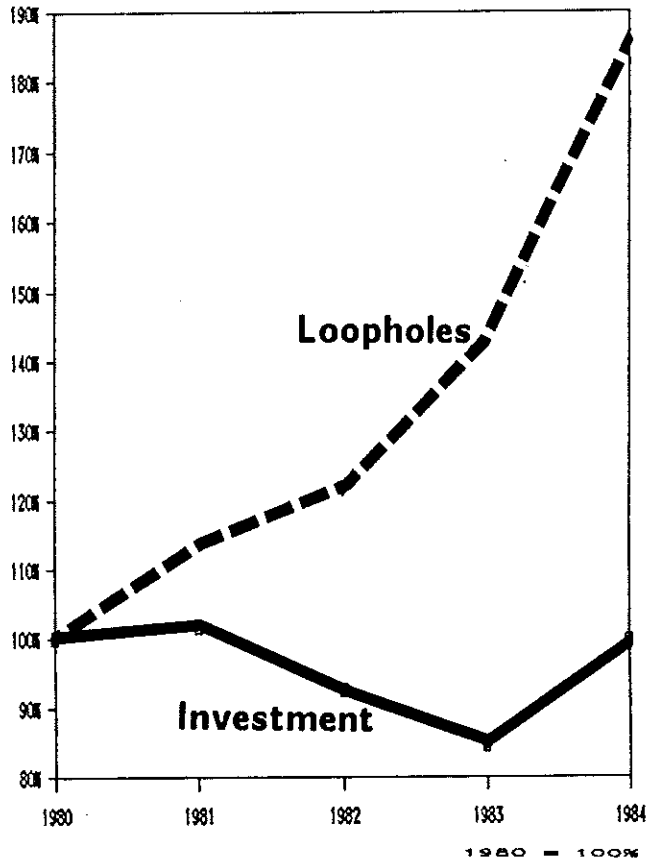


# MONEY FOR NOTHING

The Failure of  
Corporate Tax Incentives  
1981-1984



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## MONEY FOR NOTHING

Errata sheet:

On page 3, the second paragraph should read:

Meanwhile, over the same period of time, VF Corporation, the maker of Lee Jeans, more than doubled its capital spending and increased its workforce. Whirlpool boosted its investment by 76 percent and added 5 percent more employees. R.J. Reynolds Industries augmented its plant and equipment investments by 173 percent, and hired 14 percent more workers. Procter & Gamble invested 60 percent more in 1984 than in 1981 and expanded its workforce as well. The Campbell Soup Co. increased its capital spending by 35 percent and added 11 percent more workers to its payroll.

On page 5, the first bullet on the second half of the page should read:

- VF Corporation. Tax rate, 44.7%.  
Investment up 110%. Employment  
up.

On page 6, the last paragraph on the page should read:

The graph to the right shows just how far short of this rosy scenario actual economic performance has fallen. The gap between the path of investment spending forecast by the administration in April 1981 and what actually happened is huge and growing. This year, business investment is expected to fall short of the supply-side predictions by more than one-third--over \$170 billion in 1982 dollars. As a share of GNP, non-residential fixed investment over the 1981-84 period averaged the same 11.5 percent it stood at for the previous four years.

On page 22, the "% CH. IN EMP. 81-84" figure for VF Corporation should read: up

*"Proponents of massive tax benefits for depreciable property have theorized that these benefits would stimulate investment in such property, which in turn would pull the entire economy into more rapid growth. The committee perceives that nothing of this kind has happened."*

*Report of the House Ways and Means Committee on H.R. 3838,  
The Tax Reform Act of 1985, Dec 7, 1985.*

In 1981, President Reagan proposed, and Congress enacted, the largest corporate tax reduction in history. The centerpiece of the program was something called the "Accelerated Cost Recovery System," a new set of rules for writing off business plant and equipment. The new write-offs, in conjunction with an expanded investment tax credit and other tax preferences, were designed to be so large and so generous that they would reduce federal income taxes on the profits generated by new investments to well below zero.

And, indeed, as companies took advantage of their new tax breaks starting in 1981, corporate taxes plummeted. Many corporations found themselves with so many write-offs and credits that they were able to eliminate their federal income taxes entirely, or even obtain outright tax refunds by carrying their excess tax benefits back to earlier tax years. Other firms cashed in on their surplus tax breaks by literally selling the credits to other businesses, using a peculiar mechanism (also included in the 1981 tax legislation) known as "safe-harbor leasing" that sanctioned this practice.

By fiscal 1983, corporate income taxes had fallen to their lowest level in real dollars since before Pearl Harbor. As a share of federal receipts, corporate income taxes in fiscal 1983 amounted to only 5.9 percent, less than half the level in fiscal 1980. And despite some scalebacks in the tax breaks, pursuant to the Tax Equity and Fiscal Responsibility Act of 1982, corporate tax payments have remained at historically low levels.

In the current fiscal year, the annual cost to the U.S. Treasury of corporate tax "incentives" is expected to reach \$120 billion, a tripling since the present administration took office. The theory behind this huge transfer of funds to corporations was that it would lead to increased investment, enhanced growth, and added jobs. But, as the House Ways and Means Committee's statement quoted above indicates, the theory simply has not panned out.

Indeed, by the yardstick of investment most relevant to the 1981 "incentives," corporate capital spending has been virtually stagnant since the tax breaks were enacted. And even by the most favorable measure, business investment over the 1981-84 period rose at well below half the rate of the previous four years.

The aggregate data on the failure of corporate tax incentives are clear. It is just as clear, however, that not all companies benefited equally from the 1981 corporate tax cuts.

In August of last year, Citizens for Tax Justice released a report, *Corporate Taxpayers and Corporate Freeloaders*, detailing the profits and federal income taxes of 275 of the nation's largest and most profitable corporations over the 1981-84 period. Despite a statutory corporate tax rate of 46 percent, we found actual effective corporate rates over those years ranging from *minus* 22 percent to just under 45 percent, with an overall average rate of only 15 percent.

A large number of the companies included in our August 1985 survey managed to obtain net tax *refunds*, in some cases hundreds of millions of dollars each. Overall, 129--or almost half--of these highly profitable corporations enjoyed at least one year over the 1981-84 period in which they paid nothing in federal income taxes or received outright tax rebates. And 50 of the companies were able to avoid paying a penny in total federal income taxes--and in most cases received net rebates--for the entire four year period.

The wide range of effective corporate tax rates found in our earlier study raises an obvious and important question: Could the disappointing aggregate national numbers be hiding the fact that low-tax firms responded to their new tax breaks by outperforming the rest of the economy on investment and job creation?

That is the issue that this report addresses. This study, a followup to CTJ's January 1985 publication, *The Failure of Corporate Tax Incentives*, examines 1981-84 taxes, capital spending and employment levels on a company-by-company basis for 259 major nonfinancial corporations--companies whose pretax domestic profits amounted to just over half the total for all of the nation's nonfinancial corporations, as reported by the Commerce Department.<sup>1</sup> The reports asks:

- Did the companies that enjoyed the most tax "incentives" augment their plant and equipment outlays and increase employment at a higher than average rate?
- And, conversely, did the firms that enjoyed few "incentives" and paid high taxes lag behind in their capital spending and job creation?

The answer to both questions, it turns out, is a resounding, "No!"

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<sup>1</sup>For an explanation of the methods used to select the 259 companies included in this study and to compute their domestic profits, actual tax payments (or refunds) and their capital spending and employment levels, see the methodological appendix at the end of the report.

## I. Corporate Tax Breaks Have Failed to Spur Investment or Jobs.

From 1981 to 1984, Boeing cut its capital spending by 38 percent and reduced its workforce by 18 percent. Similarly, Dow Chemical saw its plant and equipment investment fall by 34 percent and its employment decline by 13 percent. ITT reduced investment by 30 percent and employment by 25 percent. Weyerhaeuser decreased capital expenditures by 53 percent and cut its workforce by 12 percent. W.R. Grace & Co. slashed its investment by 43 percent and its number of employees by 12 percent.

Meanwhile, over the same period of time, VF Corporation, the maker of Lee Jeans, more than doubled its capital spending and increased its workforce by almost half. Whirlpool boosted its investment by 76 percent and added 5 percent more employees. R.J. Reynolds Industries augmented its plant and equipment investments by 173 percent, and hired 14 percent more workers. Procter & Gamble invested 60 percent more in 1984 than in 1981 and expanded its workforce as well. The Campbell Soup Co. increased its capital spending by 35 percent and added 11 percent more workers to its payroll.

By "supply-side" theories, Boeing, Dow, ITT, Weyerhaeuser, and W.R. Grace must have been paying too much in federal income taxes over the 1981-84 period, while VF Corp., Whirlpool, R.J. Reynolds, Procter & Gamble, and Campbell Soup must have enjoyed substantial tax "incentives."

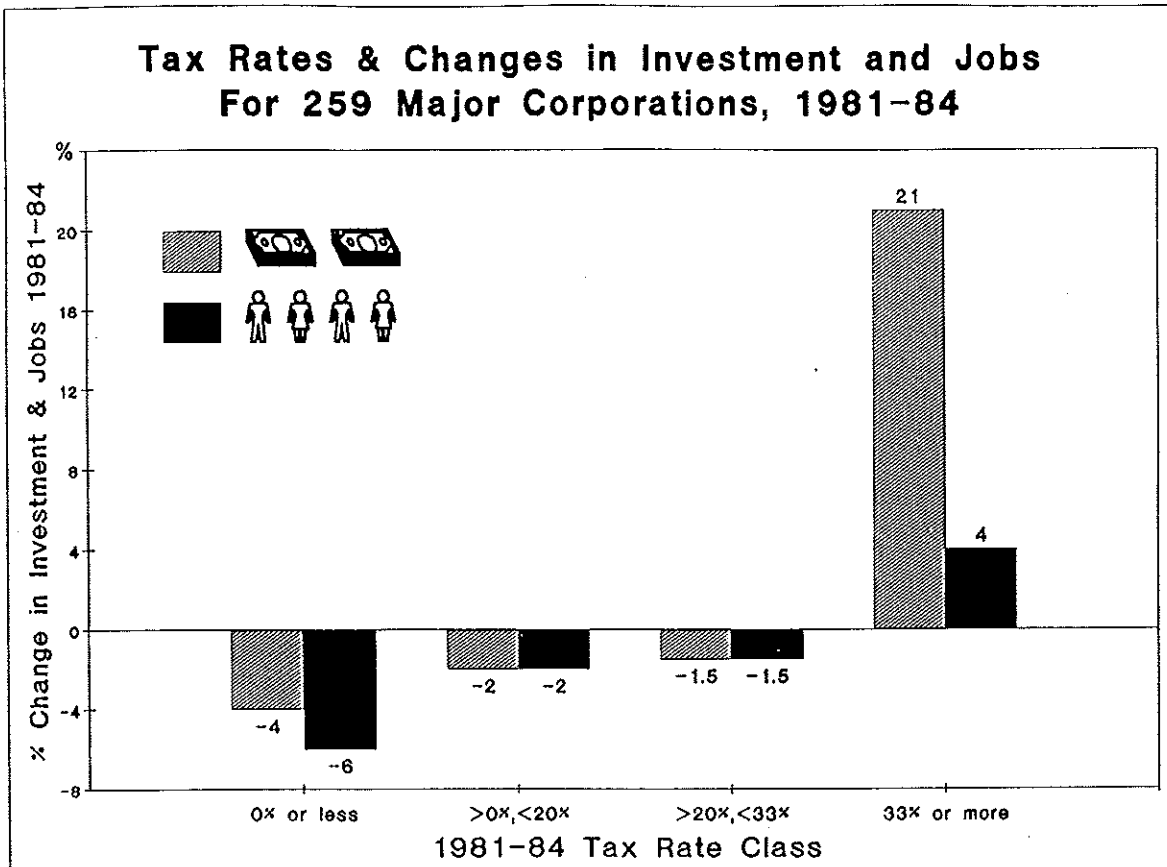
In fact, however, *just the opposite was true.*

