



Policy Proposal: Tie Corporate Taxes to Job Creation

Kevin T. Leicht, University of Illinois at Urbana-Champaign

Policy Challenge: Connect Corporate Profits to Middle Class Prosperity

American wages have stagnated and incomes have not increased since the early 1980s. The country's middle class has suffered through recessions, deindustrialization, layoffs, outsourcing, corporate downsizing, the decline of private sector unions and job rights, lower or stagnant rates of upward mobility, and rising indebtedness. Tax cuts to corporations and upper income earners have been passed with promises that the resulting economic stimulus will "help" middle class Americans but there is little or no evidence that this has occurred. As average workers face job instability and stagnant or declining wages, corporate profits have reached record levels and corporate CEO pay continues to leave the average worker in the dust.

On top of these disparities, the Federal tax code provides tax breaks for a variety of corporate activities that do not directly generate employment or increase wages for average workers. By some estimates, corporate tax avoidance deprives the Federal treasury of around \$200 billion per year. There is more than ample evidence over the past 30 years that higher corporate profits and lower corporate taxes have not created prosperity for those in the middle. The challenge is to link corporate profits to prosperity for the rest of us.

Policy Solution: The Tax Fairness for Middle Class Families Act

The Tax Fairness for Middle Class Families Act would improve job opportunities and wages for all Americans by providing direct Federal tax incentives for corporations to create good jobs that pay middle class wages. The Act reduces tax rates for corporations that take on more employees, maintain employment of workers in good jobs that pay decent wages (to be determined through feedback from relevant policymakers and constituencies), and provides additional incentives for corporations who locate in economically distressed areas. A higher tax kicks in when corporations do the opposite – reduce employment in good jobs that pay decent wages, close facilities in economically distressed areas, and otherwise outsource, downsize, or cut employment levels. The tax penalties for doing this would be substantial – enough to offset the benefits associated with reducing employment and wages of the workers affected and all other tax benefits that accrue to corporations via the Federal tax code.

Congress should work to pass the Tax Fairness for Middle Class Families Act. The Act would be especially relevant to large corporations (especially those that already treat their employees well), labor and human rights groups, those concerned with tax fairness and Federal deficits, and middle-class citizens. The major beneficiaries of this proposal would be workers struggling to find and keep middle class jobs and young workers seeking entrance into middle class labor markets. Corporations that employ relatively few people or who employ large numbers of people in low-wage jobs would be harmed, creating an incentive to change their employment practices. The potential costs of the policy come from the need for effective enforcement mechanisms as the U.S. Internal Revenue Service is underfunded at present – one possibility would be to require accounting for good jobs as part of enhanced corporate reporting through amendments to the Sarbanes-Oxley Act. Implementation would need to be phased in to allow for changes in corporate behavior in response to the legislation.

The costs of the proposed policy depend on the response to the positive incentives provided by the Act. The potential costs to the Federal government could be considerable if the corporate response is robust, but the increased earnings of the middle class would be subject to the income tax and the middle class have fewer loopholes available for tax avoidance. At present, \$200 billion in corporate tax avoidance combined with job instability and stagnant wages for the middle class is unacceptable, unfair, and undermines citizens' confidence in the American economic system.

We provide corporate tax breaks for a variety of activities. It is time for a corporate tax break that ties corporate prosperity to the creation of middle-class jobs.