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
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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