The first group of corporations listed above--the ones that slashed capital spending and employment--all paid little or nothing in federal income taxes over the 1981-84 period. In contrast, the second group of companies managed to increase investment and employment significantly despite tax rates in excess of 33 percent for each of these firms.

And these are not isolated examples.

The major finding of this study of 259 of the nation's largest and most profitable nonfinancial corporations over the 1981-84 period is that there was absolutely no correlation between tax "incentives" and improved capital spending or job creation. To the contrary, the 44 nonfinancial companies in the survey that paid no federal income taxes at all--or received net tax refunds--over the four years actually performed far worse than the 43 highest tax companies, each of which paid at least 33 percent of its domestic profits in federal income taxes.

- The 44 no-tax companies, which enjoyed a total of \$2.1 billion in tax *rebates* on top of their \$53.6 billion in pretax domestic profits, reduced their aggregate capital spending by 4 percent from 1981 to 1984 and they cut their total number of employees by 6 percent over the same period.
- Meanwhile, the 43 highest taxed companies, which paid \$18.2 billion in federal income taxes on their \$49 billion in pretax profits--for an average tax rate of 37.3 percent--boosted their capital spending by 21 percent and added 4 percent more workers to their payrolls.



The striking failure of tax "incentives" to produce more investment or jobs can be illustrated by a number of additional comparisons:

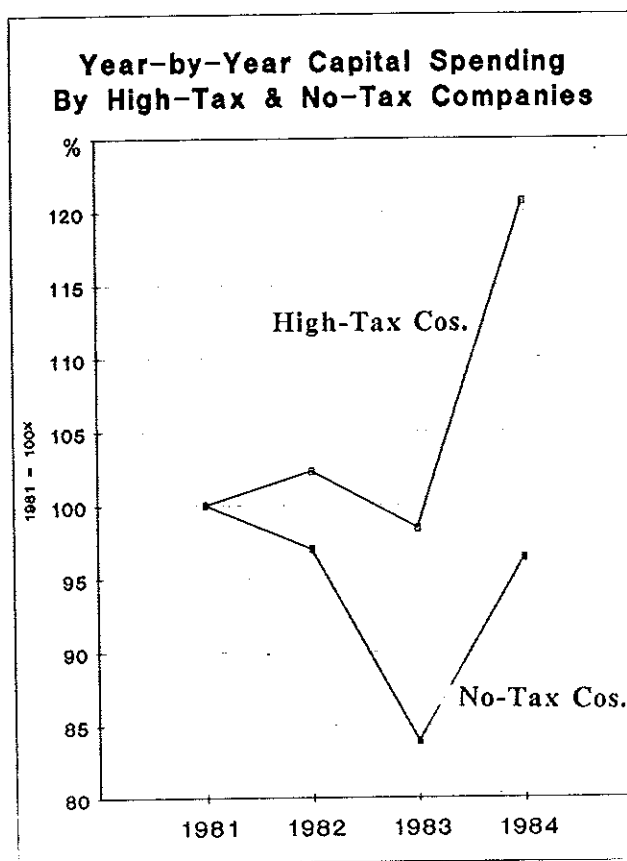
- Of the 44 no-tax companies, the ten with the largest net refunds cut total investment by an average of 2 percent and reduced total employment by 11 percent between 1981 and 1984. Six of these ten companies reduced investment; similarly, six of them cut total employment.
- Each of the four corporations with the largest net refunds--Boeing, Dow Chemical, ITT, and Tenneco--reduced capital spending and employment from 1981 to 1984. For these four companies, the total cut in investment was 30 percent and the drop in employment was 19 percent.
- All in all, we found that 156 of the 259 companies we surveyed increased their plant and equipment spending between 1981 and 1984 (by a total of 36 percent). These 156 companies paid an average tax rate of 17.5 percent. The remaining 103 corporations, which reported reduced investment (with a total cut of 29 percent), had an average tax rate of 16.3 percent.
- Similarly, if one looks at those 116 companies that boosted plant and equipment spending by one-fifth or more, the average tax rate works out to 16.1 percent. For the 77 companies that reported a drop in investment exceeding 10 percent, the average tax rate was a virtually identical 16.2 percent.

The study reveals numerous examples of companies that invested less and employed fewer workers in 1984 than in 1981, despite such high use of tax "incentives" that they paid absolutely nothing--or less--in federal income taxes. These include:

- **ITT.** Tax rate, -21.8%. \$178 million in net refunds. Investment down 30%. Employment down 25%.
- **Dow Chemical Co.** Tax rate, -18.5%. \$180 million in net refunds. Investment down 34%. Employment down 13%.
- **Boeing Co.** Tax rate, -13.6%. \$285 million in net refunds. Investment down 38%. Employment down 18%.
- **Weyerhaeuser Co.** Tax rate, -6.4%. \$59 million in net refunds and sales of tax benefits. Investment down 53%. Employment down 12%.
- **Tenneco.** Tax rate, -4.9%. \$166 million in net refunds. Investment down 26%. Employment down 7%.
- **International Minerals & Chemical Corp.** Tax rate, -11.8%. \$44 million in net refunds and sales of tax benefits. Investment down 69%. Employment down 15%.
- **IC Industries.** Tax rate, -10.4%. \$55 million in net refunds and sales of tax benefits. Investment down 37%. Employment down 19%.
- **Union Carbide.** Tax rate, -2.9%. \$26 million in net refunds and sales of tax benefits. Investment down 44%. Employment down 13%.
- **Greyhound Corp.** Tax rate, -2.5%. Investment down 24%. Employment down 29%.

In sharp contrast, there were many companies that managed to increase their investment sharply despite a lack of "incentives" (other than those supplied by the marketplace). For example:

- **VF Corporation.** Tax rate, 44.7%. Investment up 110%. Employment up 49%.
- **Whirlpool Corp.** Tax rate, 42.4%. Investment up 76%. Employment up 5%.
- **Raytheon Co.** Tax rate, 41.0%. Investment up 39%.
- **R.J. Reynolds Industries.** Tax rate, 39.8%. Investment up 173%. Employment up 14%.
- **Kellogg's Co.** Tax rate, 36%. Investment up 56%.
- **Procter & Gamble Co.** Tax rate, 33.3%. Investment up 60%. Employment up 2%.
- **Sherwin-Williams Co.** Tax rate, 39.8%. Investment up 10%.
- **Briggs & Stratton Corp.** Tax rate, 33.8%. Investment up 25%. Employment up 6%.
- **Cooper Tire & Rubber Co.** Tax rate, 35%. Investment up 277%. Employment up 24%.
- **Campbell Soup Co.** Tax rate, 35.4%. Investment up 35%. Employment up 11%.



These striking results are not a statistical accident of the 1981-84 comparison. As the accompanying graph illustrates, for each year over the period examined, the high-tax companies outperformed the no-tax corporations on capital spending.

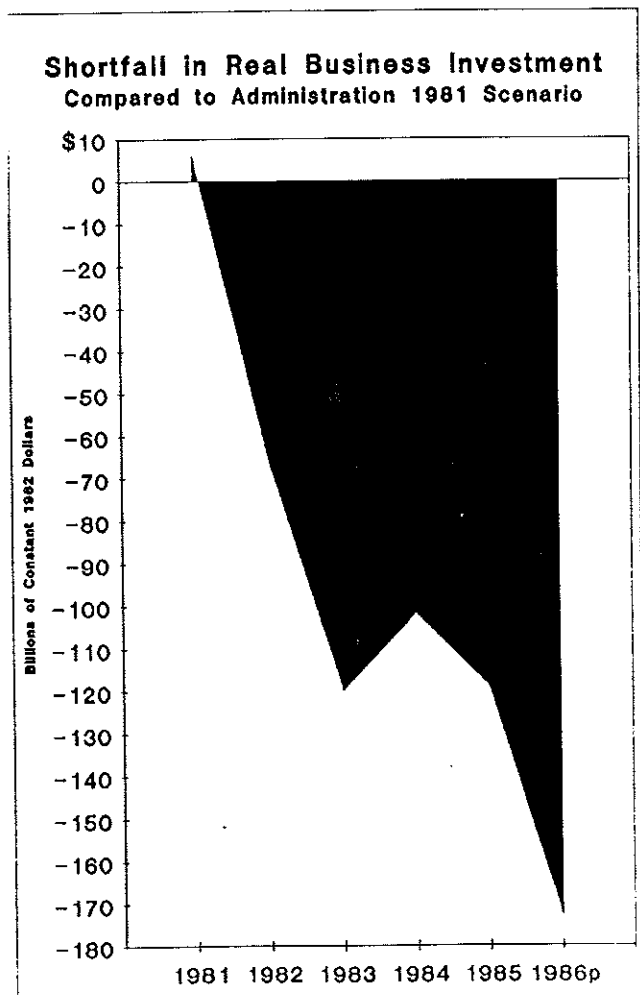
## II. Broken Promises

The official policy of our federal government in the 1980s has been to throw huge sums of money at America's largest and most profitable corporations. According to the congressional Joint Committee on Taxation, the annual cost of corporate tax loopholes has tripled since 1980--from \$40 billion to \$120 billion today. The advocates of this policy argued that corporations would take their cash bonanza and invest it in new capital equipment and new factories, thereby increasing worker productivity and creating new jobs. Indeed, this theory was a central article of faith for proponents of so-called "supply-side economics."

