



## **Why Should Workers Care About Business Taxes? Research from the European experience indicates that lower corporate taxes increase workers wages.**

Research increasingly shows that workers are likely to “pay” or “bear” a substantial portion of business taxes through lower wages. Recent research considers the major corporate tax reforms occurring among major industrialized nations over the past several decades and finds that those with the largest reductions in their corporate tax rates experienced the largest increase in wages. The mechanism is less capital investment that reduces labor productivity and, ultimately, living standards.

Consider the following conclusions from this research:

- “Our central estimate is that 54% of any additional [corporate] tax is passed on [to workers] in lower wages, even in the short run; other estimates are larger than this. In the longer run, a \$1 rise in the tax liability results in a fall in total employee compensation in excess of \$1.” (Arulampalam, Devereux, and Maffini, 2007).
- “Using cross-country panel data from the Luxembourg Income Study, I estimate that a ten percentage point increase in the corporate tax rate decreases annual gross wages by seven percent. Using U.S. data on corporate tax revenues and total wages, these estimates predict that labor’s burden is more than four times the magnitude of the corporate tax revenue collected in the U.S.” (Felix, 2007)
- “The results in this paper suggest that corporate tax rates affect wage levels across countries. Higher corporate taxes lead to lower wages. A 1 percent *increase* in corporate tax rates is associated with nearly a 1 percent *drop* in wage rates.” (Hassett and Mathur, 2007).
- “The results consistently indicate that corporate taxes depress both real wages and returns to capital, with most of the burden of corporate taxes borne by labor. The baseline estimate for the share of the burden borne by labor is 57 percent, and estimates vary between 45 and 75 percent, depending on the sample period and specification.” (Desai, Foley and Hines, 2007).

This research presents a consistent case that workers bear the cost of corporate income taxes through lower wages. The European experience suggests that a reduction in corporate taxes in the United States would help U.S. workers by increasing their real wages.

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