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Tax Savings as a Provision of Corporate Welfare is a State-Corporate Crime When it Becomes Socially Injurious

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Tax Savings as a Provision of Corporate Welfare is a State-Corporate
Crime When it Becomes Socially Injurious

A Dissertation submitted in partial satisfaction
of the requirements for the degree of

Doctor of Philosophy

in

Sociology

by

Annebelle Nery

March 2011

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ABSTRACT OF THE DISSERTATION

Tax Savings as a Provision of Corporate Welfare is a State-Corporate
Crime When it Becomes Socially Injurious

by

Annebelle Nery

Doctor of Philosophy, Graduate Program in Sociology
University of California, Riverside, March 2011
Dr. Robert Parker, Co-Chairperson
Dr. Ellen Reese, Co-Chairperson

This study focuses on the corporate welfare provided by the US government to

corporations despite their high profits and argues that the significant and negative

consequences to the federal and state tax bases of such welfare make it a state corporate

crime. Failure to stabilize or rollback corporate welfare initiatives has resulted in a

significant decrease in the percentage of federal and state revenue that comes from

corporate tax contributions. I use structural equation modeling to analyze the

consequences of corporate welfare initiatives on the federal tax base and the California

state tax base. Drawing insights from an integrated theory of state-corporate crime

developed by Kauzlarich and Kramer (1998), I examine various forms of deviance and

collusion between corporations and the federal government. Specifically, this study

explores this collusion on two levels: the structural and organizational levels. In terms of

time period, I focus on the period before, during and after the implementation of

corporate welfare initiatives and the organizational environment of the two groups

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involved. This study reveals that the federal government facilitated state corporate crime in this case by continuing to provide tax breaks, investment incentives, and loans to corporations despite the high yield in corporate profits, declining corporate tax contributions, high delinquency rates on loans, and the continuous outsourcing of jobs. Because of the lack of government oversight, or deregulation, corporations were able to take advantage of the tax-exempt restructuring offered by the Tax Reform Act of 1986 and Revenue Act of 1987, and tax credits beginning with Economic Recovery Act of 1981. This resulted in social harms that were associated with declining tax contributions to state and federal governments, namely a growing deficit, cutbacks in vital social services, and an increased tax burden among individual taxpayers.

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Chapter One

Introduction

Greater research is needed on the governmental incentives and facilitation that have helped corporations to gain profits at the expense of the public interest. Barak (1993) argued that Sutherland's research of white-collar crimes sparked criminologists' and sociologists' interest in the causes and consequences of white collar crime and state crime, but there is still very little research on state-corporate crimes. With the increased publicity on corporate scandals (i.e., Enron, AIG, and bailouts) along with the growing research, many are asking how the government could let this happen. The public is begging for accountability not only for the corporate actors but for the agencies (state, government) put in place to prevent such scandal. However, are the American public and the criminology and sociology literature ready to go so far as to label failure in accountability, criminal? Corporate welfare assisted the corporations in amassing large amounts of profits, which has consequences in other institutions such labor, education and environment. However corporate welfare is simply one contributor to the building of the multinational corporations and the power and resources they have accrued. The government bestowed money grants, tax breaks and other favorable treatment on corporations. The act alone is not criminal however it is the consequences of those actions that caused Americans unexpected harm. Despite the efforts that have been made to control corporate power, corporations continue to hire lobbyists, which increase corporations' political influence. This dissertation will develop an explanation of the state-corporate crime that had occurred when the government's failure to restrict or

rollback corporate welfare initiatives resulted in social harms, namely the decline in the corporate contribution to the federal and state tax base.

History of Corporate Welfare

Corporate welfare is aid given by the government (local, state, federal) to corporations or other big businesses. The aid is in the form of subsidies, tax breaks, grants, real estate, low-interest loans, or other government services. Aid to corporations began as early as the 1930s with the Industrial Revenue Bonds. The original argument for these tax exemptions created from these bonds was that the market fails to provide adequate resources for corporations/businesses and this inadequacy affects the economy negatively and ultimately leads to unemployment (Bennett and DiLorenzo 1982:607).

The main arguments made in favor of governmental assistance for business is that it will help to develop capital. Beginning with the classical economists, accumulation of capital is accepted as a fact of life with economists such as Smith, Ricardo, Mill, Bagehot, Pigou and Marshall. However capitalist accumulation was given recognition in the tradition of the neoclassical theory of capital flows (Iverson 1936; Nurkse 1933; Ohlin 1933). Specifically, it was the neoclassical differential return theory that assumed profit maximization, constant returns, and perfectly competitive markets (Kopits 1976). More contemporary economic literature emphasizes the role of firms, presumed to be driven by objectives of profit maximization and growth maximization. "Under profit maximization, the obvious goal is to maximize the firm's present value or discounted global net worth, or, as a static first approximation, to maximize its current net earnings" (Kopits 1976). Corporate tax breaks and initiatives are put in place to ensure that

corporate profits and economic growth continue regardless of economic downturns or increasing corporate debt. The economic literature further supports that social harms and the public good are not the focus or goals of firms and corporations.

The policies associated with "new federalism" supported the corporate agenda of profit maximization. Although there are pockets of corporate aid in early American history (1930s industrial revenue bond financing, tax subsidies and fee land to manufacturing plants from the Northeast), corporate aid increased and became an intricate part of state and federal agendas under the Reagan administration under the guise of a New Federalism. The rhetoric for the implementation of the New Federalism was based on the arguments that during the 1970s businesses were in fiscal crisis as a result of the growing strength of labor unions, growing social services and welfare programs, and the growing tax burden on businesses. "Specifically, by consuming resources that otherwise might be spent on business-related projects and by making it more difficult for employers to discipline labor through the threat of unemployment, federal welfare provisions steadily undermined the viability of the market and of individual businesses" (Grant II 1995:857). The New Federalism sought to remove the old social structure of capital accumulation which was supported by the 'capital-labor accord' and the 'capital-citizen accord.' The capital-labor accord integrated industrial unions in collective bargaining system with large employers. The capital-citizen accord focused on minimizing the conflict between employer's accumulation of profits and workers demands for a living wage and economic security (Gordon 1982).

