Tax Smarter: Reward Investment, Not Self-Enrichment

By Richard Khuzami

The current administration has made it a priority to cut human and economic resources to most federal agencies, with the goal of turning their responsibilities over to the private sector. While the private sector can be an antidote to bureaucratic overreach and bloat, we must ensure it works in the long-term interest of both the organizations and the country.

Yes, government agencies and overregulation can hinder the economy, but we must make sure that the cure is not worse than the problem.

Today, the administration also continues to push for corporate tax cuts, promising they'll lead to reinvestment, growth, and job creation. But if you look at how these cuts are playing out, it's clear something's missing. Instead of reinvesting in R&D, capital improvements, or better benefits for employees, many companies are using their tax savings for stock buybacks and executive pay. While these practices benefit executives and shareholders, they don't contribute to building a healthier economy.

This wasn't always the case. In the 1950s to 1970s, corporate tax rates were higher. Yes, businesses may have paid more, but the government offered deductions and incentives (resulting in a much lower tax burden) that encouraged long-term growth, innovation, and investment in employees. The result? A booming economy, a growing middle class, and a private sector that helped build the country—not just its own bottom line.

But over the years, that model has shifted. Tax cuts have become the go-to economic solution, based on the idea that lowering taxes for corporations will bring widespread benefits. But we've seen that trickle-down economics doesn't work as promised. Instead of reinvesting in the economy, corporations have used tax savings to boost stock prices and executive compensation, with little benefit for workers or long-term growth.

Take Apple, for example. In 2020, Apple made an after-tax profit of $57 billion and spent $80 billion buying back its own stock—more than 140% of its profits.* These buybacks raise the stock value, benefiting shareholders and executives, but do little for workers or the long-term health of the company. Apple actually borrowed against their $200 billion reserve fund to finance the additional $23 billion.* Other companies, like Lowe's, also spent large portions of their after-tax profits on stock buybacks.*

We still want low corporate taxes—ideally at current levels. But companies should only enjoy those rates if they invest in activities like R&D, capital improvements, workforce development, and other efforts that strengthen both their long-term viability and societal needs. We can no longer afford to give corporate executives a free pass to enrich themselves and their shareholders with untaxed profits.

We've seen what happens when companies don't invest in even their own innovations. Eastman Kodak invented the digital camera but failed to fund its development. Japan's Fuji Film reaped the benefits, and Kodak is now a shell of its former self. Similarly, Xerox pioneered the Windows graphics and mouse interface, yet did not bring these innovations to market. Apple and Microsoft reaped the benefits. With stronger tax incentives for capital investment, perhaps these companies might still be icons of industry.

In the 1987 film Wall Street, Gordon Gekko's famous line "Greed is good" captured the era's ethos. But unchecked corporate greed leads to worker exploitation, income inequality, and a loss of public trust. We saw the consequences of this in the 2008 financial crisis, where corporate irresponsibility led to economic collapse, and the American public had to bear the costs.

It would be a mistake to repeat those same policies. The administration's push for more corporate tax cuts will only exacerbate the problems we're facing. These policies benefit the wealthy few while leaving workers and the broader economy behind.

A healthy economy depends on companies that grow by investing in their future and the public good—guided by a tax code that rewards responsibility over short-term gain.

Looking ahead, it's crucial that we learn from the mistakes of the past. Instead of repeating policies that eroded public trust and caused the 2008 collapse, we can chart a better path. One where business and society grow together—where the private sector thrives while contributing to the common good. Corporate success should strengthen both the company and the public, through responsible investment and a fair tax code that supports long-term growth.

The current administration has effectively used leverage to achieve its policy goals—employing tariffs in foreign policy, attaching conditions to federal funding for states and NGOs, and restructuring employment and budgets in government agencies. Yet, it has largely ignored the private sector. There, taxation could serve as the most powerful tool of all—creating incentives that drive meaningful, long-term investment instead of short-term gain.

This administration is priding itself in looking to the past for guidance. Let's make sure they include past tax policies.

Sources

- Apple's 2020 after-tax profit and buybacks: Apple earned $57 billion in net income and repurchased $80 billion in stock in 2020, more than 140% of its profit. Source: Statista and Apple financial statements.
- Apple borrowing despite reserves: Apple has historically borrowed funds for buybacks despite large reserves, partly to avoid taxes on repatriating foreign cash. See: Chicago Booth Review
- Lowe's stock buybacks: In 2020, Lowe's repurchased $5B in stock, authorized $15B more, and planned $9B in 2021 buybacks. Sources: MarketWatch, Dec 2020; MarketWatch, Feb 2021