Back in the heady days of 1981, David Stockman's Office of Management and Budget forecast an unprecedented investment boom that was to result from enactment of the Accelerated Cost Recovery System (ACRS) and the accompanying expansion of the investment tax credit along with other corporate tax benefits included in the 1981 tax act.

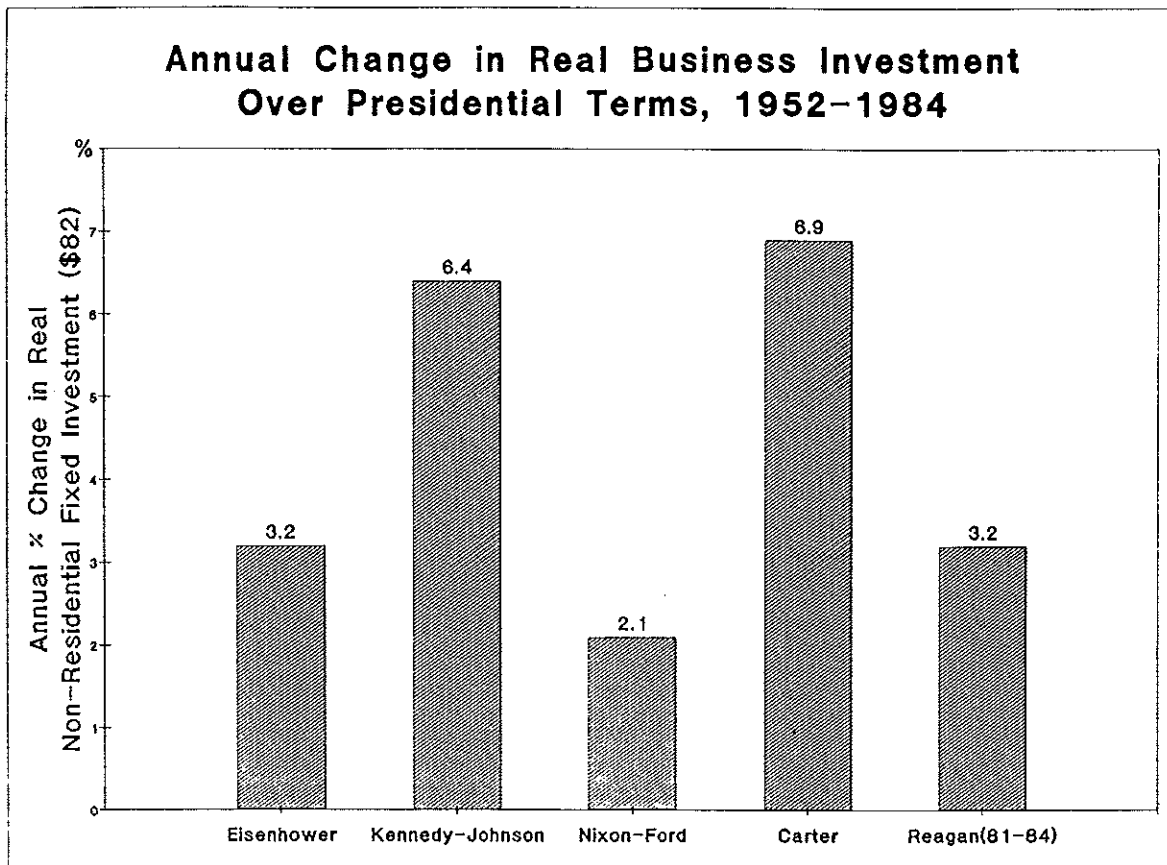
Business investment was predicted to rise by no less than 11 percent a year from 1981 through 1986--after adjusting for inflation! As a share of GNP, non-residential fixed investment was projected to reach a record-shattering 16 percent by 1986. The principal cheerleader for the administration's 1981 tax package--the United States Chamber of Commerce--was unrestrained in its enthusiasm, telling the House Ways and Means Committee that the passage of the administration's tax proposals would "promote higher levels of investment, employment, and output by all types and sizes of business."

The graph to the right shows just how far short of this rosy scenario actual economic performance has fallen. The top line traces the path of investment spending forecast by the administration in April 1981, while the bottom line shows what actually happened. The gap is huge and growing. This year, business investment is expected to fall short of the supply-side predictions by more than one-third. As a share of GNP, non-residential fixed investment over the 1981-84 period averaged the same 11.5 percent it stood at for the previous four years.





The performance of business investment over the current administration's first term also stacks up poorly compared to the historical record. The 3.2 percent average annual increase in real non-residential fixed investment that took place over the 1981-84 period is a full percentage point--or 24 percent--below the 4.2 percent annual average for the previous 28 years. Moreover, the 1981-84 annual rate of investment increase is less than half the 6.9 percent annual rise that occurred over the four years prior to enactment of the huge 1981 corporate tax "incentives."

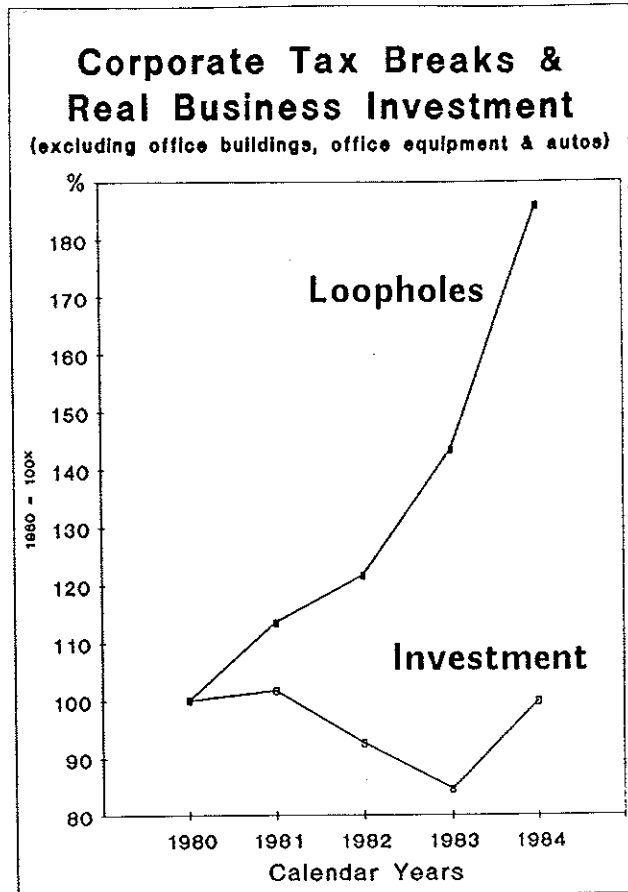


To be sure, as corporate loophole proponents have noted, the year 1984 saw an exceptionally high rate of increase in capital spending. But that increase came after the first two-year in a row decline in business investment in postwar history. And since the end of 1984, growth in capital spending has again flattened out.

Even the paltry 13.5 percent total increase in real non-residential fixed investment that occurred over the 1981-84 period apparently had little to do with the corporate tax "incentives" that took effect January 1, 1981. As economist Barry Bosworth has pointed out, almost all of the increase in equipment investment involved business purchases of automobiles and office equipment, such as computers. Yet, these categories of investment were almost unique in that they received little or no added tax advantage from the 1981 corporate tax changes.

Moreover, a large share of the increase in investment in business structures involved commercial office buildings, a category of investment that was only an inadvertent beneficiary of the 1981 tax changes. Such buildings are most frequently financed with non-corporate funds (as in personal tax shelters), and the boom in commercial office construction has been widely decried as a waste of resources, given the extraordinarily high vacancy rates in commercial buildings around the country.

If office buildings, office equipment, and autos are excluded from the calculations, the remaining portion of real non-residential fixed investment in 1984 was actually slightly below its 1980 level and 2 percent lower than in 1981. And, indeed, the 259 corporations in our study, which are not likely to have invested heavily in office buildings, office equipment or autos, followed exactly this pattern, cutting their overall capital spending by 1 percent from 1981 to 1984.



### III. Where the Tax Loophole Dollars Went

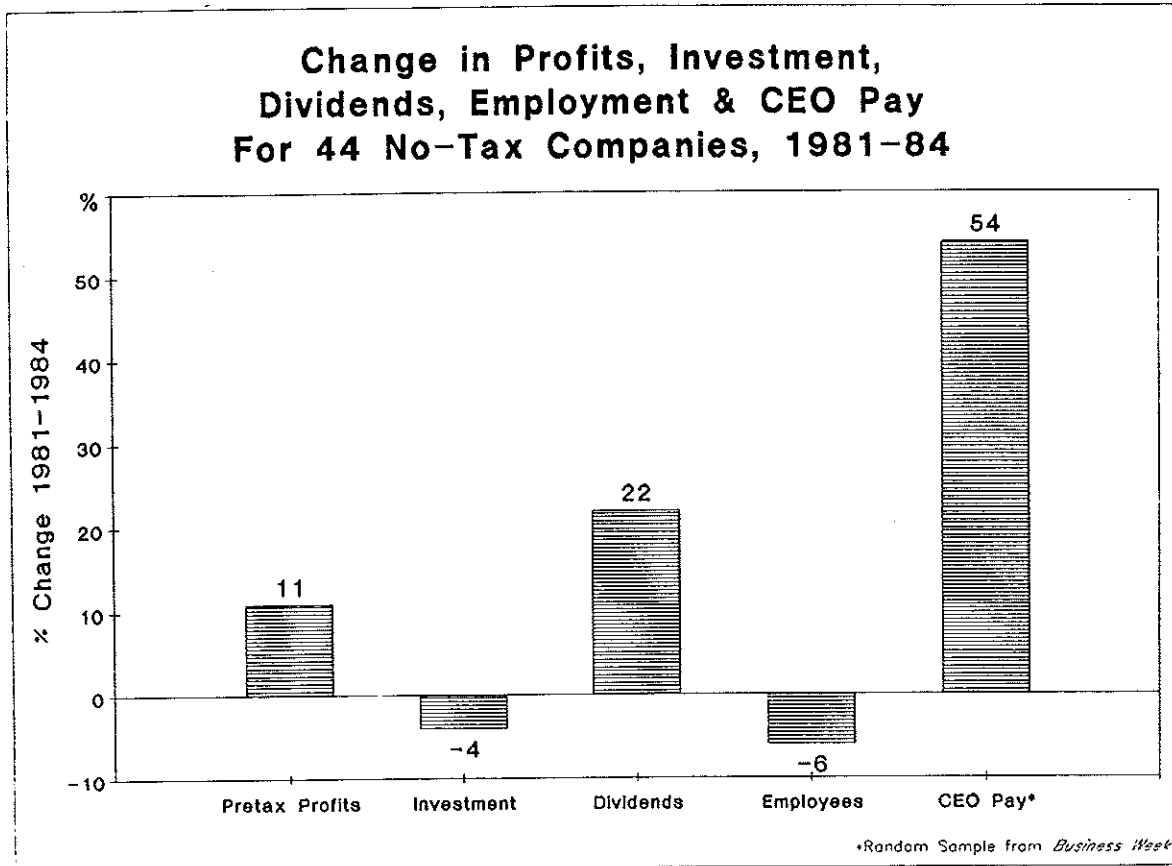
The proliferation of corporate tax loopholes has been "successful" from at least one point of view--it has boosted the amount of cash available to corporate managers to unprecedented heights. Corporate cash flow jumped 22.6% in 1983, grew an additional 17.5% in 1984, and remained strong in 1985. Much of this increase in cash flow stems from tax breaks. Tax concessions are now adding \$120 billion a year to corporate treasuries, with the investment tax credit and the Accelerated Cost Recovery system alone responsible for some \$57 billion a year of that amount. Money that used to be paid in taxes is now available for use by the managers who run America's corporations.