With a newly aligned capitalist class in the United States, the previous accords were successfully dissolved and the Reagan administration proceeded with a series of anti-labor measures, cuts in federal taxes, and moving the burden of supporting businesses, citizens, and worker demands to the states. States were now competing with one another as well as an international market to entice businesses to their location; hence the birth of corporate welfare and the growth of corporate aid initiatives. Corporations then adjusted their corporate form to take advantage of the new business policies. As Zey and Swenson assert, "The state modifie[d] business policy to provide corporate welfare (through tax savings) to corporations during periods of declining corporate accumulation and periods of intense internal competition, such as those of the mid-1980s" (Zey & Swenson 1998: 574). The Reagan administration justified this move to a new social structure of accumulation by arguing that the fate of the United States was linked to the survival of its companies.

The Economic Recovery Tax Act of 1981, viewed by some scholars as the beginning of corporate welfare (Skidmore and Glasberg 1996), gave companies investment tax credits and concentrated depreciation periods. This act was followed by two instrumental corporate welfare initiatives in the United States: the Tax Reform Act of 1986 and the Revenue Act of 1987. These initiatives "provided corporations with nontaxable ways to restructure their acquisitions and divisions as subsidiaries" (Zey & Swenson 1998:555). These two acts were introduced as a means of addressing the increasing corporate debt by allowing companies to restructure or subsidiarize without tax penalties. In essence, the federal government encouraged economic restructuring

through capital flight and outsourcing. What has begun as two initiatives has now grown

to over 100 corporate subsidy programs. This is a conservative estimate; some argue that

the spending is as high as 170 billion. There are tax breaks for stock options, offshore

corporate tax shelters, and other tax breaks that have allowed many companies to enter

the billion dollar profit margin while paying a smaller percentage of taxes than ever

before. Yet all businesses did not benefit from these subsidies. Only a few grew into the

billion dollar profit margin at the expense of small businesses, taxpayers, and labor.

Certain industries such as finance and agriculture were favored more than others.

This tradition of providing a corporate-friendly business environment continued

with both the Clinton and the second Bush administrations. In fact, Congress passed a

corporate tax cut bill in 2002 signed into legislation by President Bush to reduce

corporate tax payments to the lowest level ever as a percentage of the economy. The

Congressional Budget Office and the Joint Committee on Taxation reported that in 2002

corporate taxes represented only 1.3% of the gross domestic product. Each state has also

amassed its own forms of corporate aid and series of corporate tax breaks that would add

to the enormous costs of an already startling federal expenditure.

This paper seeks to explain the continued provision of corporate welfare despite

corporate profits as a case of state-corporate crime. The failure to stabilize or rollback

corporate welfare initiatives have resulted in social harms, which include significant

decrease in the percentage of corporate tax contributions to both the federal and state-

level treasuries. To explain the development of this state-corporate crime, I will use the

integrated theory of state-corporate crime developed by Kramer and Michalowski (1990) and later elaborated by Kauzlarich and Kramer (1998).

The integrated theoretical model of state-corporate crime involves three levels of analysis: institutional environment, organizational and interactional. "Analysis at the institutional environment level involves identifying the formal relationships between corporate and governmental organizations as specified by law and regulations, as well as history and culture" (Reifert 2006). Each level addresses catalysts for action involving motivation, opportunity, and control. For the institutional environment, motivation includes culture of competition, economic pressure, organizational goals and performance emphasis as well as the opportunities to deviate which include the availability of legal means, obstacles and constraints, blocked goals/strain, availability of illegal means, and access to resources. Last are the forms of control which include political pressure, public opinion, and social movements.

The organizational level of analysis focuses motivations on corporate culture, operative goals, subunit goals and managerial pressure and opportunity structures include instrumental rationality, internal constraints, role specialization and normalization of deviance. Means of control include the culture of compliance, subcultures of resistance, and codes of conduct, reward structure, quality control, and communication processes. Then there is the individual level where motivation is affected or guided by socialization, social meaning, individual goals, competitive individualism, and an emphasis on material success. Opportunity structures involve the definition of situations and the perception of availability and attractiveness of illegal means. Means of control is based on personal

morality, rationalization, techniques of neutralization, diffusion of responsibility, separation from consequences, obedience to authority and group think.

For the purpose of this paper, this case will be analyzed from the institutional and organizational levels. Michalowski and Kramer (2006:35) see advantages to using a multi-level and integrated theoretical approach. At the institutional level, state-corporate crime is a function of the relationship between social institutions, corporations and government, not a hidden or intentional behavior on the part of the offender. Therefore, they, the state and corporate entity, are the criminals. At the organizational level, the focus is placed on the actors themselves and the outcomes that resulted, including the social harms. Therefore the crime is using legislation, corporate welfare initiatives, to further corporate interests at the expense of the public.

My dissertation will make a contribution to the state-corporate crime literature by examining the utility of the integrated theory in explaining state-corporate crime that had occurred within the federal government. Previous studies of state-corporate crime focus on well publicized incidents involving a number of deaths and are studied qualitatively through either the case-study or ethnographic approach. Instead, my dissertation will attempt to study the issue quantitatively. It focuses on a particular kind of state-corporate crime: the growing number and impact of corporate welfare initiatives, particularly corporate tax breaks. I seek to show that these initiatives have led to social harm.

In the next section, I will begin to review the literature on state-corporate crime. The initial discussion addresses the traditions that led up to and developed the concept of state-corporate crime. Then it will be followed by an in-depth discussion of the

development of the concept into an integrated theory of state-corporate crime, which includes case studies of state-corporate crimes.

Literature Review

In reviewing the theoretical and empirical literature on state-corporate crime, I will first trace the development of the concept from the political criminology tradition. Second, I will present the integrated theory of state corporate crime. In chapter two, I will review published case studies of state-corporate crimes that provide qualitative evidence in support of my theoretical perspective.

