the public and the private sector, accounting standards bodies, Big 4 accounting firms, institutional investors, and public interest advocates across the US and around the world.

In my presentation today, I will make four key points:

1. Corporate profits at the top of the US business hierarchy have skyrocketed in recent years, and much of these earnings are essentially economic rents. These profits are not being used to support workers, drive innovation, boost real productive investment, or support the public good through taxes. Instead, they are being siphoned off to wealthy shareholders.
2. The concentration of corporate earnings among the top 10 percent of corporations is driven, in large part, by the ability of these firms to capture market shares through monopolistic practices. Market concentration in the US has risen sharply over the past decades, and with this market power has come political power to shape the rules of the game.
3. The largest multinational corporations have strategically and persistently used this power to decrease their tax costs. The federal corporate income tax is a shadow of itself. The lowering of rates, the weakening of tax authorities, and the ease with which large firms can avoid taxation have all played a role. While the corporate tax was once a key tool to resource public goods *and* level the economic playing field, today the corporate tax code raises little and actively deepens market concentration at the top.
4. Corporate taxation is a critical tool to raise revenue, level the playing field, and build public trust and citizen morale. We can return to this, but only if we have the

> courage to enact commonsense measures which may not please those most economically privileged. Minnesota has taken and can continue to take a real leadership position around corporate tax transparency, with positive ripple effects across the country and across the world.

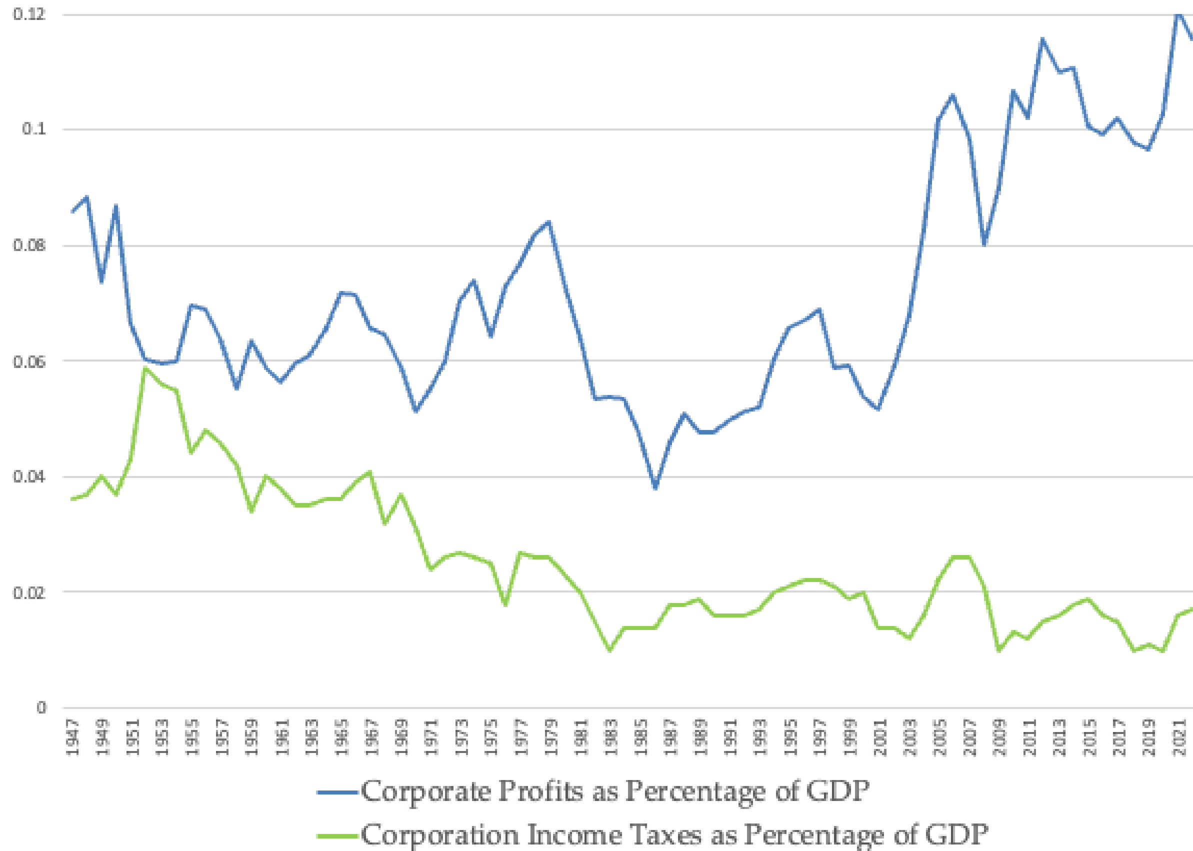
Today ordinary working families face an array of challenges, among them rising prices, "shrinkflation," wage stagnation, declining state and federal revenues, inequality, dearth of productive investments, brittle supply chains, and decline of new business entrants. These problems in the economy are varied, and I'd like to submit that they are in fact not siloed problems, but each tie back to decisions made decades ago to put large corporations at the forefront of economic decision-making.

In 2024, just a few hundred large incumbent US corporations make decisions that affect the flow of billions and trillions of dollars every single day. If you think about who's hired and who's fired, how much or how little individuals are paid, what investments are made and where, who pays taxes and how much taxes are paid, which laws are made or not made—those are all decisions that are made more and more by senior executives at just a very small portion of firms in the economy.

When I speak about the financial, market, and economic power of corporations today, I'd like to focus our attention not on your corner small business, nor even the small- or mid-cap firms throughout the economy which are mostly in the red. Instead, I'd like to focus on the top 10 percent of corporations in the US today which—as I hope to show with the latest evidence on hand from official sources—are running away with the economy.