Yet when presented with this unparalleled largess from the rest of the nation's taxpayers, our corporate leaders failed to fulfil the pledges their lobbyists had made. They took the money and, rather than launching the promised investment boom, they spent it on virtually everything else they could think of. Mergers and acquisitions, dividends, and pay for corporate executives all zoomed during the current administration's first term, while corporate investment lagged far behind.

As noted above, the 44 nonfinancial companies that paid no federal income taxes whatsoever between 1981 and 1984 actually cut their total investment spending by 4 percent and their total number of employees by 6 percent over that same period. These 44 companies--which truly can be labelled the principal beneficiaries of the

administration's tax incentive program--did increase some things, however. For the 44 no-tax companies:

- pre-tax profits were up 11 percent,
- dividend payments rose 22 percent, and
- the compensation of the chief executive officers in a random sample of these 44 companies jumped a spectacular 54 percent.



Money for nothing. Yes, it is true that dividend income, and even the pay of CEOs, does not disappear from the economy. It is ultimately spent or reinvested by the persons receiving it. But surely, the complete failure of corporate tax "incentives" to induce investment or job creation by the beneficiaries of the subsidies undercuts the basic supply-side faith. All that is left to praise is whatever boost the economy has gained from new consumption spending by the well-to-do.

Another favorite managerial use of increased corporate cash flow over the past several years, in lieu of old-fashioned things like purchasing new machines or building better production facilities, has been to acquire other companies. Indeed, the recent wave of mergers and acquisitions has set all-time records. But whether a company is buying back stock to fend off a potential hostile takeover or hoarding cash for a future acquisition of its own, merger mania has tied up corporate internal funds in ways that tend to preclude new capital spending commitments.

According to W.T. Grimm and Company, a merger specialist firm based in Chicago, the total dollar value of corporate mergers almost tripled between 1980 and 1984, rising from \$44.3 billion all the way up to \$122.2 billion. And W.T. Grimm estimates that mergers in 1985 skyrocketed to \$200 billion.

In addition, according to the best available data, the amount of corporate funds allocated to stock repurchases rose by a factor of five just between 1983 and 1984.

A look at the dismal investment record of corporations involved in major acquisitions in 1985 is instructive. Eleven of the companies included in our study were on the list of the top 25 acquiring companies for 1985. These eleven corporations spent \$39.6 billion taking over other companies in 1985. That \$39.6 billion is considerably more than these companies spent on plant and equipment investments in the previous three years all put together. Indeed, these companies slashed investment spending by 17 percent between 1981 and 1984, perhaps in anticipation of major acquisitions ahead.

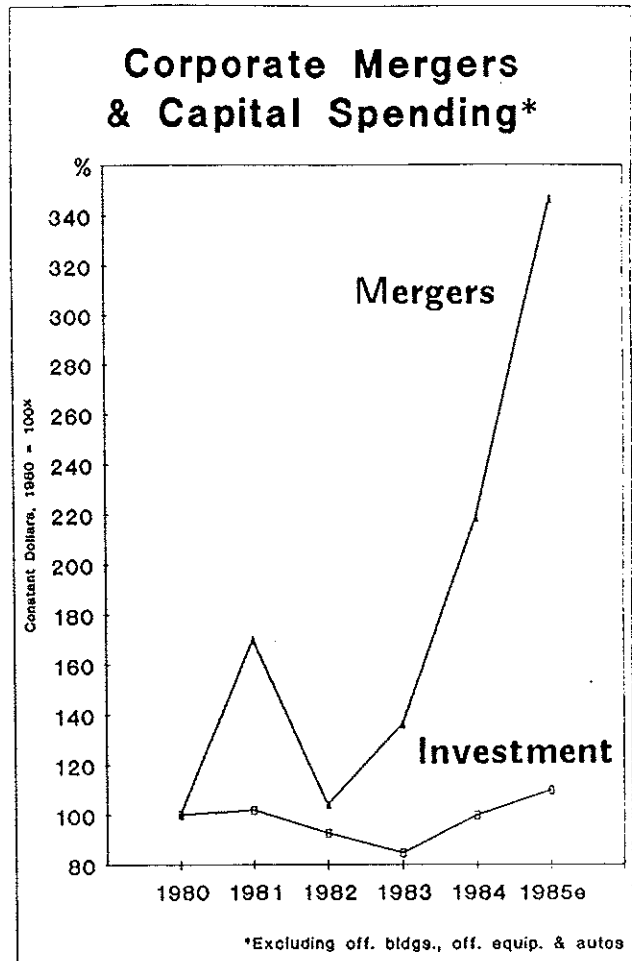
Or maybe these acquisitive companies simply found their evidently excess cash burning a hole in their corporate pockets. While sharply cutting back on capital spending and also reducing their total number of employees between 1981 and 1984, they increased their dividend payouts by 56 percent and almost doubled the total pay of their chief executive officers.

#### IV. Why Corporate Tax "Incentives" Don't Work

Both the overall national data and the specific company-by-company evidence in our survey make clear that tax rates explain little or nothing about increases or declines in a company's total investment or employment.

Other factors far outweigh the importance of taxes in investment decisions--factors such as whether or not the company already has more machines or buildings than it can efficiently use, the rate of technological advances in the production process, the level of interest rates, the commitment of top management to long-term growth, and most important, of course, the level of demand for a company's products.

If anything, an excessive management focus on chasing after tax shelters seems to have a negative effect on investment and job creation, as the poor performance of the no-tax companies in our study illustrates.



Despite all the evidence, however, proponents of corporate tax loopholes maintain that tax "incentives" *must* work, since they lower the "cost of capital."

Traditionally, it should be noted, the "cost of capital" mode of analysis has been used as an argument *against* tax loopholes. Economists have pointed out that tax preferences, by making some kinds of investment artificially attractive compared to others, will lead to an inefficient mix of overall investment. And, indeed, the shift in capital spending away from long-lived equipment and industrial plant and toward short-lived machines and commercial buildings seems to reflect, in part, a harmful result of the proliferation of tax preferences favoring the latter type of investments.

The loophole lobbyists, however, have attempted to turn "cost of capital" analysis on its head, and make it into an argument *for*, rather than *against*, corporate tax breaks. They disregard the serious economic distortions that tax preferences can create, while maintaining that the tax subsidies will produce a higher *overall* level of investment. Specifically, they argue that the existence of tax loopholes, by lowering the average effective cost of buying new machines, will increase the likelihood that machines will be substituted for labor, and thereby augment worker productivity and national output.

There are numerous problems with this argument. First of all, it simply *assumes* full employment; in other words, the argument is premised on the dubious proposition that workers whose jobs are eliminated will quickly find employment elsewhere. Second, it assumes that there is an economic advantage to be gained by replacing workers with equipment, even when the workers are more efficient in the absence of tax subsidies for the machines.

But most important, those who misuse "cost of capital" analysis as an argument in favor of tax loopholes almost totally ignore the larger macroeconomic consequences that our nation's corporate tax giveaway program entails.

At \$120 billion a year, corporate tax preferences are the source of *more than half* the current federal budget deficit. By necessitating huge federal borrowing, these loopholes have put pressure on interest rates, both directly and through the clear effect federal deficits have on the policies of the Federal Reserve Board. Higher interest rates have in turn created significant disincentives to capital spending, and are the major cause of the inflated exchange rate on the dollar and our country's growing trade imbalance. Thus, although loopholes may be "good" for the few companies that can use them to zero out on their federal income taxes, in the aggregate they are very bad indeed for the overall performance of our economy.