Sutherland and White-Collar Crime

Both criminologist and sociologist, Edward Sutherland coined the term "white-collar crime." He defined it as a crime "committed by a person of respectability and high social status in the course of his occupation" (1939). He further elaborated his definition and research to include crimes committed by corporations and other legal entities. Sutherland claimed that criminology had mistakenly focused on the lower classes, even though all classes and social statuses commit crime. According to Sutherland (1939), crimes are typically committed by those who have control of large and powerful organizations and that white-collar crimes' impact on society is grossly underrepresented and underreported. Sutherland's research of white-collar crimes paved the way for future studies of elite crimes like state-corporate crime.

Traditional Definitions of Crime

Whereas white-collar crime and state-corporate crimes are more recent fields of research, the functionalist perspective of criminology has a much longer history. A

traditional definition of crime portrays it as the violation of criminal law. A classic

definition of crime can be offered by Paul Tappan who states "crime is an intentional act

in violation of the criminal law committed without defense or excuse, and penalized by

the state as a felony" (1947). The traditional definition of crime has several

shortcomings. First, some acts were not labeled criminal even though they were immoral

or caused social harms because powerful individuals are able to influence the making of

laws. Second, powerful individuals often escape the label of "criminal" due to their

influence. Unlike the traditional definition of crime, the political view of crime argues

that powerful social groups use their power to establish laws and sanctions against less

powerful groups. Included in this political perspective is the idea that crime is a political

concept used to protect powerful people; it recognizes that there are crimes by the

powerful which include white-collar crimes, state-corporate crimes, economic crimes,

price fixing, unsafe working conditions, environmental degradation, genocide, war, and

so forth. Because of the weaknesses of the traditional definition of crime, sociologists

from the political perspective have redefined crime. A more comprehensive definition

was offered by Julia and Herman Schwendinger (1975: 42): "crime encompasses any

harmful acts, including violations of fundamental prerequisites for well-being (such as

food, shelter, clothing, medical service, challenging work and recreational experiences),

as well as security from predatory individuals or repressive and imperialistic elites." The

political definition of crime views corporate and/or state acts that result in social harm as

criminal.

Criminology Theory: The Concept of State-Corporate Crime

State-corporate crime finds its origin in political criminology, specifically state crime. And although studies of political crime are minimal, even less common is the study of state crimes. One reason that they are less common is studies of state crimes vary greatly in that a corporate executive can be blamed for illegal acts that the corporation was engaged in all the way to looking at illegal acts by the government. Also, theorists would argue that there is difficulty in studying state crimes because they are committed by those in power. More often than not, those in power can cover up or maintain a level of invisibility to the public whether it is the actions of their company or their influence on government legislation. Mills (1956) points to this "power elite" and their influences across different arenas: government, military and corporations arguing that they collaborate in order to fulfill their agendas. Bachrach and Baratz (1962) would support Mills ideas of an elite and go further to argue that they mobilize ("mobilization of bias") to create a political agenda whose consequences would be detrimental to the majority, the public.

Aside from the elite's ability to hide their agendas, Ross (2003) argues that the difficulty in defining a state crime is found in the difficulty of defining a state. " According to most state theorists and critical criminologists, the state is the political entity that holds legitimate monopoly on the use of force, law, and administration" (Ross 2003:82). Just as the state has the ability to enforce the law, it also has the ability to break the law—"a crime-regulating and crime-generating institution" (Barak 1993: 209). It seems as though the definition of state is found in what the state does. Clinard and

Quinney support this idea in their argument that "those who legislate and enforce the law—and determine what is to be regarded as legitimate—are in the position of violating the laws themselves without being criminally defined" (1978:44).

Ultimately, a state is the entity that holds the ability, the recognized authority/legitimacy, by the public to define borders and law, yet is the acting administrative unit of government services, such as force/policing. Despite the state's amount of responsibility, this entity can still commit a crime. What is the definition of a state crime? Coleman looks at state crimes as organizational governmental crimes, which he considers to be those, "committed with the support and encouragement of a formal organization and intended at least in part to advance" its goals (1985:8). Although this is a start, advancing one's goals could hardly be considered criminal. Friedrich further separates the definition of state crime into state crime as crimes committed on behalf of the state and governmental crimes as crimes committed at any level of government (1995:53). Then there is Ross who argues that the criminal behavior is found in the state's act as "declared illegal, are perceived by the majority of the population as illegal or socially harmful" (1995/2000:6-7).

In terms of this dissertation, Henry's introduction of "state crime of commission" and "state crimes of omission" are applicable (1991:256). Therefore state crime is not just defined as the state committing a crime but the state's refusal to interfere in a harmful or illegal act. As Ross explains,

> State crimes are those acts that bring physical, material, or social harm to a state's citizens, a subgroup of people, or people of other countries resulting from the actions or consequences of government policy mediated through the practice of

state agencies, whether these harms are intentional or unintentional (Ross 2003:86).

A controversial term introduced in this definition is social harm. Social harms can occur when the state is slow to enact legislation to protect the public interest and works with the elite to promote their interests at the expense of others.

Since this paper focuses on corporate welfare, then the more appropriate definition is state-corporate crime, a particular type of state crime. The state plays a role in this pursuit when it facilitates a process or fails to act when the consequences of that process become detrimental to the public or subgroups of the society.

> State-corporate crimes are illegal or socially injurious actions that result from a mutually reinforcing interaction between (1) policies and/or practices in pursuit of the goals of one or more institutions of political governance and (2) policies and/or practices in pursuit of the goals of one or more institutions of economic production and distribution. (Aulette & Michalowski 1993:175)

This is the first part in the argument supporting the idea that corporate welfare is an example of state corporate crime. It is a marriage between the state and private industry that provides subsidies or tax breaks written into legislation to support corporations.

The second part of my argument draws on Kramer and Michalowski's definition of state facilitated corporate crime as "government regulatory institutions fail[ure] to restrain deviant business activities, because of direct collusion between business and government, or because they adhere to shared goals whose attainment would be hampered by aggressive regulation" (1990:191). Despite growing evidence that free trade agreements such as NAFTA and FTAA and corporate welfare initiatives like the Tax Reform Act of 1986 were detrimental to labor and to the long term health of the U.S.

economy, the state and federal governments failed to regulate, and in some cases, facilitated the corporate agenda.