Let's first zoom out to look at the big picture of profits and corporate taxes in the US today. Two things are true in this chart. Corporate profits since the early 2000s have skyrocketed—reaching a post-WWII record of 12 percent of GDP. At the same time, what these same corporations pay in income tax has declined steadily—to now less than 2 percent of GDP. This is puzzling, since the corporate income tax is a profit tax—as profits go up, so too should tax payments. What explains this stark divergence?

FIG 1: US Corporate Profits and Corporate Income Tax Revenue as Percentages of GDP



Source: US Bureau of Economic Analysis; Office of Budget and Management

Let's start by understanding the hows, whos and whys of the profits, then we can turn to discuss reasons for this stark drop in corporate tax revenues.

I. Concentrated Profits

In Figure 1, we see the sharp rise of corporate profits as a percentage of the US economy over time. Why are profits important? They are not just an indicator of the financial health of individual companies (economic benefit or greed, depending on how you look at it). This indicator is also a key macroeconomic statistic which tells us about the relative power of companies to capture economic flows. Importantly, not all profits have the same economic consequences. Individual company earnings which just beat the

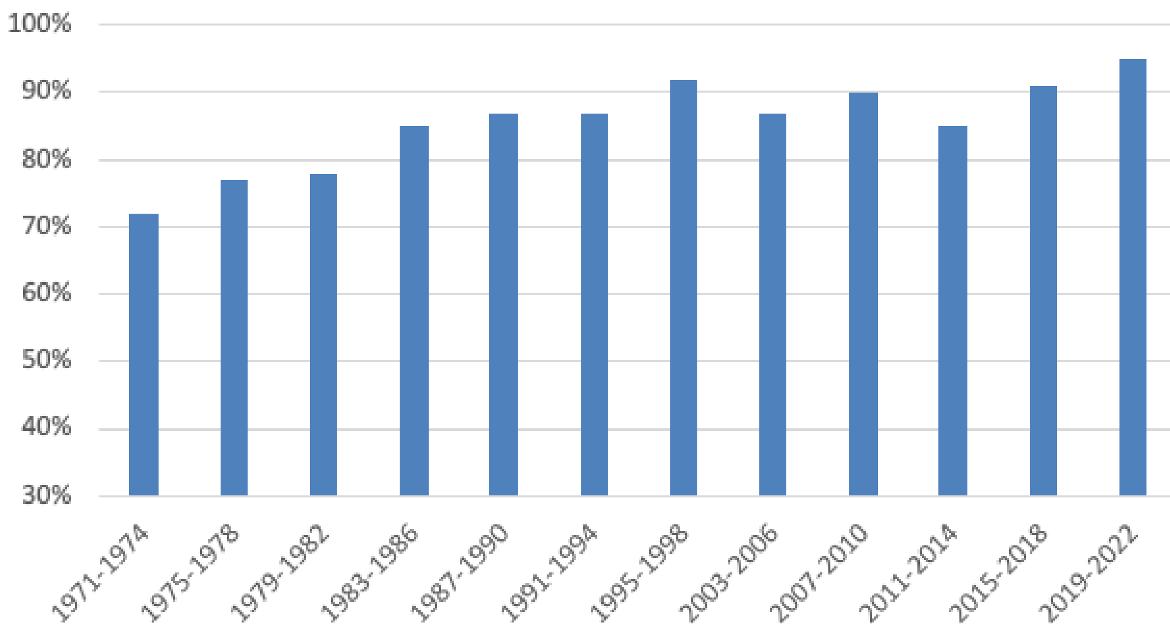
normal rate of return on capital (say 10 percent margin) are a baseline which one might expect for companies operating on a level playing field. But once earnings start to go above that, economists characterize these as returns on economic rents—generally driven by market power. A recent study from International Monetary Fund researchers found that 70 percent of the total profits of 10,000 large multinationals were excess profits, or economically inefficient rents based on a market tilted in favor of the massive firms. (Beer et al. 2023)

We see here a step change in corporate profits starting around 1990. In fact, we experienced the highest aggregate profit levels on record in 2021. This raises a red flag that something is going on beneath the surface. Indeed, this overall picture of profits can give an incorrect picture of widespread corporate prosperity. In fact, these profits are incredibly concentrated among just a small number of firms.

When disaggregating the top 10 percent of public corporations (around 350 top firms), profits are increasingly concentrated. Profit margins in recent years are increasingly captured by the top 10 percent of listed firms, with very little for the bottom 90 percent. While at parity in the 1970s, from 2019—2022, the top 10 percent of firms were earning on average 6 percentage points more in post-tax margins compared to the bottom 90 percent of firms (Hager and Baines 2023).

Another way to look at the degree to which the top 10 percent of corporations have captured profits in the economy, Figure 2 shows the profit share of the top 10 percent of firms over time. The largest public companies already controlled 70 percent of overall profits of public companies in the 1970s. Today, the top 350 corporations capture 95 percent of the profit pie, as seen in Figure 2 below. That sharp peak in profits we have seen recently (in Figure 1) is almost completely attributable to the top 10 percent of companies.

FIG. 2: Post-Tax Profit Share of the Top 10 Percent of Publicly Listed US Corporations



Source: Compustat, developed by authors Hager and Baines, 2023. [Note: 1999—2002 were excluded as outlying years with an average of 135 percent of profit share controlled by the top 10 percent.]

Think about that: Nearly all the profit made by US public corporations are captured by the top 10 percent of firms. Meanwhile, according to JP Morgan, over 41 percent of the small-cap index is unprofitable, compared to 17.5 percent in mid cap, and 7.4 percent in large cap.

I should say here that profits themselves are not necessarily good or bad, it's what's done with them that really matters.

With this power of profits, many fundamental decisions about how our economy runs are decided by large corporate entities. Wages, taxes, research and development, key capital allocation choices around capital investments, mergers/acquisitions—these all flow in large part from the ability of firms to control profits in the economy—and now 95 percent or so of that power rests with the very top of the corporate hierarchy.

So let's see what the top 10 percent of firms are deciding to do with their outsized profits.