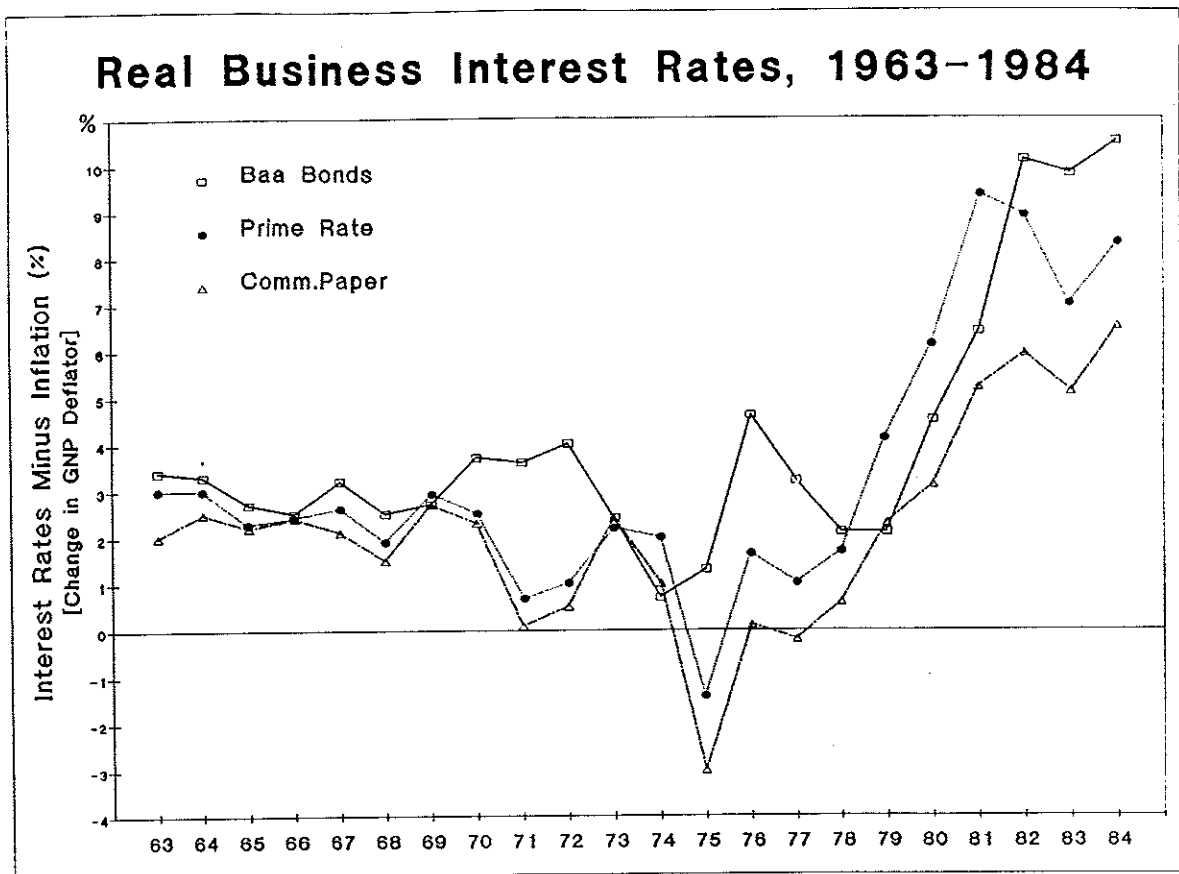
Real interest rates (nominal rates minus inflation) on business borrowing reached record heights over the 1982-84 period.

- Real long-term corporate bond rates between 1982 and 1984 ranged from 8 to over 10 percent, approximately six percentage points higher than during the 1960-72 period, and close to eight percentage points higher than the 1974-79 average.<sup>2</sup>

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<sup>2</sup>During the mid-1970s, the sharp increase in oil prices created huge budget surpluses in many of the OPEC nations. Because these countries were accumulating money faster than they could spend it, a high proportion of the "oil tax" receipts ended up in bank accounts, leading to a worldwide glut of savings and, consequently, very low real interest rates.

- Similarly, real short-term business borrowing rates in 1982-84 averaged 6-8 percent, about four-and-a-half percentage points higher than during the 1960-72 period and six percentage points more than the 1974-79 average.



Largely in response to these extraordinarily high real interest rates, the international exchange value of the dollar soared, as foreign investors sought dollars to invest in high-yield U.S. financial assets. The high value of the dollar in turn made U.S. products less competitive in world markets, while making imports into this country more attractive. By 1984, merchandise imports exceeded exports by \$114.1 billion a year. The U.S. current account trade balance (which includes income from services and investments abroad), fell from a surplus in 1980 and 1981 to a huge annual deficit of \$107.4 billion by 1984 and to close to \$140 billion last year.

Ironically, the companies that have been hit hardest by our deficit-generated trade problems--heavy manufacturing, machine tools, the auto industry, and steel-making, among them--were those companies that the loopholes were purportedly designed to help. But with disappearing markets at home and abroad and, consequently, with low or non-existent profits, many of these companies can no longer play the tax shelter game.

As the Ways and Means Committee Report on the House tax reform bill points out, "the [tax] benefits provide no immediate expansionary stimulus to new or rebuilding enterprises that lack the taxable income to turn credits and deductions into tax savings."

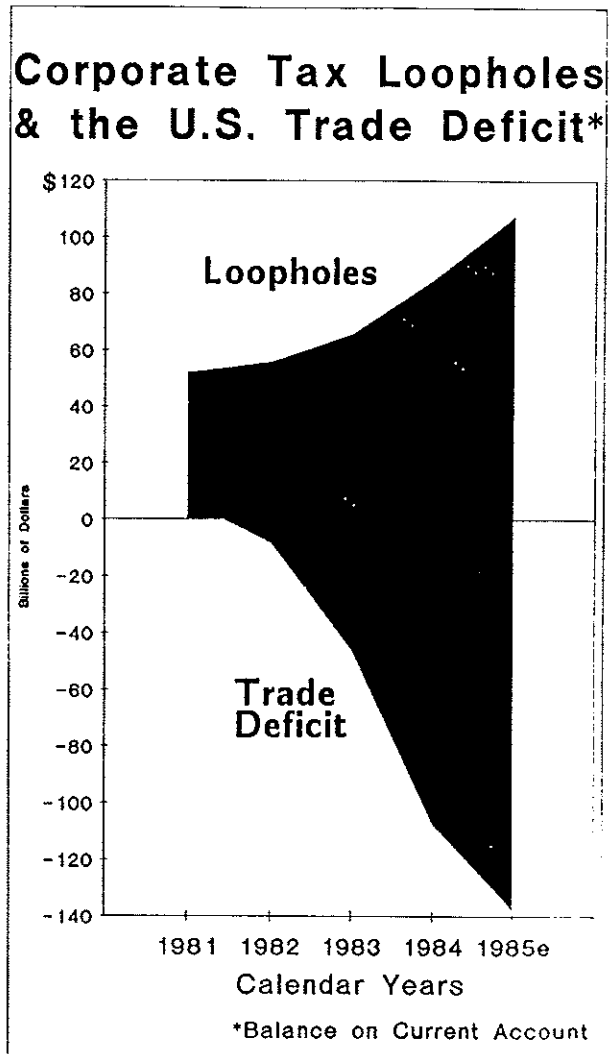
Caterpillar Tractor Company, for instance, has cut its investment spending by 72 percent, from \$836 million in 1981 to \$234 million in 1984, despite the plethora of "incentives" theoretically at its disposal. (Caterpillar has been excluded from the list of corporations that are covered by this report because it ran losses over the period we examined; our report covers only those corporations that ran large profits over the four years.)

The inflated value of the dollar is also largely responsible for one of the cruel economic ironies of the past several years. A good part of the increased capital spending associated with the recovery from the 1981-82 recession has benefitted overseas suppliers of equipment and machinery. The import share of business equipment spending has doubled since 1980, and today represents more than a quarter of all equipment purchases.

The loopholes were packaged and sold as the salvation of the rustbelt. They were to be, said their proponents, the keys to the reinvigoration of our nation's basic industries. But the tax breaks have failed miserably in this regard.

We could--and should--learn a valuable lesson about taxation and economic growth from the Japanese. By almost totally eschewing corporate tax loopholes, Japan raises close to 30 percent of its national government revenues from corporate income taxes. In fact, in 1983 Japanese companies paid a higher absolute amount in income taxes to their country than American corporations paid to the U.S. Treasury, despite a Japanese GNP only one-third the size of the U.S.'s (and despite the fact that U.S. corporations have significantly higher profitability rates than do Japanese companies).

The Japanese approach to corporate taxes avoids the serious economic distortions that corporate tax preferences inevitably create. It also means lower tax rates on Japanese individual taxpayers and small businesses. And requiring corporations to pay their fair share of taxes allows Japan to follow balanced fiscal and monetary policies that keep interest rates in Japan very low.<sup>3</sup>



<sup>3</sup>Ironically, the Japanese corporate tax system was designed by Americans, during the post-World War II occupation.

## V. Investing in People

For the past decade, the national debate over how best to enhance economic growth has focused almost entirely on "incentives" that businesses might need for investing in new capital equipment.

But a definition of investment that focuses exclusively on private sector purchases of capital equipment is so narrow as to be practically irrelevant to the dynamic by which economic growth takes place. It overlooks the far more important role played by investment--both public and private--in the skills, talents, and minds of people.

The widely acclaimed work by Edward Dennison on factors contributing to economic growth underscores this often-overlooked truth. According to Dennison, the application of "advances in knowledge" to production processes explains a full 39 percent of the increase in national income for non-residential businesses between 1929 and 1982; improvements in "education per worker" accounted for another 19 percent of the increase. By comparison, increases in the nation's capital stock accounted for a mere 14 percent of the increase in national income during this time period.

Dennison's analysis extended earlier research conducted by Robert Solow of MIT, who concluded that more than 80 percent of the growth in output per hour worked between 1909 and 1949 was due to technological progress--that is, factors other than growth in the input of capital per hour worked.

But in our preoccupation with corporate tax incentives, we have lost sight of the crucial role played by other kinds of investment. We have pursued a federal budget strategy that represents a systematic *disinvestment* in the programs that build human capital. Federal funding of education and training programs, for instance, have been cut by more than a quarter since President Reagan moved into the White House. And today, we stand on the brink of triggering an automatic budget-cutting process that would cut an additional quarter from these programs in fiscal year 1987.

But none of this disinvestment in America's future is necessary. If just one no-tax corporation, General Electric, had paid a minimum tax of 25 percent on its more than \$9 billion in domestic profits that it reported to its shareholders between 1981 and 1984, considerably more money would have been raised than could be saved from the projected automatic cuts in student assistance.

If DuPont had paid a 25 percent minimum tax on its \$4.1 billion in 1981-84 earnings, more money would have been raised than could be gained by cutting all job-training programs by one quarter next year. And if W.R. Grace & Co. had paid a 25 percent minimum tax on its \$803 million in profits--instead of the 0.2 percent it actually paid--the projected 25 percent cutback in the federal job bank for unemployed workers could be entirely avoided.

In the competitive, high-technology world we face in the future, the edge will go to the country with the best-trained and most flexible workforce, not to the country with the largest stockpile of machines and buildings. Investments we make in human capital in the 1980s will determine how productive our physical capital will be in the next century.



## VI. It's Time For A Change

In 1981, Congress and the administration put their faith in a starry-eyed theory about tax loopholes and economic growth, engaging in what then Senate Majority Leader Howard Baker called a "riverboat gamble" with the economy and the tax code. After four years of experience, however, faith is no longer enough. The time has come for policymakers to look at the hard data concerning the relationship between corporate loopholes and the corporate record on capital investment and job creation. As this report illustrates, the loophole-based strategy has been a colossal failure.

While federal taxes on the poorest Americans have more than doubled since 1979 and taxes for most middle-income families have also increased, many of the nation's largest and most profitable corporations now pay no federal income taxes at all. The explosion in corporate tax preferences--to \$1.69 for every dollar expected to be paid in corporate taxes this year--amounts to more than \$1,500 annually for every taxpaying American family. It has been a primary driving force behind the huge federal budget deficit.