An Integrated Theory of State-Corporate Crime

The concept of state-corporate crime developed from the basic idea that state crime alone does not cause social harm. There is an intersection of various forms of deviance, which combined state crime, individual acts, and organizational levels of crime (Chambliss 1989). This combination works together at different levels, which is the foundation of the integrated theory of state corporate crime.

Kramer (1990) is credited for introducing and using the concept of state-corporate crime. His concept was driven by research on state crime and research on corporate crime, which were studied separately. Prior to Kramer, there was little to no research on how corporate and state crimes were related. Kramer further developed the concept by arguing that social harm was occurring when there was a "direct collusion" between forms of government and private industry. Prior to the widely accepted definition of state-corporate crime presented by Aulette and Michalowski (1993), Kramer (1990:1) defined it as:

> …an illegal or socially injurious social action that is the collective product of the interaction between a business corporation and a state agency engaged in a joint endeavor. These crimes involve the active participation of two or more organizations, at least one of which is private and one of which is public. They are the harmful result of an interorganizational relationship between business and government.

Kramer began working with Michalowski to develop the concept into a theory. As early as 1990, both Kramer and Michalowski (1990) began calling for an integrated theoretical model for analysis of state-corporate crime. Their theoretical model

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integrated two formerly separate lines of research: one focused on organizational

deviance found in corporate crimes and another focused on state crimes.

Kramer and Michalowski further refined the definition of state-corporate crime:

> State-corporate crimes are illegal or socially injurious actions that occur when one
> or more institutions of political governance pursue a goal in direct cooperation
> with one or more institutions of economic production and distribution (1990:4).

This refinement introduced the two key components: "direct cooperation" between state

and corporations and development of a mutual agenda to "pursue a goal." Therefore in

order for a state-corporate crime to occur, both components, 1) an existing relationship

between a state and corporate entity and 2) a mutual goal, has to exist. For support of the

theory, there needs to be existence of "Direct Cooperation" and mutual agenda ("pursue a

goal") with the consequence of social harm. To test the relevance of this new definition

and newly formed perspective, Aulette and Michalowski (1993) did a case study on a

fire that had occurred at Imperial Food Products chicken processing plant in Hamlet,

North Carolina that took a number of human lives. The study revealed forms of

government negligence, which allowed the company to continue to operate illegally.

There was a business decision to ignore mandatory safety regulations in order to seek

higher profits and the government regulatory agency continued to allow these violations

for the sake of creating a business-friendly environment. With additional research,

Aulette and Michalowski (1993) refined the definition again to its widely accepted

definition introduced earlier. From their definition and further research, the theory was

accounting for two forms of state-corporate crime: acts of commission and acts of

omission.

> State-initiated corporate crime (such as the Challenger explosion) occurs when corporations, employed by the government, engage in organizational deviance at the direction of, or with tacit approval of, the government. State-facilitated corporate crime (such as the Imperial Food Products fire in Hamlet) occurs when government regulatory institutions fail to restrain deviant business activities, either because of direct collusion between businesses and government or because they adhere to shared goals whose attainment would be hampered by aggressive regulation (Aulette and Michalowski 1993: 271-72).

In their view, the first example represents an act of commission; the second represents an act of omission. There were several more attempts to redefine the concept (Kauzlarich and Kramer 1998) but they generally agreed with the key components of the earlier definition presented by Aulette and Michaloski (1993).

Kramer and Kauzlarich (1998) presented a revised integrated theory of state-corporate crime that integrates perspectives along three levels of analysis---individual, organizational, and institutional. In fact, the integrated theory of state-corporate crime explains the intersection of deviance that occurs at these different levels. This theory also highlights the role of motivation, opportunities, and controls. The model integrates the insights from other theories of crime, such as strain theories/anomie, differential association, rational choice, routine activities, political economy, and organizational theory (Rothe and Mullins 2006; Rothe 2006).

The integrated theory of state-corporate crime focuses on the factors that either promote or hinder such crimes. The framework links three levels of analysis (institutional, organizational, and individual) with three catalysts of action. "The framework is designed to indicate the key factors that will contribute to or restrain organizational deviance at each intersection of a catalyst for action and a level of analysis" (Kramer, Michalowski & Kauzlarich 2002).

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The first category of the catalyst of action is motivation. Kramer and Michalowski define motivation in terms of goal attainment. "Political and economic structures, organizations, and individuals may place greater or lesser emphasis on the attainment of rationalized goals as the engine for social action" (Kramer, Michalowski, & Kauzlarich 2002). For the purpose of this study, the primary motivation for engaging in state-corporate crime is the economic pressure to maximize profits which is rooted in capitalism, and which is supported by a culture of competition or corporate culture.

The second category for the catalyst of action is opportunity structure. Within the integrated theory of state-corporate crime, opportunity structure is a term borrowed from the literature on strain theory, anomie, and differential association. Opportunity structures can facilitate or hinder organizational deviance. Although state agencies and corporations can engage in organizational deviance, the individuals' (i.e., power elite/corporate owners) can also shape the organization with their propensity to be deviant, which is the individual level of analysis offered by the integrated theory of state-corporate crime. If there are available legitimate opportunities to achieve the goal, then deviance is unlikely. The opposite is also true so if there is lack of legitimate opportunities to achieve a given goal, then deviance, even organizational deviance, is more likely. Overall, the key point of opportunity structure as a catalyst for action is that once an organization perceives itself to be blocked in achieving a desired goal through legitimate means, it will seek deviant alternative options (Kramer, Michalowski & Kauzlarich 2002). For the purpose of this study, the opportunity structure that is most relevant is access to state and federal legislation to promote corporate interests.

The third category for the catalyst of action is the operation of control. The operation of control addresses the restraints on organizational deviance. A high operationality of control decreases the likelihood of deviance while a low operationality of control increases the likelihood of deviance. In reference to this study, there is very little operationality of control. For example, there are no legal sanctions or political pressures that would force U.S. companies to look at the consequences of their participation in corporate welfare programs. There have been some international criticisms, media scrutiny, and social movements/resistance to corporate actions when it involves the exploitation of workers, environmental degradation, and human loss, but these forms of restraints are close to none when looking at the reduction in corporate contributions to federal and state taxes bases during times of record breaking profits for companies.