FIG. 3: Top 10 Percent and Bottom 90 Percent Capital Expenditure Ratios

Source: Compustat, developed by authors Hager and Baines, 2023.

We see a familiar pattern here. The top 10 percent of corporations—precisely the firms with the most post-tax earnings to spend—have steadily decreased their capital investments, especially since the early 2000s. Less investment means less productivity, and less economic dynamism. We see similar trends in lowering research and development spending as well.

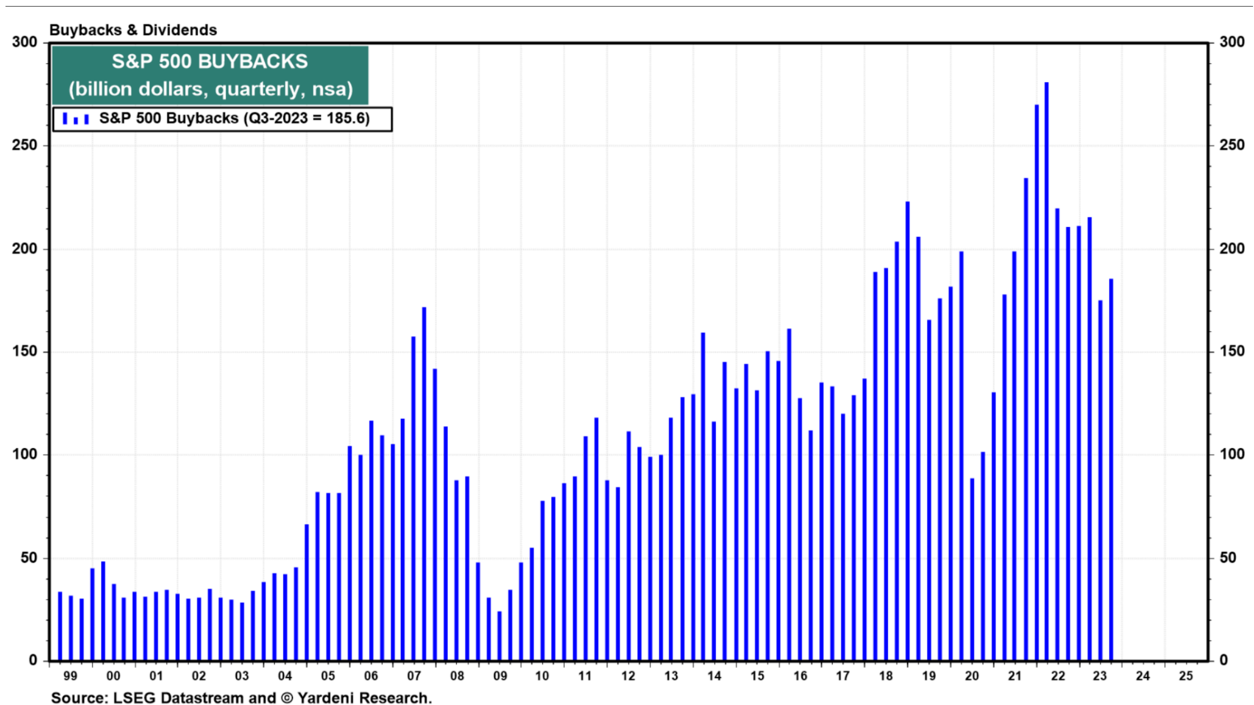
If not investment and innovation, then, what are the most profitable US firms doing with their earnings?

FIG. 4: Top 10 Percent and Bottom 90 Percent Shareholder Payout Ratios

Source: Compustat, developed by authors Hager and Baines, 2023.

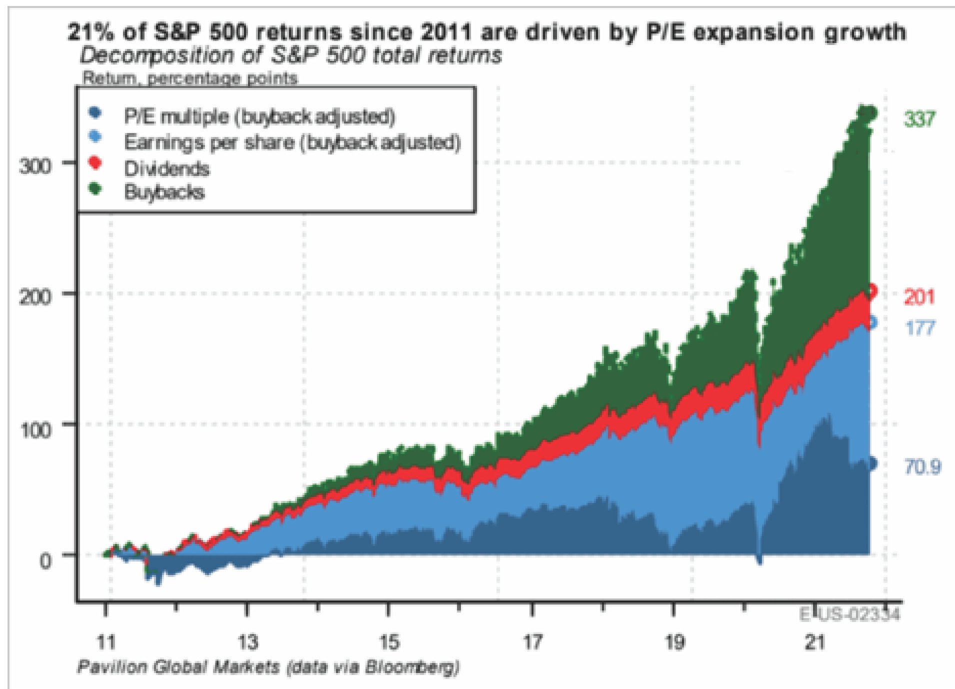
The top 350 corporations are spending 7.5 percent of their revenue in shareholder payouts. Considering the average profit share is 8 percent, that's almost the entire profits spent in dividends and buybacks.