Yet, while corporate income tax payments have plummeted and upper-income tax shelters based on the same loopholes that fuel corporate tax avoidance have proliferated, total investment and job creation by the beneficiaries of those huge tax subsidies have stagnated or declined.

It's time for a change.

Fortunately, there is a real opportunity this year to make major progress toward restoring fairness and economic common sense to the tax laws. The House of Representatives has approved an historic tax reform bill that would close the most egregious loopholes, curb the tax avoidance, and substantially reduce the economic distortions that the current tax code creates.

If the House reform bill is enacted by the full Congress, it will mean that, for the first time in years, General Electric, Boeing, and Dow Chemical will be paying as much in taxes as the people who work their assembly lines, type their letters, and wax their floors. Upper-income individuals no longer will be able to use tax shelters to escape their tax responsibilities. The bill reverses the policy of the past five years of ever-increasing taxes on the poor. And there will be significant, real tax relief for the vast majority of hardworking Americans.

A majority of the members of the House of Representatives--and, to a large degree, even the policymakers within the administration--have come to realize that the loophole-based economic strategy has been a failure. They have watched and waited for an investment boom to result from the 1981 tax "incentives" and have been disappointed. And, therefore, they have had the wisdom to reverse course.

Now, however, the tax reform bill is before the Senate, which will consider the measure amidst a chorus of corporate complaints that the reform bill passed by the House is "too tough on business." Retention of a wide range of loopholes is being urged by the chief lobbies for tax-avoiding corporations, using now familiar slogans about "international competitiveness" and "stimulating investment."

Indeed, the Senate Finance Committee is said to be considering a variety of measures--ranging from a national sales tax to a partial rollback of the state and local tax deduction--all for the purpose of retaining some of the special corporate tax breaks that the House bill would take away.<sup>4</sup>

Given the nature of the trade-off posed by these options--raising taxes on the poor and the middle-class to pay for the preservation of the favorite loopholes of the corporate tax avoiders--the data contained in this report are particularly significant.

We now have four years of evidence on the effectiveness of these loopholes. Are we more competitive in international markets today than we were when the build-up of corporate loopholes took off in earnest back in 1981? Did those companies that benefitted the most from the loopholes actually boost their investment spending between 1981 and 1984 as their lobbyists promised? The answer to these critical questions is clearly no.

Why is it that lobbyists for no-tax corporations expect ordinary Americans to get up every morning, go to work, and pay their taxes, while corporate managers supposedly won't do their jobs unless the government gives them tax subsidies to do so? This attitude makes no sense, and, according to John H. Bryan, Jr., chief executive officer of Sara Lee Corp., it is not shared by the majority of American business leaders.

"Outside the Beltway, business overwhelmingly supports tax reform and the House tax bill," says Bryan. "It's a scandal when major corporations don't pay their fair share of taxes. The problem is that inside the Beltway all the lobbyists work for the zero-tax companies."

It is now up to the Senate to resist the blandishments of the loophole lobbyists, to face up to the hard evidence, and to join the House in restoring fairness and economic sanity to our country's tax system.

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<sup>4</sup>Some of the national sales tax proposals are disguised as a "value-added tax" or a "business-transfer tax," in the apparent hope that the public can be persuaded that the sales tax is a "tax on business"--since businesses will collect it. All of these proposed taxes, however, as well as the selective sales taxes on oil or gasoline that have been discussed, would in fact be paid by consumers in the form of higher prices. That, of course, is why so many lobbyists for no-tax corporations favor such sales or "consumption" taxes as substitutes for reform of the corporate income tax.

**Profits, Federal Income Taxes, & Changes in  
Capital Spending, Employment and Dividends  
For 259 Major, Nonfinancial American Corporations, 1981-84  
(\$-millions)**

Company:	1981-84			% CHANGE	% CH.	% CH.
	Profit	Tax	Rate	IN INV. 81-84	IN EMP. 81-84	IN DIV. 81-84
ITT	\$815.0	(\$177.7)	-21.8%	-30%	-25%	-25%
Dow Chemical Co.	972.0	(180.0)	-18.5%	-34%	-13%	1%
Ashland Oil	336.1	(62.0)	-18.5%	-0%	7%	-19%
Tesoro Petroleum	124.3	(22.5)	-18.1%	3%	-16%	20%
Piedmont Aviation	169.0	(25.4)	-15.0%	38%	115%	34%
Boeing Co.	2,099.0	(285.0)	-13.6%	-38%	-18%	1%
Internat'l Minerals & Chemical	371.6	(43.7)	-11.8%	-69%	-15%	4%
Northrup Corp.	416.8	(46.4)	-11.1%	82%	28%	58%
IC Industries	534.7	(55.4)	-10.4%	-37%	-19%	7%
Sun Chemical Corp.	103.2	(10.4)	-10.1%	16%	32%	5%
Mitchell Energy & Dev. Corp.	458.7	(41.1)	-9.0%	-53%	0%	-0%
Pepsico	1,798.7	(135.8)	-7.6%	51%	27%	23%
Georgia-Pacific Corp.	783.0	(59.0)	-7.5%	10%	-10%	-35%
International Multifoods	43.9	(3.2)	-7.3%	11%	-4%	22%
General Dynamics	1,579.5	(103.8)	-6.6%	82%	17%	17%
Weyerhaeuser Co.	929.2	(59.1)	-6.4%	-53%	-12%	6%
Harris Corp.	307.6	(19.5)	-6.3%	40%	16%	34%
Singer Co.	194.2	(11.6)	-6.0%	0%	-23%	1%
Santa Fe South'n Pacific Corp.	2,309.0	(133.4)	-5.8%	-8%	7%	18%
Scott Paper Co.	594.6	(30.5)	-5.1%	-8%	2%	35%
Tenneco	3,401.0	(166.0)	-4.9%	-26%	-7%	19%
Centex Corp.	264.4	(10.2)	-3.9%	424%	-38%	47%
Southwest Airlines Co.	213.0	(8.1)	-3.8%	132%	81%	37%
Texaco	1,819.0	(68.0)	-3.7%	23%	-8%	-2%
Union Carbide	892.0	(26.0)	-2.9%	-44%	-13%	7%
International Paper Co.	1,136.3	(32.6)	-2.9%	-14%	-20%	1%
Greyhound Corp.	419.9	(10.4)	-2.5%	-24%	-29%	9%
Allied Corp.	693.0	(17.0)	-2.5%	44%	97%	92%
Panhandle Eastern Corp.	1,220.7	(28.8)	-2.4%	-65%	-10%	23%
Ogden Corp.	251.5	(5.6)	-2.2%	-29%	47%	33%
Ohio Edison Co.	1,524.4	(31.8)	-2.1%	46%	1%	70%
Northern Indiana PSC	792.5	(14.6)	-1.8%	-27%	-8%	55%
Philadelphia Electric Co.	1,892.5	(30.3)	-1.6%	29%	8%	72%
Tyson Foods	69.1	(1.0)	-1.4%	44%	31%	4%
Columbia Gas System	1,147.1	(15.9)	-1.4%	-52%	-2%	42%
Jim Walter Corp.	361.7	(4.1)	-1.1%	-58%	-19%	-31%
Arizona Public Service Co.	1,278.4	(14.1)	-1.1%	-18%	27%	60%
General Electric	9,577.0	(98.0)	-1.0%	23%	-18%	30%
DuPont	4,075.0	(40.0)	-1.0%	23%	1%	39%
Xerox	1,122.7	(9.2)	-0.8%	-3%	-15%	32%
Pennsylvania Power & Light Co.	1,362.9	(10.0)	-0.7%	-41%	5%	49%
Burlington Northern	2,799.2	(1.1)	-0.0%	47%	-18%	182%

Company:	1981-84			% CHANGE	% CH.	% CH.
	Profit	Tax	Rate	IN INV. 81-84	IN EMP. 81-84	IN DIV. 81-84
Grumman Corp.	\$653.4	\$0.0	0.0%	196%	6%	64%
Lockheed Corp.	1,670.9	0.0	0.0%	59%	5%	NM
Union Electric	1,420.5	2.6	0.2%	-0%	3%	63%
Great Northern Nekoosa	521.8	1.0	0.2%	136%	7%	32%
Grace (W.R.) & Co.	802.7	1.6	0.2%	-43%	-12%	17%
Commonwealth Edison Co.	3,595.7	8.0	0.2%	23%	6%	54%
CSX Corp.	2,585.4	7.4	0.3%	13%	-20%	38%
McDonnell Douglas Corp.	1,424.2	5.1	0.4%	104%	4%	57%
Prime Computer	141.3	0.6	0.4%	45%	53%	NM
Westinghouse Electric Corp.	1,989.2	10.3	0.5%	10%	-14%	11%
Martin Marietta Corp.	791.1	4.6	0.6%	-58%	13%	-13%
Ozark Holdings (Ozark Air L.)	59.7	0.4	0.6%	312%	3%	81%
Consumers Power Co.	1,234.7	10.0	0.8%	-14%	-3%	-31%
Public Service Indiana	1,084.6	9.0	0.8%	-83%	-8%	-31%
ENSERCH Corp.	826.6	7.6	0.9%	-17%	-10%	40%
RCA	790.2	8.0	1.0%	23%	-14%	-28%
Overseas Shipholding Group	276.3	2.9	1.0%	-81%	-20%	-18%
Sperry Corp.	699.2	7.9	1.1%	-6%	-17%	43%
Union Camp Corp.	816.0	11.0	1.3%	43%	13%	18%
Detroit Edison Co.	1,634.1	23.0	1.4%	-13%	2%	63%
Champion International Corp.	299.8	4.5	1.5%	65%	21%	-57%
Niagra Mohawk Power Corp.	1,440.4	25.0	1.7%	59%	8%	65%
PacificCorp (Pac. Power & Light)	983.8	17.2	1.7%	-42%	6%	-54%
FPL Group (Fla. Power & Light)	1,895.3	38.4	2.0%	-12%	10%	29%
Wang Laboratories	485.8	10.6	2.2%	114%	101%	183%
Baxter Travenol Laboratories	649.3	14.2	2.2%	97%	5%	75%
Carolina Power & Light Co.	1,631.5	37.7	2.3%	36%	32%	28%
American Cyanamid Co.	435.5	10.1	2.3%	11%	-9%	14%
SCM Corp.	175.9	4.5	2.6%	-6%	-17%	9%
Gulf States Utilities Co.	1,044.1	30.9	3.0%	31%	14%	83%
Englehard Corp.	229.7	7.6	3.3%	-22%	-22%	3%
General Public Utilities Corp.	696.0	24.0	3.4%	28%	10%	NM
PSE&G (New Jersey)	2,207.4	76.6	3.5%	37%	7%	43%
Central and South West Corp.	1,818.1	68.0	3.7%	72%	8%	39%
Union Pacific Corp.	2,577.0	104.0	4.0%	-11%	45%	50%
Northern States Power Co.	1,192.2	54.3	4.6%	41%	0%	27%
Cleveland Electric Illum. Co.	1,238.4	57.8	4.7%	42%	10%	57%
Continental Telecom	1,100.1	55.7	5.1%	26%	-4%	32%
Houston Industries	1,793.9	95.3	5.3%	39%	22%	69%
General Mills	1,367.9	74.4	5.4%	15%	18%	33%
American Standard	173.4	9.6	5.5%	12%	-5%	5%
Searle (G.D.) & Co.	680.1	39.7	5.8%	201%	-37%	-4%
Signal Companies	1,046.0	62.0	5.9%	32%	-15%	100%
Gould	316.0	19.2	6.1%	31%	-28%	-51%
MCA	409.8	25.5	6.2%	69%	1%	20%
Sundstrand Corp.	405.1	25.6	6.3%	44%	-4%	6%
Uniroyal	93.1	6.0	6.4%	30%	-24%	NM
Archer Daniels Midland Co.	745.4	53.5	7.2%	-60%	38%	48%
Pacific Lighting Corp.	848.2	61.7	7.3%	168%	22%	59%
Burlington Industries	438.7	35.5	8.1%	-1%	-18%	-12%