The following section addresses and explains the three levels of analysis in the integrated theory of state corporate crime.

Institutional Level

The institutional level introduces the macro perspective which analyzes the relationship between social institutions and the surrounding social structures. The political economic perspective is relevant at this level, providing insight on the structure of corporations, the impact of capitalism, and the influence capitalism has on politics and other social institutions. At the institutional level, the assumption is that the structure of corporate capitalism is assumed to act as an impetus towards organizational crime (Kauzlarich and Kramer 1998: 146). Political economy brings to light the historical and

structural factors that influence organizations and organizational culture. At every level

there are forms of motivation, opportunities, and controls. Motivational factors relevant

to this level of analysis include the capitalist drive for profit maximization, the culture of

competition, performance pressures, and economic or market pressures. Opportunities to

deviate are attributed to the availability of legal means, obstacles and constraints, blocked

goals/strain, availability of illegal means to achieve desired goals, and access to

resources. Last are the forms of social control which include political pressure, public

opinion and social movements. As Kramer et. al. stated:

> The theory of state-corporate crime suggests that formal social control is but one,
> and perhaps the lease effective, way to control organization crime and deviance.
> Real control must grow from social movements, grass-root activities, a truly
> aggressive and inquisitive media, and most important, open and democratic
> participation in the political process. (2002:279).

Therefore, social control can be enforced by the organizations like the state or

corporation itself, but this is not as effective as informal agencies (i.e., grass-roots) or

other organizations (i.e., media). Overall, the social controls offered by these

organizations impact social institutions like the criminal justice system, the political

system and the economic system.

Organizational Level

This level draws from organizational theories that focus on goals and norms that

promote deviant behavior among corporations to achieve widely-accepted corporate

goals, like corporate profits (Kramer & Michalowski 1990). The organizational level of

analysis focuses motivations on corporate culture, operative goals, subunit goals and

managerial pressure. Opportunity structures at this level include instrumental rationality,

internal constraints, role specialization and the normalization of deviance. Means of control include the culture of compliance, subcultures of resistance, codes of conduct, the reward structure, quality control and communication processes (Kauzlarich and Kramer 1998).

Conclusion and Chapter Overview

This chapter introduced the history of corporate welfare, the theoretical foundations of state-corporate crime, and the current integrated theory of state-corporate crime. In the following chapters, this dissertation will develop an explanation of the state-corporate crime that had occurred when the government's failure to restrict or rollback corporate welfare initiatives resulted in social harms, namely the decline in the corporate contribution to the federal and state tax base.

The subsequent chapters will put my research project into the context of prior research on state-corporate crimes, describe my data and methods and the findings from my quantitative study using national and state-level data. My concluding chapter addresses the social implications of this research.

As an extension of the literature review, Chapter Two focuses on previous case studies of corporate crimes. Along with the application of the integrated theory of state corporate crime, definitions of social harms will be compared. One of the first case studies of state corporate crime was the Challenger disaster. Kramer (1992) argues that the explosion was not an accident but a combination of flawed design by the business corporation (MTI) and the government agency's (NASA) pressure to perform and meet deadlines. As a result of this direct collusion, lives were lost, which constitutes a social

harm. Vaughan (1996) furthered Kramer's research on the Challenger disaster as well as demonstrating the utility of the integrated theory of state-corporate crime to this case. Other scholars continued to build on the integrated theory of state-corporate crime, using it to analyze other cases like the tragic fire that occurred in Hamlet, North Carolina on September 3, 1991 and the United States government's nuclear buildup (Aulette and Michalowski 1993; Kauzlarich and Kramer1998). Each of these cases of state-corporate crime will be presented and analyzed in detail in Chapter Two to illustrate the relevance of the integrated theory of state-corporate crime. Social harms that resulted from these and other cases include human deaths, reduced tax revenues, environmental degradation, breaking international embargos, exploitation of labor, exploitation of women, and job loss.

Chapter Three describes my data and methodology applied in detail. Since corporate welfare initiatives, specifically state and federally approved tax savings through legislation, is a structural decision, I will conduct a structural rather than individual level of analysis. Therefore, the methodology chosen for this study is structural equation modeling. The structural equation models will address two relationships: the first one examines the relationship between corporate position and tax savings and the second one examines the relationship between tax savings and corporate tax contributions. The first model is a national model that addresses the relationship between tax savings and corporate contributions to the federal tax base. The second model is a state model that will look specifically at corporate contributions as it affects state revenues. The purpose of this dissertation is to examine whether or not there is a significant relationship between

the failure to stabilize or rollback corporate welfare initiatives and social harm, namely decreased state and federal tax contribution.

Chapter Four reviews the main findings from my quantitative analysis. I hypothesized that the more a company engages in tax savings, the more that a company will grow in size, and as it grows, its contribution to the state and federal tax bases will decline. I found that that companies who had more tax savings had increased their corporate position and in turn their tax contribution decreased.

Chapter Five concludes the dissertation and addresses the social implications of my research. Aulette and Michalowski's (1993) definition of state-corporate crime brings attention to policies and procedures through which government and the corporate agendas overlap. In terms of the illegality of corporate welfare, an argument can be made that this form of welfare is unconstitutional. Corporate subsidy programs, which spend taxpayer dollars to create joint ventures, to subsidize industries, and to assist foreign nations' infrastructure and businesses oversees, fall outside of Congress' spending authority under the U.S. Constitution.

Consistent with Kramer and Michalowski's (1990) definition of state corporate crime, my findings show "a failure to restrain deviant business." Shared goals, similar to a component of the previous definition can be established by looking at the long list of corporate welfare programs including but not limited to Market Access Program for the agriculture industry, Advanced Technology Program for the commerce industry, Technology Reinvestment Project for defense, Export Enhancement Program for the agriculture industry, Maritime Administration Operation-Differential Subsidies, Forest

Service road and trail construction, Export-Import Bank for foreign investment into

developing countries, Overseas Private Investment Corporation, International Trade

Administration, Energy Supply Research and Development along with all the other

numerous state and federal tax breaks for large businesses. Finally, the implementation

of these programs, which helped larger corporations to gain billion dollar profit margins,

depended upon "direct collusion" between state and corporations.