FIG. 5: S&P 500 Share Repurchases ($ billions)



Among S&P 500 firms, share repurchases have skyrocketed in recent years, as shown in Figure 5. This is a relatively recent practice which was considered market manipulation and essentially illegal pre-1982. Companies go onto the open market to purchase their own share, which decreases the amount of shares outstanding, and all else equal, drives the prices of the stock up. Shareholders' wealth appreciates, the earnings per share (EPS) numbers look better before quarterly earnings statements, and the senior executives can time their cashing out of stock to coincide with buyback-induced share price jumps. Note that a slight lull in buyback behavior by S&P 500 more or less coincided with the stock market slowing throughout 2023.

FIG. 6: Buybacks Drive S&P 500 Returns

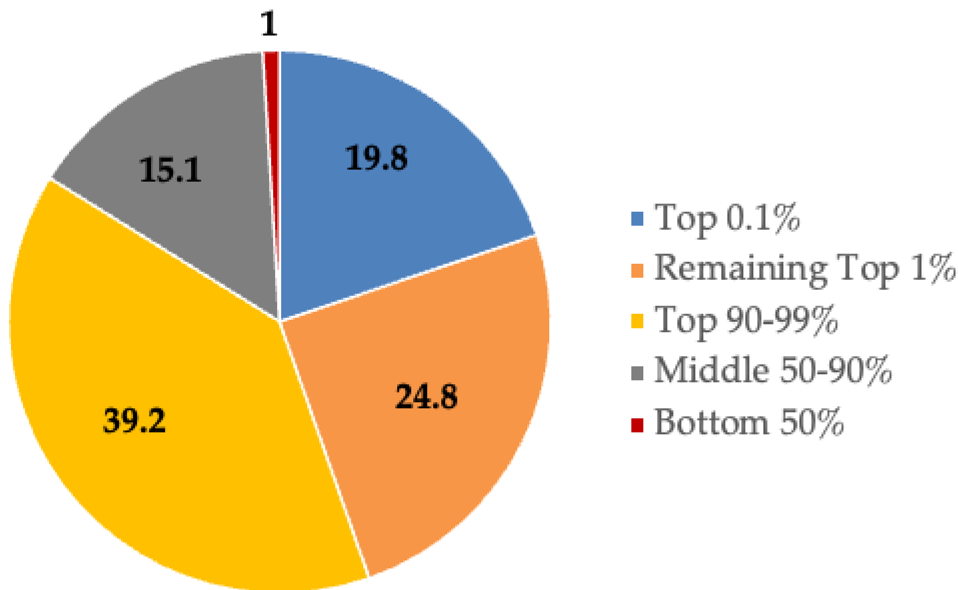


You might think that companies buying back their own shares doesn't have much effect on share price. Well, recent research from brokerage Pavilion Global Markets found that over 40 percent of total S&P 500 returns since 2011 was driven by stock buybacks—even higher than traditional company fundamentals like EPS and P/E multiple (Roberts 2021).

The upshot: In the absence of share repurchases, the stock market would not be pushing record highs of 4,600 but instead levels closer to 2,700. Money that could get spent spurring future growth through innovation and real investment instead was used to drive up equity appreciation.

And who benefits from that equity appreciation? Shareholder payouts boost the wealth of shareholders, the overwhelming majority of whom are very wealthy.

FIG. 7: Corporate Equities and Mutual Fund Shares by Wealth Percentile Group, Q3 2023



Source: Federal Reserve Distributional Financial Accounts Survey of Consumer Finances

Just the facts:

- The top 0.1 percent wealthiest American households control 20 percent of stock.
- The top 1 percent (around $11 million in net worth) control 45 percent of corporate equities in the US, benefitting from the money that flows from their appreciation and payouts.
- The top 10 percent control 84 percent of corporate equities in the US
- The bottom 50 percent (half of Americans) together own hardly 1 percent of equity.

Profits and payouts are not an equal-opportunity phenomenon.

Shareholder-first, bigger-is-better business models and the extractive capital markets fueling them have not driven productive investment, innovation, and economic prosperity but actively forestalled it. The illogic and incoherencies of the past

half-century's corporate-led economy are now ubiquitous and have spilled out across the economy.

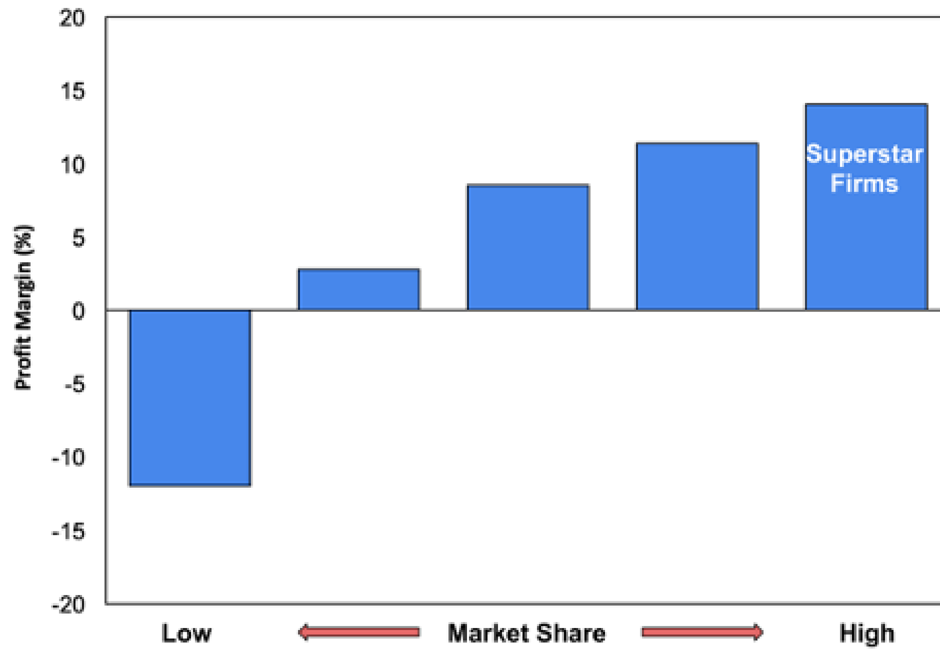
II. Concentrated Markets

Why do we see this fairly intense concentration of profits and payouts among the top 10 percent of corporate America today? As mentioned before, whenever we see a broad spike in profit margins—be it in individual firms or across the economy—this raises a red flag that something structural is allowing these firms to increase their revenue, decrease their costs—or both. One of the biggest structural factors is the growth of corporate concentration. Corporate America is more consolidated, more incumbent, more concentrated and more powerful in markets—at levels rivaling the late-19th century.