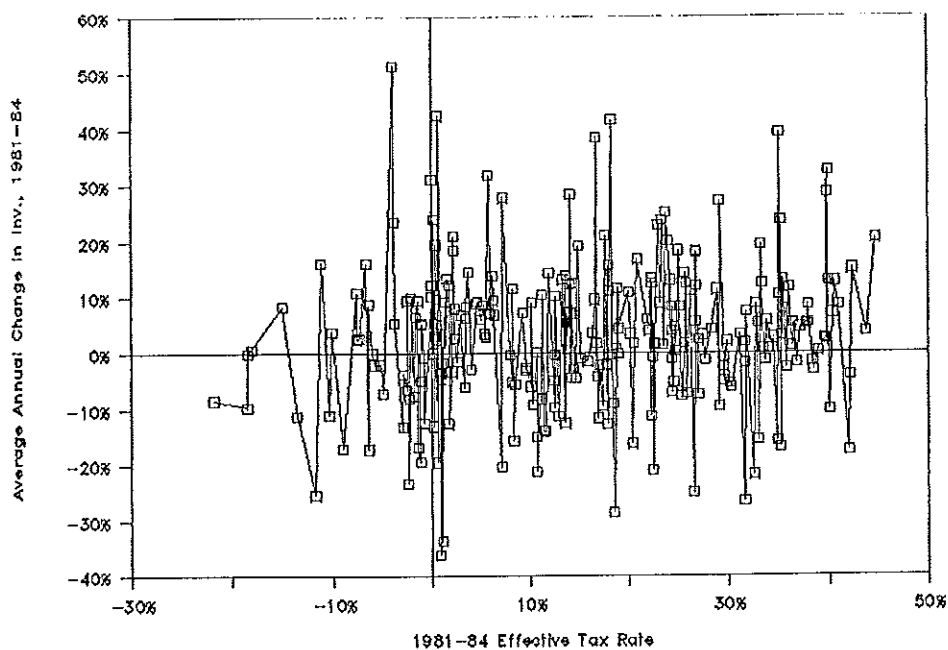
Company:	1981-84			% CHANGE	% CH.	% CH.
	Profit	Tax	Rate	IN INV. 81-84	IN EMP. 81-84	IN DIV. 81-84
Air Products and Chemicals	\$454.5	\$37.5	8.2%	-19%	7%	42%
Owens-Illinois	369.2	30.6	8.3%	55%	-18%	2%
MAPCO	383.1	32.1	8.4%	-49%	-16%	-40%
Norfolk Southern Corp.	3,037.8	259.1	8.5%	-21%	-11%	34%
GTE Corp.	5,186.3	483.6	9.3%	32%	-6%	32%
Olin Corp.	383.0	37.0	9.7%	-11%	-13%	15%
Corning Glass Works	142.3	13.8	9.7%	-10%	-7%	15%
American Natural Resources Co.	1,026.5	104.4	10.2%	-22%	-5%	8%
Armstrong World Industries	319.5	32.7	10.2%	41%	-10%	4%
Household International	916.9	94.8	10.3%	-32%	-19%	18%
Dominion Resources (VEPCO)	1,926.5	207.7	10.8%	0%	18%	52%
Federal Paper Board Co.	134.4	14.5	10.8%	-61%	2%	18%
Phillips Petroleum Co.	3,282.0	355.0	10.8%	-48%	-14%	8%
Texas Eastern Corp.	827.0	93.3	11.3%	-29%	81%	28%
Pacific Gas and Electric Co.	4,396.8	496.3	11.3%	48%	5%	45%
Becton, Dickinson and Co.	292.7	33.7	11.5%	-45%	-13%	18%
Arkansas Power & Light Co.	792.5	92.8	11.7%	-45%	7%	48%
Leaseway Transportation Corp.	184.8	22.1	12.0%	71%	20%	6%
Mobil Corp.	3,961.0	495.0	12.5%	-18%	-15%	5%
Borden	934.6	117.3	12.6%	-34%	-9%	20%
Pittway Corp.	186.3	23.4	12.6%	-1%	11%	7%
Sara Lee Corp. (Consol. Foods)	834.7	105.5	12.6%	47%	6%	35%
Pennzoil Co.	1,097.2	142.6	13.0%	-38%	-16%	10%
Donnelley (R.R.) & Sons Co.	716.3	95.6	13.4%	64%	13%	59%
Hospital Corp. of America	1,326.8	181.2	13.7%	-41%	17%	161%
Data General Corp.	203.5	27.8	13.7%	68%	12%	NM
Schering-Plough Corp.	649.0	89.6	13.8%	2%	-11%	-7%
Anheuser-Busch	2,052.4	284.3	13.9%	23%	116%	128%
Sun Co.	3,716.0	520.0	14.0%	34%	-20%	6%
Illinois Power Co.	1,074.5	151.3	14.1%	58%	2%	51%
Coors (Adolph) Co.	351.7	49.6	14.1%	-11%	0%	33%
American Petrofina	330.2	46.7	14.1%	171%	15%	6%
Cubic Corp.	101.3	14.3	14.1%	32%	2%	63%
Tektronix	226.1	32.2	14.2%	-17%	-13%	15%
Kimberly-Clark Corp.	860.3	123.3	14.3%	60%	11%	24%
Southern California Edison Co.	3,482.7	503.9	14.5%	-11%	16%	46%
Standard Oil of Indiana	7,472.0	1,099.0	14.7%	-17%	-4%	12%
Westvaco Corp.	471.1	70.3	14.9%	101%	-3%	19%
Kroger Co.	974.7	148.4	15.2%	-4%	27%	39%
Johnson & Johnson	1,327.4	211.4	15.9%	-6%	-2%	39%
Textron	626.8	102.8	16.4%	15%	-12%	-3%
M/A-COM	229.6	38.2	16.6%	44%	33%	116%
MacMillan	121.4	20.4	16.8%	267%	6%	26%
AMETEK	218.4	36.8	16.8%	7%	-13%	53%
PPG Industries	1,115.4	188.8	16.9%	-16%	3%	26%
Cabot Corp.	526.8	89.4	17.0%	-39%	-4%	9%
Baltimore Gas and Electric Co.	1,235.7	211.6	17.1%	-9%	3%	37%
FMC	787.3	137.1	17.4%	-33%	-31%	2%
Dillard Department Stores	204.4	36.1	17.7%	114%	84%	100%
Monsanto Co.	1,792.0	319.0	17.8%	-8%	-16%	26%

Company:	1981-84			% CHANGE	% CH.	% CH.
	Profit	Tax	Rate	IN INV. 81-84	IN EMP. 81-84	IN DIV. 81-84
Borg-Warner Corp.	\$570.2	\$101.7	17.8%	-9%	49%	42%
Chevron Corp. [Std.Oil (Cal.)]	6,036.0	1,083.0	17.9%	-42%	-7%	9%
Rockwell International	2,346.9	423.5	18.0%	79%	-2%	30%
Carpenter Technology Corp.	209.4	38.0	18.1%	53%	2%	6%
Alumax	515.2	94.5	18.3%	301%	78%	-36%
Upjohn Co.	935.4	172.0	18.4%	-2%	2%	30%
Anderson Clayton	160.6	29.7	18.5%	-32%	-8%	17%
Hormel (Geo. A.) & Co.	186.0	34.6	18.6%	-74%	-10%	12%
SmithKline Beckman	1,595.5	299.8	18.8%	3%	40%	52%
Emhart Corp.	255.6	48.4	18.9%	55%	-11%	16%
United Telecommunications	1,486.5	283.0	19.0%	-0%	-6%	35%
White Consolidated Industries	267.2	50.9	19.0%	19%	-34%	6%
Goodyear Tire & Rubber Co.	1,864.5	374.3	20.1%	52%	-3%	38%
American Hospital Supply Corp.	992.1	201.1	20.3%	15%	-5%	83%
Pfizer	1,206.9	246.6	20.4%	-50%	-4%	78%
Unocal Corp.	4,008.8	826.0	20.6%	7%	7%	11%
Pitney Bowes	514.9	107.9	21.0%	86%	1%	31%
Hercules	457.4	100.4	22.0%	27%	10%	43%
Ball Corp.	245.1	54.1	22.1%	17%	-15%	54%
Squibb Corp.	421.4	94.1	22.3%	65%	4%	30%
General Motors Corp.	13,412.6	2,998.1	22.4%	-38%	1%	109%
TRW	1,124.6	252.4	22.4%	60%	-2%	24%
Shell Oil Co.	10,849.0	2,443.0	22.5%	-3%	-5%	11%
Lubrizol Corp.	223.1	50.3	22.5%	-61%	0%	2%
Coca Cola Co.	1,439.8	325.8	22.6%	6%	2%	27%
General Foods Corp.	1,655.0	375.4	22.7%	7%	8%	13%
Motorola	924.0	213.0	23.1%	127%	28%	46%
Coleman Co.	136.7	31.6	23.1%	41%	24%	19%
Media General	224.4	52.6	23.4%	135%	56%	17%
Heileman (G.) Brewing Co.	343.4	80.8	23.5%	6%	11%	39%
ConAgra	227.0	54.0	23.8%	145%	128%	169%
Hewlett-Packard Co.	1,685.0	404.0	24.0%	108%	27%	81%
Holiday Inns	688.2	166.9	24.3%	63%	8%	40%
Norton Co.	280.7	68.5	24.4%	-4%	-24%	29%
Honeywell	865.4	211.5	24.4%	-25%	-3%	22%
Alco Standard Corp.	375.9	92.0	24.5%	18%	-18%	29%
Springs Industries	229.3	56.1	24.5%	38%	-17%	12%
Lilly (Eli) and Co.	2,142.4	527.1	24.6%	-19%	2%	16%
Nabisco Brands	1,248.9	308.1	24.7%	20%	15%	58%
Johnson Controls	352.0	87.1	24.7%	1%	9%	26%
Tracor	154.6	38.8	25.1%	96%	20%	78%
United Technologies	2,117.3	532.4	25.1%	38%	2%	13%
InterNorth	1,273.9	322.8	25.3%	-28%	-6%	22%
NCR Corp.	845.0	217.3	25.7%	8%	-7%	38%
IBM	20,912.0	5,382.0	25.7%	71%	10%	24%
Parker Hannifin Corp.	288.4	74.5	25.8%	60%	-3%	33%
Rohm and Haas	456.0	118.1	25.9%	-26%	-13%	40%
Quaker State Oil Refining Corp	192.9	50.7	26.3%	52%	-4%	-0%
Gulf+Western Industries	971.0	258.0	26.6%	-68%	-43%	4%
Pillsbury Co.	845.7	226.3	26.8%	25%	13%	52%