Chapter Two: Case Studies

In this chapter, I review previous case studies of state-corporate crimes including their definitions of social harm. These cases illustrate the relevance of state-corporate crime as a theoretical perspective. Examples of social harm include human deaths, reduced tax revenues, environmental degradation, breaking international embargos, exploitation of labor, exploitation of women, and job loss.

Founding Case Studies for the Theory

One of the first case studies of state-corporate crime was the Challenger disaster. On January 28th 1986, the Space Shuttle Challenger broke apart and exploded after 73 seconds in flight and seven crew members died. The O-ring seal in the shuttle's right solid rocket booster (SRB) failed at liftoff. The Rogers Commission, a special commission of the President's Office, investigated the explosion. It "found that NASA's organizational culture and decision-making processes had been a key contributing factor to the accident. NASA managers had known that contractor Morton Thiokol Inc.'s (MTI) design of the SRBs contained a potentially catastrophic flaw in the O-rings since 1977, but they failed to address it properly. They also disregarded warnings from engineers about the dangers of launching posed by the low temperatures of that morning and had failed to adequately report these technical concerns to their superiors" (McConnell 1998).

Kramer (1992) argues that the explosion was not an accident but a combination of flawed design by the business corporation (MTI) and the government agency's (NASA) pressure to perform and meet deadlines. As a result of this direct collusion, lives were

lost, which constitutes a social harm. Since this is the first case study, Kramer analyzed

the Challenger disaster not in terms of an integrated theory of state-corporate crime but

rather an integrated theory of organizational misconduct. Still, similar key components

must exist to prove either misconduct or state-corporate crime: direct collusion and a

mutual goal. Kramer claims that the Challenger disaster was the "collective product of

interaction between a government agency (NASA) and a private business corporation

(MTI)…This disaster cannot be attributed solely to the actions of contribution" (1992:

238). Within the case study, Kramer establishes direct collusion. The mutual goal that

led to social harm was agreeing that both NASA and MTI would move forward with a

flawed design of the field joint to meet a deadline. Kramer then argues that when the

combination of the direct collusion and mutual goal has consequences that lead to social

harm, it becomes criminal. Therefore, along with organizational misconduct, the

Challenger disaster can be considered to be a state-corporate crime. "General support for

the hypothesis that criminal or deviant behavior at the organizational level results from a

coincidence of pressure for goal attainment, availability and perceived attractiveness of

illegitimate means, and an absence of effective social control (Kramer 1992: 239). More

importantly and for the purpose of my study, Kramer argues that there were three forms

of social harms: deaths of the astronauts, impact to their families and the costs to the

taxpayers. Costs to the taxpayers are the social harm that I will be addressing in my

study of tax savings as a provision of corporate welfare.

Vaughan (1996) furthered Kramer's research on the Challenger disaster and

demonstrated the utility of the integrated theory of state-corporate crime. Vaughan

analyzed the pre- and post-launch decisions and actions that led to the final decisions. Her findings were similar to Kramer's, and she demonstrated how the two organizations normalized the deviance. Vaughan states, "Rather than contemplating or devising 'deviant' strategy for achieving the organization's goals and then invoking techniques of neutralization in order to proceed with it or rationalize it afterwards, they may never see it as deviant in the first place" (1996: 408).

Other scholars (Aulette and Michalowski 1993; Kauzlarich and Kramer1998) continued to build on the integrated theory of state-corporate crime by using the theoretical perspective to analyze other cases like the tragic fire that occurred in Hamlet, North Carolina. On September 3, 1991 workers were locked in a chicken processing plant as a fire continued to spread, killing 25 people and injuring 56. The chicken processing plant was owned by the corporate entity, Imperial Foods Products, and existed for 11 years without receiving one official inspection. The deaths and injuries were attributed to a number of failures. The initial cause and spread of the fire was due to a hydraulic line rupture, which leaked near a 26 foot deep fat fryer. However, the immediate cause of many deaths was the locking of emergency doors. Managers and supervisors openly confessed to locking the emergency doors as a means of preventing employee thefts. With respect to the integrated theory of state-corporate crime, the failure was on the part of local, state, and federal agencies' failure to enforce the safety standards in the plant. This failure ultimately led to the deaths and smoke inhalation injuries of many people (Reifert 2006: 26). Here, the author is referring to the State of North Carolina's refusal to fund and support safety standards, specifically refusing to

support the Occupational Safety and Health Administration (OSHA). OSHA assists

facilities like the Imperial Food Products chicken processing plant to be safe for workers.

The North Carolina state government returned nearly half a million dollars in unspent

OSHA funds to the federal government (Reifert 2006). Direct collusion thus existed

between the State of North Carolina and Imperial Foods Products for the purpose (or,

mutual goal) of larger profits and the state's intent of creating a "business-friendly"

environment (Reifert 2006). Following safety standards and addressing employee theft

by means other than locking emergency doors (which is both illegal and a safety hazard)

are costly as well. Aside from the culpability of the State of North Carolina, a federal

investigation revealed that the U.S. Department of Agriculture (USDA) had visited the

plant twice. One federal agent was aware that the plant locked emergency doors but

thought that he had no authority to address the issues and the a second federal agent

thought that locking the doors was a good way to prevent flies from contaminating the

food (Kramer et. al. 2002: 277). Like the Challenger incident, the Hamlet fire can be

attributed to technical failure. However, further investigation exposed the direct

collusion or choice of state inaction (i.e., State of North Carolina) and negligence of

regulatory agencies (i.e., USDA) for the mutual goal of capital accumulation that resulted

in the social harm in the form of human deaths and human injuries.