The illusion of choice goes far beyond consumer staples. And beyond airlines. Markets across the economy are increasingly consolidated—from dialysis centers to dry cat food, cell phones to home improvement stores, there are few markets in the US not controlled by a small group of supersized firms.

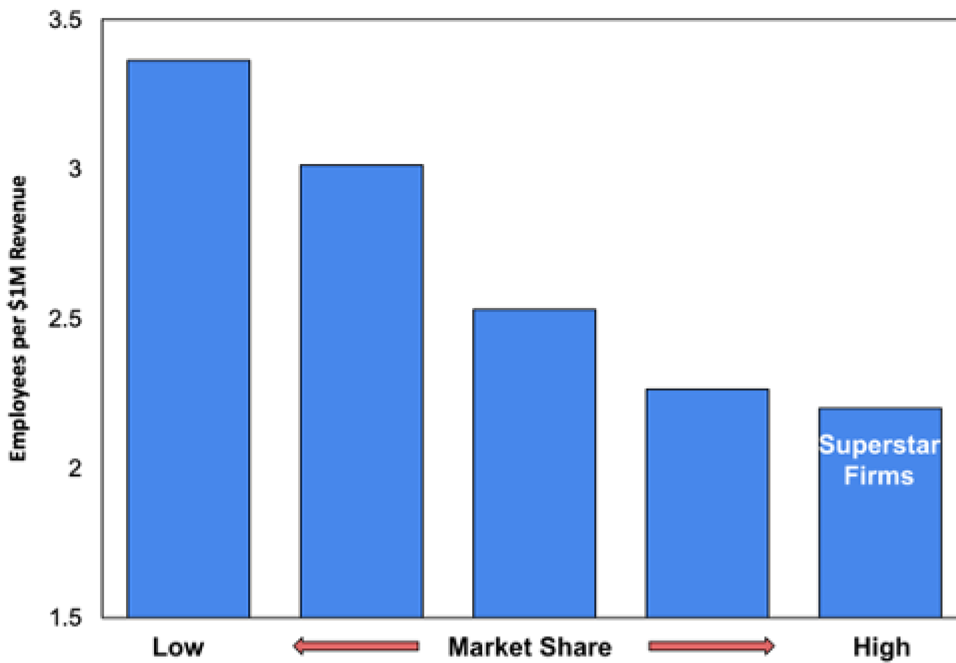
And market share does correlate with profit margins, as shown in Figure 8. The more firms can control markets, the higher profits they are able to extract. And the less market share firms have, the less profits they can enjoy.

FIG. 8: Superstar Firms' Market Share Equate to Higher Margins



Source: S&P, SEC, Sparkline

FIG. 9: Superstar Firms Hire Fewer Workers

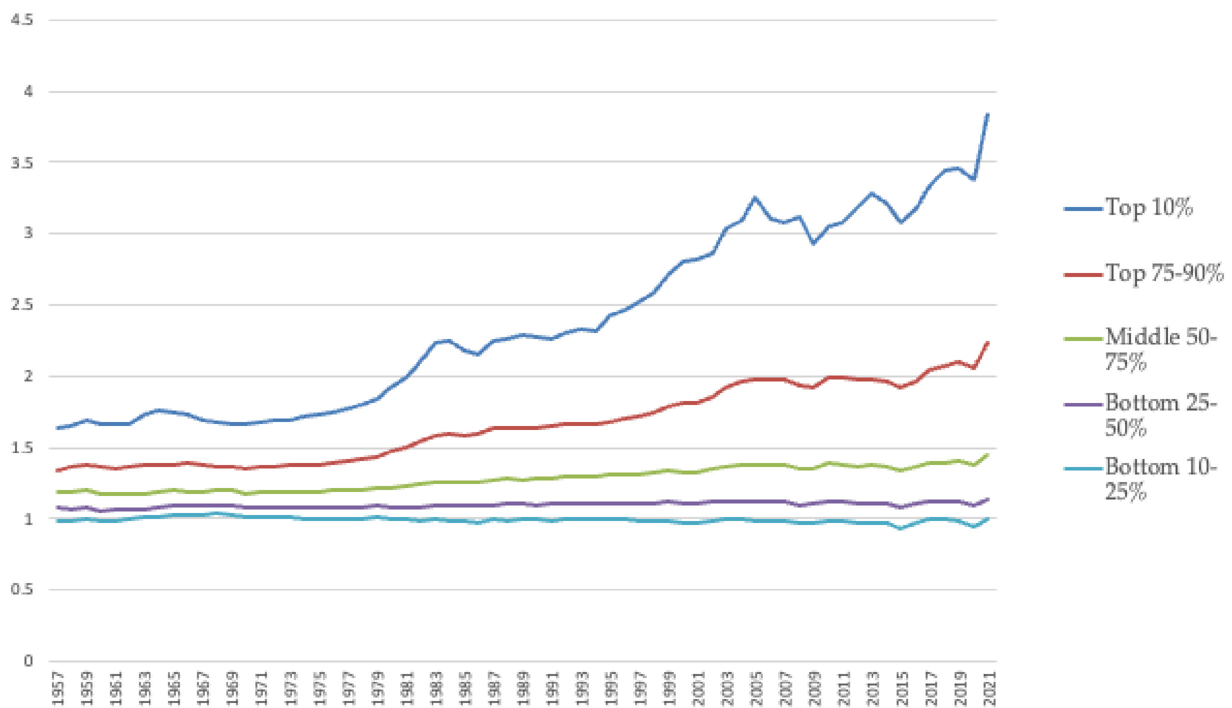


Source: S&P, SEC, Sparkline

Meanwhile, those same superstar firms with more market share also hire fewer workers. Market concentration dents labor markets in quantifiable ways.