Company:	1981-84			% CHANGE	% CH.	% CH.
	Profit	Tax	Rate	IN INV. 81-84	IN EMP. 81-84	IN DIV. 81-84
Time	\$897.6	\$240.6	26.8%	95%	-29%	-21%
Abbot Laboratories	1,833.5	491.5	26.8%	57%	9%	63%
West Point-Pepperell	298.7	80.2	26.8%	94%	-5%	41%
Ethyl Corp.	522.4	141.1	27.0%	-26%	-21%	4%
Exxon	12,202.0	3,300.0	27.0%	10%	-17%	3%
Digital Equipment Corp.	1,357.0	373.3	27.5%	13%	36%	NM
Owens-Corning Fiberglas Corp.	343.9	95.2	27.7%	-5%	-0%	4%
Witco Chemical Corp.	254.5	72.1	28.3%	18%	0%	34%
Allegheny Power System	1,063.5	307.9	28.9%	55%	0%	42%
Stanley Works	273.7	79.7	29.1%	-33%	-18%	32%
Nat'l Distillers & Chem. Corp.	368.7	107.5	29.2%	161%	-8%	-6%
Eastman Kodak Co.	5,703.0	1,684.0	29.5%	-18%	-6%	2%
CBS	988.5	292.0	29.5%	-9%	-11%	8%
Perkin-Elmer Corp.	263.2	78.5	29.8%	9%	-3%	23%
Litton Industries	1,583.9	476.9	30.1%	-20%	-12%	51%
Dart & Kraft, Inc.	1,967.8	596.3	30.3%	-22%	-18%	13%
Heinz (H.J.) Co.	850.1	265.0	31.2%	14%	1%	66%
Philip-Morris	4,725.3	1,494.6	31.6%	-71%	-6%	67%
USG Corp. (U.S. Gypsum)	557.6	176.8	31.7%	-7%	13%	17%
Consolidated Edison Co.	3,473.8	1,102.0	31.7%	8%	-5%	38%
Minnesota Mining & Manuf. (3M)	3,057.0	971.0	31.8%	33%	-3%	13%
Halliburton Co.	1,995.1	649.3	32.5%	-62%	-38%	35%
E-Systems	288.7	94.6	32.8%	40%	2%	113%
National Service Industries	337.1	111.0	32.9%	24%	2%	28%
Harsco Corp.	190.2	62.8	33.0%	-49%	-24%	12%
American Greetings	248.6	82.6	33.2%	104%	18%	76%
Procter & Gamble Co.	4,792.0	1,597.0	33.3%	60%	2%	27%
Chesebrough-Pond's	582.2	195.0	33.5%	3%	13%	35%
Hershey Foods Corp.	662.4	222.9	33.6%	-5%	19%	52%
Briggs & Stratton Corp.	224.7	75.9	33.8%	25%	6%	4%
Gillette Co.	367.5	126.4	34.4%	3%	-8%	24%
Sonoco Products Co.	206.8	71.3	34.5%	12%	23%	38%
Wyman-Gordian Co.	335.3	116.9	34.9%	-50%	-27%	17%
Wrigley (Wm., Jr.) Co.	149.5	52.3	35.0%	49%	-7%	12%
Cooper Tire & Rubber Co.	140.4	49.2	35.0%	277%	24%	81%
McGraw Edison Co.	397.8	139.8	35.1%	-52%	-5%	12%
AMP	665.3	234.0	35.2%	135%	19%	60%
Clorox Co.	384.4	135.7	35.3%	13%	10%	49%
Campbell Soup Co.	988.8	349.8	35.4%	35%	11%	11%
Consolidated Papers	405.4	143.5	35.4%	65%	-6%	20%
General Signal Corp.	639.5	226.8	35.5%	55%	-10%	19%
Standard Oil of Ohio	11,969.0	4,277.0	35.7%	-10%	11%	16%
Kellogg's Co.	1,202.1	432.7	36.0%	56%	-12%	13%
Square D Co.	520.5	189.0	36.3%	5%	-2%	12%
Avon Products	878.2	319.9	36.4%	23%	14%	-13%
Colt Industries	720.0	264.9	36.8%	-7%	-11%	16%
K mart	2,047.5	759.1	37.1%	20%	1%	28%
Bristol-Myers Co.	1,775.4	668.3	37.6%	22%	3%	71%
Ex-Cell-O Corp.	304.4	115.3	37.9%	23%	-7%	5%
Knight-Ridder Newspapers	788.4	299.0	37.9%	39%	15%	55%

Company:	1981-84			% CHANGE	% CH.	% CH.
	Profit	Tax	Rate	IN INV.	IN EMP.	IN DIV.
				81-84	81-84	81-84
Dana Corp.	\$728.0	\$279.5	38.4%	-6%	1%	19%
Nalco Chemical Co.	378.4	145.6	38.5%	-12%	4%	18%
American Brands	2,004.9	780.5	38.9%	2%	43%	13%
Amstar Corp.	305.7	121.1	39.6%	11%	-5%	-14%
Sherwin-Williams Co.	307.8	122.3	39.8%	10%	-4%	93%
Reynolds (R.J.) Industries	4,570.0	1,821.0	39.8%	173%	14%	43%
ABC	1,162.4	464.2	39.9%	208%	2%	3%
Foster Wheeler Corp.	174.8	69.8	39.9%	63%	-15%	7%
Brown-Forman Distillers Corp.	546.3	218.9	40.1%	-35%	205%	29%
McGraw-Hill	795.4	321.6	40.4%	32%	1%	49%
SuperValu Stores	456.2	185.1	40.6%	62%	24%	57%
Raytheon Co.	1,908.2	781.7	41.0%	39%	-3%	17%
PACCAR	382.7	160.6	42.0%	-54%	-15%	67%
Ralston Purina Co.	1,288.9	542.6	42.1%	-15%	-21%	5%
Whirlpool Corp.	939.6	397.9	42.4%	76%	5%	26%
INTERCO	703.1	307.2	43.7%	16%	-6%	4%
VF Corporation	720.3	322.0	44.7%	110%	49%	92%
<b>TOTALS, 259 COMPANIES:</b>	<b>\$350,877.3</b>	<b>\$59,488.0</b>	<b>17.0%</b>	<b>-1%</b>	<b>-2%</b>	<b>24%</b>

### Tax Rates and Changes in Investment For 259 Major Corporations, 1981-84





## Methodology

This study represents a continuation of CTJ's earlier reports on corporate taxes and investment performance, specifically *Corporate Taxpayers & Corporate Freeloaders* (August 1985) and *The Failure of Corporate Tax Incentives* (January 1985). Our August report examined 275 major corporations and their federal taxes for 1981-84. The new report looks at the capital spending and employment performances of these same companies, except that financial corporations and a handful of companies for which investment data was not available were excluded.

### 1. Choosing the Companies:

a. The coverage of the study is based on the top 300 firms from the Fortune 500, along with the companies listed in Fortune's lists of the top 50 companies among utilities, service industries, and transportation companies. We also supplemented our list by writing to several companies not included in the Fortune lists but covered in studies of corporate taxes performed by the staff of the congressional Joint Committee on Taxation in 1983 and 1984.

From our large sample of corporations, companies were excluded based on one of three criteria: (1) we were unable to obtain a company's annual reports; or (2) a company lost money over the four years, lost money in either 1984 or 1983, or lost so much in 1981 or 1982 that the results would have been distorted; or (3) a company's annual report did not provide sufficient information to calculate domestic profits, current federal income taxes, or investment performance. This process of elimination left the 259 corporations included in the study.

2. **Data on Profits and Taxes:** The information on profits and taxes was compiled from the companies' own 1984 and 1983 annual reports to shareholders. The profit figures listed in the study are pretax domestic profits, minus state and local income taxes. The tax figures listed in the study are federal income taxes currently payable. (Current taxes are those the company is obligated to pay during the year; they do not include taxes "deferred" due to various federal "tax incentives" such as accelerated depreciation.)

Taxes were divided by profits to produce the "effective tax rates" shown in the study. A negative effective rate means that a company enjoyed a tax rebate, usually obtained by carrying back excess tax deductions and credits to an earlier year and receiving a tax refund check from the U.S. Treasury Department.<sup>5</sup>

3. **Data on capital spending, employment, and dividends:** The information about capital spending and dividends was also obtained from the companies' annual reports, most often from cash flow statements. The data on employment came primarily from annual compilations by *Fortune* and *Forbes* magazines, supplemented with information from the companies' annual reports.

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<sup>5</sup>A note about our treatment of "safe-harbor leasing," that is, sales and purchases of tax benefits: A number of the companies we examined had either sold or purchased tax benefits during the period studied, pursuant to the since-repealed "safe-harbor leasing" program that was included in the 1981 tax act. Most companies treated the benefits they obtained from these transactions, both sales and purchases, as reductions in their current federal taxes. For those which did not, we adjusted the results to follow that approach. In measuring the benefits that companies may have obtained from the tax system, such an adjustment seems both natural and necessary. Our August report, *Corporate Taxpayers and Corporate Freeloaders*, includes details about the companies for which we made such adjustments and the amounts involved.