A tool of the integrated theory of state-corporate crime is the ability to apply the

different levels of analysis-- institutional, organizational and interactional—to the

relevant contexts (i.e., Challenger disaster and the Hamlet fire). The institutional level of

analysis unveils the political and historical context of North Carolina. North Carolina

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was in direct competition with neighboring states to attract businesses to their state (motivation: culture of competition and economic pressure); therefore, they created "a government committed to offering an attractive profit-making climate and consequently far from aggressive in protecting the health and safety of workers with very limited ability to shape the safety and health conditions of their work place" (Aulette & Michalowski 1993: 1994), which provide both opportunity (i.e., availability of legal means) and lack of control (i.e., little to no legal sanctions). At the organizational and interactional levels, motivation involved corporate culture and managerial pressure where managers protected corporate property over workers and worker safety. Among managers, the behavior was normalized that at the onset of the fire, the managers' first instinct (interactional level of analysis: opportunity and definition of situation) was to ensure that all emergency doors were locked before they left. In their final analysis, Aulette and Michalowski argue that "the deaths in Hamlet are clear evidence that laws alone are not sufficient to protect worker safety. They require political will for their effective enforcement" (1993: 205).

Kauzlarich and Kramer (1998) expanded their area of study from single-point-in-time cases to cases that cover long periods of time. In particular, they examine the period from 1942 to1976 of nuclear build up in the United States and the impact (i.e., international nuclear arms race) on the rest of the world, which included human deaths, contamination of the environment, and draining of the U.S. federal budget. They argued that the nuclear build up in the U.S. and the rest of world was a case of state-corporate crime. Their research revealed an existing relationship between the U.S. Department of

Energy and a number of private nuclear weapons contractors. These groups worked in an environment of secrecy with little to no government regulation or public or external scrutiny. The government was a willing and complacent partner in assisting private weapons companies in the spread of nuclear weapons internationally for capital and for the purpose of both political and economic power (Kauzlarich & Kramer, 1998).

At the institutional level of analysis, motivation was based on both political and economic pressures on the U.S. to maintain its hegemony. One example is the imperialistic endeavors of the U.S. to keep developing nations dependent on the U.S. through structural adjustment policies and loans so that the developing nations continue to provide cheap labor, resources, investments and markets that favor U.S. economic exchange (Kauzlarich & Kramer 1998: 152). For the U.S., nuclear weapons was a means to maintain and in some cases increase U.S. imperialistic endeavors (i.e., corporate outsourcing and exploiting resources of developing nations), and demonstrate strength to the international community to solicit public support in the U.S. and minimize the effects of international pressures and media scrutiny. Opportunity to demonstrate U.S. strength in the world was due to the nation's endless nuclear proliferation capabilities. With the conservative ideology that socialized the U.S. public to believe that nuclear build up is a necessary deterrent to other "threatening" nations (i.e., the Cold War, Soviet Union) and no international bodies or systems of control to prevent the world wide nuclear buildup, the arms race thrived.

At the organizational level of analysis, the mutual goal shared by the Department of Energy and the private nuclear weapons contractors were production goals. Stated

simply, the greater the conflict, the more nations will purchase nuclear weapons, and the more nuclear weapons purchased, then the more profits can be made by private weapons contractors. Since the nuclear weapons build up was the federal government's agenda, there was ample opportunity for both the private contractors and the Department of Energy to legitimately benefit from the buildup. Specifically, the weapons contractors gained profits and the Department of Energy was given additional resources through larger Congressional budget allocations. This deviance was normalized, and opposition to the nuclear buildup was in turn viewed as illegitimate: "Cloaked in a cloud of secrecy, the [Department of Energy] agency was left to achieve its organizational goals without fear of publicity or legal challenges" (Reifert 2006: 33). A corporate culture was set with little to no constraints. Controls set in place to deter deviance were the very forms of control (culture of compliance, codes of conduct, reward structures) that facilitated the nuclear buildup at the organization level.

At the individual level, there was no incentive for employees to reveal the processes of the nuclear buildup because employees were rewarded for secrecy and were socialized in an environment of secrecy. Employees' and managers' definition of situation was defined by the organization, and they followed the organizational mission (obedience to authority), which defined material success as the growing number of weapons and the increased nuclear capabilities of the U.S. (Kauzlarich and Kramer 1998).

The social harms, negative consequences of the nuclear buildup, of the nuclear weapons can be traced as early as the 1940s with the dropping of the atomic bomb on

Hiroshima, Japan. The nuclear buildup increased dramatically after World War II into the 1980s. In building centers dedicated to nuclear testing and buildup throughout the United States, environmental sanctity was ignored. Building nuclear weapons resulted in both radioactive and nonradioactive waste (Lamperti 1984; Office of Technology Assessment 1991; Recher and Scher 1988; U.S. Department of Energy 1995; U.S. General Accounting Office 1985, 1986, 1989). The Department of Energy (DOE) and contractors initially believed that radioactive waste materials could be absorbed by the local environment (i.e., soil, lakes, etc). These harmful wastes found their way to groundwater sources and basins. Therefore contamination (social harm) not only came to the environment but came to the local human populations that drank the water or ate food from local farmers who were watering their crops with contaminated water sources.

Another case of state-corporate crime was the crash of ValuJet Flight 592. On May 11, 1996, ValuJet Flight 592, in route from Miami, Florida to Atlanta, Georgia, crashed in the everglades of Florida, killing 105 passengers and five crew members. Flight 592 experienced mechanical problems but still decided to takeoff. Within minutes of takeoff, one or more of the oxygen generators exploded, causing a fire on board the plane. Like other case studies, the immediate cause of the crash was technical problems. Yet, weak state regulation by government and the cost-saving measures of ValuJet and SabreTech was the primary cause of the disaster.

> As profit-seeking organizations, ValuJet and SabreTech employed a number of questionable techniques to maximize profit. ValuJet's radical cost-cutting procedures included using older planes in various stages of disrepair, outsourcing all its maintenance, and providing very low wages and benefits to employees. SabreTech was also experiencing a high degree of pressure for capital accumulation at the time directly preceding the crash by agreeing to complete

their work on the oxygen generators quickly or incur a loss of $2500 per day. The other organization involved in the crash, the Federal Aviation Administration (FAA), was not a direct profit-seeking entity, but one designed to both regulate and facilitate accumulation of capital for airline companies. The FAA's refusal (on economic grounds) to institute specific safeguards that could have prevented the catastrophe of flight 592 illustrates the injurious consequences that can result not only from pursing capital, but from state encouragement of capital accumulation (Matthews and Kauzlarich 2000).