Lastly, I'd like to share how the ability of companies to market up their products and services has changed since 1957, helping to explain the macro story.

FIG. 10: Distribution of Aggregate Corporate Markups by Firm Size



Source: Compustat, developed by authors Konczal and Lusiani, 2022.

Markups have skyrocketed recently. And the top 10 percent of firms in particular have been the ones with pricing power: the ability to markup their products much more than others, especially in 2021.

We see in Figure 10 that the top 10 percent of public companies are the ones most able to increase their markups - buttressed by the levels of market power they've developed over the past years. In contrast, the bottom 75 percent of public companies had very little opportunity to mark up in this period.

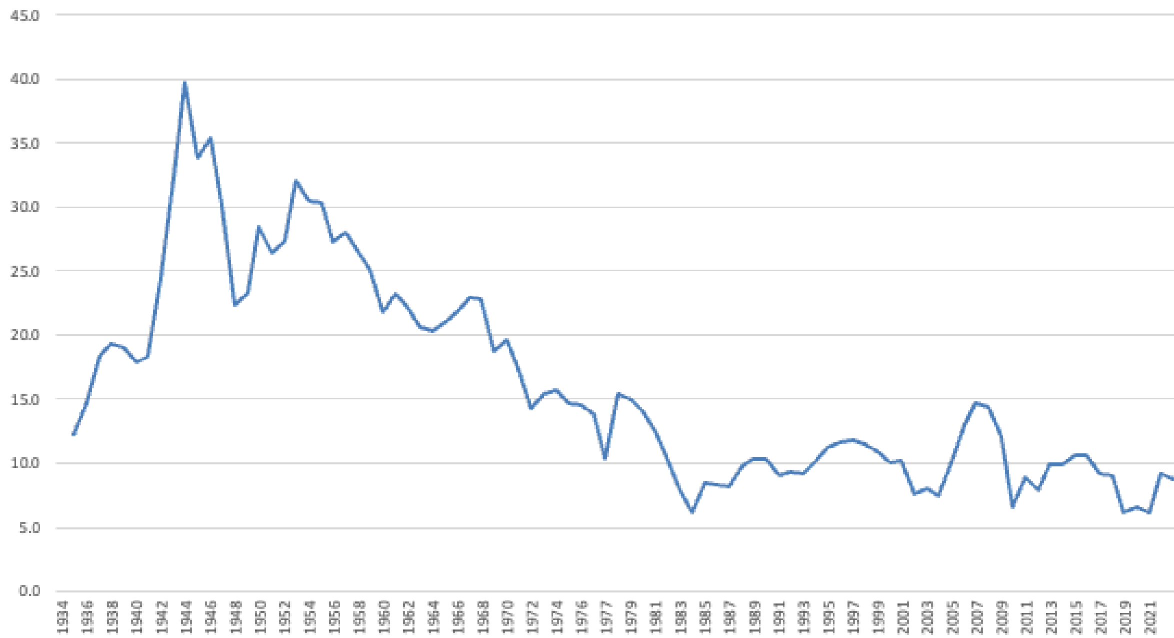
Market power in the end is the ability to drive up revenue as a price-maker (rather than price-taker), and driving down costs as a rule-maker (rather than a rule-taker).

One of those key sets of rules top corporations have been able to manipulate has been the tax rules. So, let's now move over to the tax side of the ledger to understand a bit more how top corporations have used the tax code to strengthen their market dominance.

III. Concentrated Economic Power Warps Tax Policy

By any measure, the US corporate income tax is barely a shadow of its former self. The stats tell the story—and it's crystal clear.

FIG. 11: Federal Corp Income Tax Revenue as Percentage of Total Federal Revenue



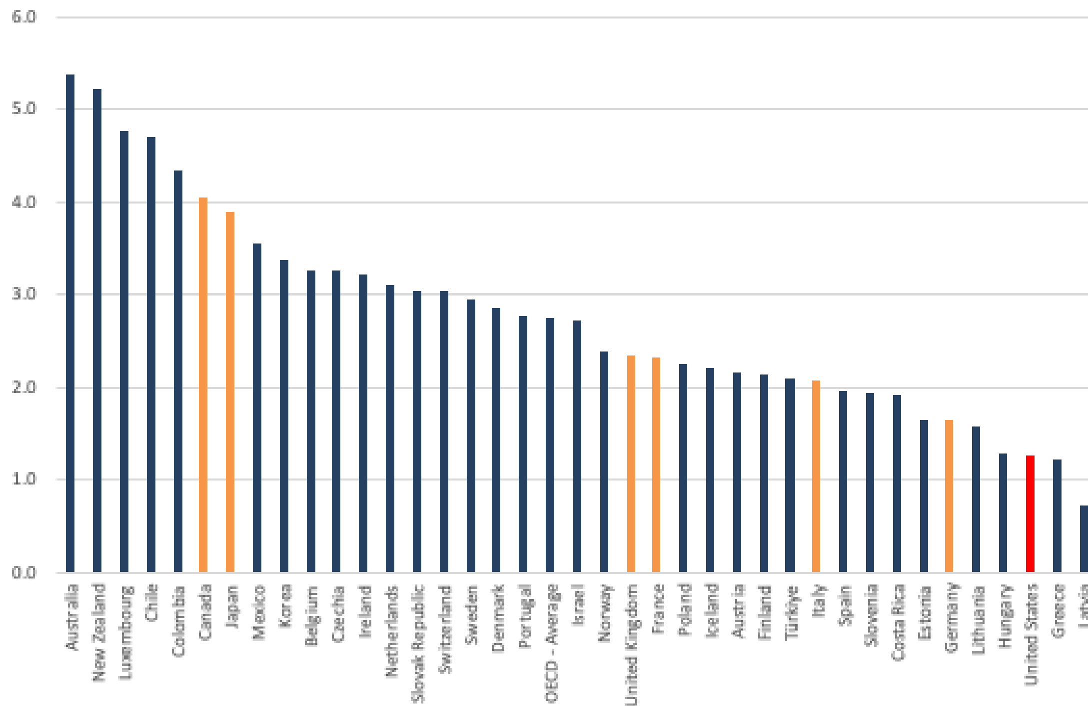
Source: Office of Budget and Management Historic Tables. Table 2.2 - Percentage Composition of Receipts by Source: 1934—2028

As a share of GDP, revenue from the corporate income tax in the US has declined from a wartime high 6 percent in 1952 to a bit above 1 percent today, as we saw in Figure 1. Maybe even more tellingly, Figure 11 compares actual corporate tax receipts to overall receipts. Corporations paid 40 percent of all Federal tax in 1944. They now pay under 10 percent.

The most profitable firms of all time—corporate behemoths at the apex of the US economy—only pay for 10 percent of all of their country's bills.

And if we just compare ourselves to other rich countries, we raise less corporate tax revenue per GDP than every G7 comparator country. We raise less corporate tax even than every OECD member country except Greece and Latvia, as shown in Figure 11.

FIG. 12: Corporate Tax Revenue as Percentage of GDP in OECD Countries (2020)



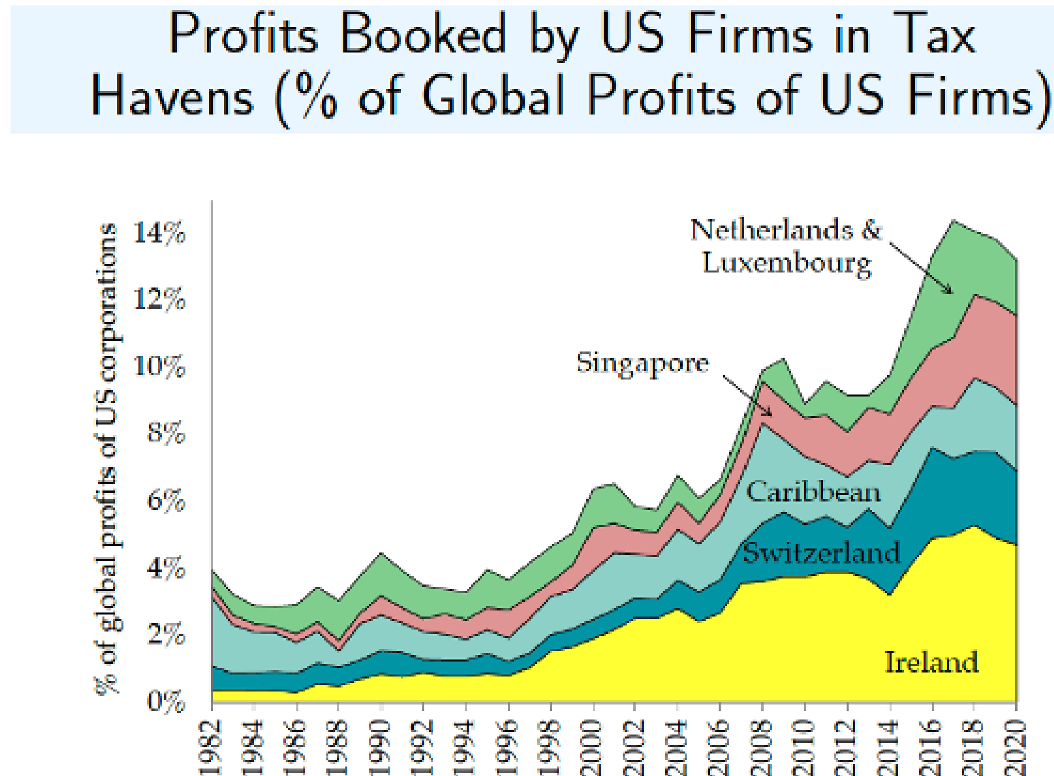
Source: OECD Dataset: Corporate Tax Revenues

The Institute for Taxation and Economic Policy just released their findings of the most profitable 350 corporations in the US. Overall, roughly the top 10 percent of firms paid an average effective income tax rate of just 14.1 percent since 2018, almost a third less than the statutory rate of 21 percent (ITEP 2024). Nearly a quarter of the corporations in this study (87 companies) paid effective tax rates in the single digits or less during this five-year period. Of these, 55 (16 percent of the total 342 companies) paid effective rates of less than 5 percent. This is particularly striking given that all these companies were profitable for at least five years consecutively.

What explains this cliff jump in corporate tax payments? Rate cuts explain part of this long-term decline. The top marginal rate on corporate income has fallen from 52.8 percent in 1968 to just 21 percent today. The rising use of pass-through entities (which are taxed at the personal level) has been important. And the systematic underfunding of tax authorities have undercut these public servants' ability to enforce the rule of tax law.

Alongside these, probably the single most important way the largest corporations have lowered their tax dues is through **offshore profit shifting**. In all, profit shifting by US multinational corporations costed us about $100 billion per year in 2017 (Clausing 2020; Clausing 2024)

FIG. 13: Profits Booked by US Firms in Tax Havens



Source: US Bureau of Economic Analysis, developed by Zucman et al. 2022

Here in Figure 13, we see the growth in the use of the top 5 global tax havens by US multinationals. While there has been marginal change, these havens (where there is very little economic substance) still account for 13 percent of total profits—and over 50 percent of these companies' foreign profits. Whether it is $100 or $75 billion, this is a significant amount of public money that could be invested in working families.

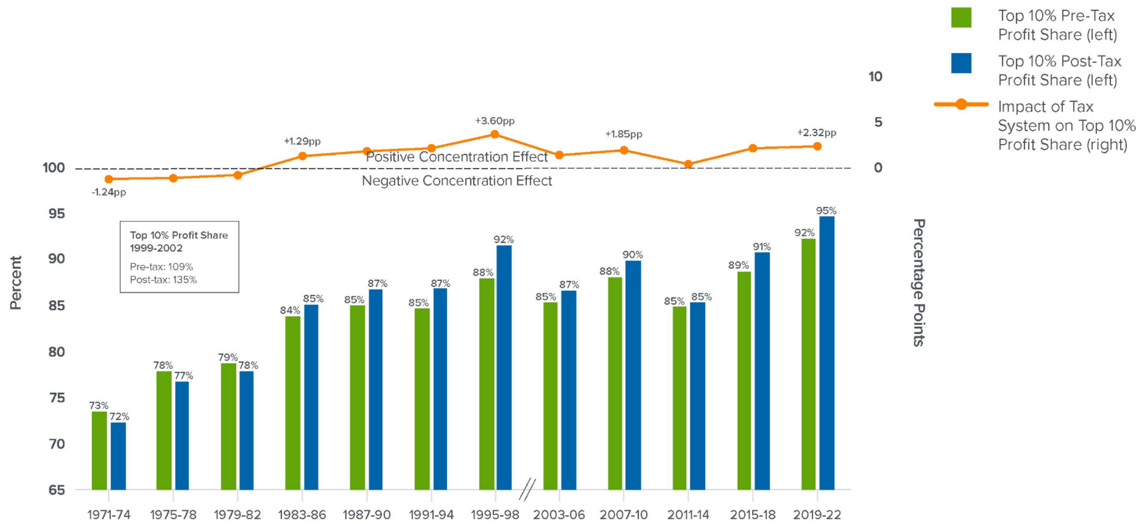
Why do we care about the decrease in corporate tax payments? How do working families pay the price of corporations skimping on their tax duties? Corporate tax policy failures are not victimless, and pose real threats to American working families, as my colleague

Emily DiVito and I explored in recent work (DiVito and Lusiani 2024). There are at least four pathways through which corporate tax avoidance hits working families in the US.

1. Revenue: Working families lose out in critical public goods and services that this revenue could pay for.
2. Redistribution: The corporate tax is a way of taxing wealthy capital owners who might otherwise go untaxed.
3. Restructuring: The corporate tax has traditionally been a key tool to level the playing field by taxing uneconomic, extractive rents above normal returns. A less monopolistic business sector not only is better for the economy overall, it also provides more economic opportunities for workers and entrepreneurs.
4. Representation: The basic unfairness of a system rigged to benefit the C-suite and multinationals discourages people. Lower tax morale leads to less tax payments and more mistrust. A tax system which supports working families and small business while holding the most powerful to account rebuilds citizen engagement.

As a last visual, I'd like to emphasize that our best empirical evidence shows that **the US tax code currently helps fuel market power by a smaller and smaller slice of corporate America.**

FIG. 14: Overall Pre- Versus Post-Tax Profit Share of the Top 10 Percent Companies



Source: Compustat, developed by authors Hager and Baines, 2023.

We see clear evidence here that—contrary to earlier decades, the profit share of the top 350 public corporations in the US has actually gone up when factoring in their tax payments. In the most recent period, these top 10 percent of firms' profit share went up 3 percentage points as a result of federal, state and foreign tax payments (Hager and Baines 2023).

IV. Corporate Tax Policy Fixes: What tax reforms are needed to restore a robust, equitable and participatory economy serving the public interest?

Corporate taxation is a critical tool to raise revenue, level the playing field and build public trust and citizen morale. We can return to this, but only if we have the courage to enact common sense measures which may not please those most economically privileged.

What can be done? I'd suggest four principles, each with some associated policy fixes.

I. **Ability-to-pay principle for people *and* for corporations:**
    A. Graduated federal CIT rate that increases up the profit ladder
    B. Reduce wasteful and unnecessary economic development incentives to the largest companies, an important part of curbing base erosion
II. **Laws don't hold without proper enforcement:**
    A. Robust funding of federal and state tax authorities, prioritizing large taxpayers
III. **Global corporate tax floor:**
    A. Global minimum tax at 25 percent would raise substantial revenue and level playing field, increasing competition domestically
IV. **Transparency is a pretty darn good disinfectant:**
    A. Public country-by-country reporting
    B. Mandatory worldwide combined reporting and other corporate transparency measures at the state level

I would note here that the Inflation Reduction Act—signed in 2022 by President Biden—goes part of the way toward meeting these proposals, and President Biden's budget proposals have gotten us even closer.

Turning to the great state of Minnesota, your Tax Committee has and can continue to take a real leadership position around corporate tax transparency, with positive ripple effects across the country and across the world. Minnesota is not alone in its concerns about multinational tax avoidance or in its intent to act. Over 140 nations have now signed on to similar reforms at the international level. Most of the world economy (jurisdictions representing about 95 percent of world GDP) are undertaking an agreement to ensure corporate transparency and that some minimum level of tax on multinational corporate income is paid. The moment is now to end corporate tax opacity and offshore profit shifting.

I leave you with a quote from President Franklin D. Roosevelt from his Message to Congress on Curbing Monopolies on April 29, 1938—just a month before Hitler visited Mussolini to form the fascist alliance.

> "Among us today a concentration of private power without equal in history is growing. This concentration is seriously impairing the economic effectiveness of

> private enterprise. . . . tax has a real value in working against a further concentration of economic power."

Thank you again for the opportunity to present at this informational hearing today. I look forward to a lively and respectful discussion.