As mentioned in Chapter One, state-corporate crime can be an act of commission or an act of omission. The crash of ValuJet Flight 592 is a clear example of an act of commission where the state facilitated the state-corporate crime. The two corporations and the Federal Aviation Administration (FAA) were aligned with the mutual goal of capital accumulation.   It is rare that a federal agency is created with the main purpose of assisting private corporations in moving money and facilitating capital accumulation while still having the responsibility of regulation (Matthews and Kauzlarich 2000).

At the institutional level and beginning in the 1970s, there was a climate of deregulation of the airline industry with laissez-faire economics packaged in the Airline Deregulation Act of 1978 (Matthews and Kauzlarich 2006: 83). At the organizational level, ValuJet, one of the fastest growing airlines, credited outsourcing and "lean and mean" methods for growth and profits. Lean and mean tactics included non-union labor, paying below market wages to all employees including pilots (who were typically paid 50% of prevailing wages for pilots), buying older planes, and outsourcing all maintenance. The organizational culture of saving money at all cost was established and despite other regulatory agencies warning ValuJet and FAA's own inspectors of their below standards equipment or their inability to meet minimal regulations, both agencies continued with their unsafe practices. ValuJet and FAA created an opportunity to

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continue operations illegally (i.e., ignoring warnings and continuing to fly despite

substandard or non-compliant equipment). At the interactional level --from supervisors,

mechanics, to inspectors-- there was a diffusion of responsibility. Despite the diffusion

of responsibility, all three agencies were found culpable: SabreTech for improper

packaging and storage of hazardous materials, ValuJet for not properly supervising

SabreTech's work, and the FAA for not mandating smoke detection and fire suppression

systems in the cargo hold. Something as simple and inexpensive as capping the oxygen

generators, following the safety standards for managing hazardous materials or FAA

mandating the use of smoke detectors, might have allowed the passengers of flight 592 to

survive (Matthews and Kauzlarich 2000: 293). The social harms in this case are the

number of human deaths and the lingering effects of those deaths on their families.

Recent Case Studies

A more recent case-study of state-corporate crime was the series of fatal accidents

that had occurred with the Ford Explorer, a sports utility vehicle of Ford Motor

Company. The Ford Explorer's propensity to accidents was found to be caused by a

defect in the standard-issue tires. These tires were provided by Bridgestone-Firestone.

The case of tread separation is considered to be one of the largest failures of the

automobile industry (Rothe & Mullins 2006: 208). Like other cases of state-corporate

crimes, Ford Motor Company and Bridgestone-Firestone were pushed to meet deadlines

for the sake of maximizing profits and continued to ignored warning signs. With lax

government regulation, this caused nearly 271 deaths and over 800 injuries. Although

tread failures also occurred in South America, South Asian and the Middle East, they

were considered a problem of the host nation, not the U.S.

Another recent case-study is the Exxon Oil Spill of 1989. First described as an

accident, Cruciotti and Matthews found that "this disaster is better understood as a form

of state-facilitated corporate crime wherein decisions taken by several organizations

made the grounding of the Valdez a likely outcome" (2006: 231). This spill disrupted the

Alaskan ecosystem as result of negligent behavior of the Exxon corporation and the

governments' lack of intervention. Social harms range from the killing of animal

populations, harm to plankton and animal ecosystems, and damage to the Alaskan

commercial fishing industry which in turn led to job and other economic losses.

Moreover, these economic losses are directly linked to an increase in various social

problems, including a rise in mental health cases (i.e., depression and suicide) and a rise

in alcohol consumption.

International Case Studies

The late 1990s and the early 2000s saw a dramatic increase in the number of

international case studies of state-corporate crime. In 1996, McMullen studied the effects

of the toxic steel industry on the environment in Atlantic Canada and provided evidence

that it was a case of state-corporate crime. Harper and Israel (1999) established a case of

state-corporate crime when they researched the economic needs and minimal regulation

practices of Papua, New Guinea. Green and Ward (2004) provided a broader perspective

to the arms race globally by analyzing the relationship of states and corporations in

building and amassing arms of all types. They argue that,

> The arms trade illustrates examples of state-corporate crime where states and corporations have colluded covertly to breach embargos on repressive states or trade in weapons or equipment which have devastating consequences for the civilian populations upon which the arms are employed (Green and Ward 2004:31).

Similar to Robyn (2006), Matthews (2006) applied the integrated theory of state-corporate crimes to the Holocaust under Nazi Germany, to make an international case of a state-corporate crime. Green and Ward (2004) also discussed other cases of state-corporate crime, such as the shrimp farm exploitation in Honduras where corporations introduced the "white spot virus" and dumped wastes into fishing waters, both of which nearly wiped out all local shrimp farming activity and the oil industry in Nigeria (oil resource exploration and production had severed the local economy that relied heavily on agriculture and has drastically accelerated environmental degradation). Aside from single international incidents, there has been an attempt to address state-corporate crime globally that has had structural consequences, like exploitation of women and neoliberal globalization. With the growth of New Federalism, Wonders and Danner (2006) examine how practices considered to be illegal in the West (i.e., U.S., Canada and Western Europe), namely sweatshop labor conditions and unsafe working conditions, are widely practiced with an exploited feminized labor in lower income economies or the East. However, the West will soon be affected because protections once extended to labor there are eroding quickly. Wonders and Danner (2006) investigate the relationship between transnational corporations and how their collusion with governments around the world results in social harm, especially to women.

An international case of state-corporate crime that heavily involves the U.S.

government is the Iraq War. Some scholars claim (Kramer and Michalowski 2005;

Kramer, Michalowski, and Rothe 2005) that the invasion of Iraq violated international

law. One case is the U.S. government's relationship with Halliburton (Rothe 2006) and

the other case is the act of invading Iraq (Kramer & Michalowski 2006). The case with

Halliburton Company is an example of state-corporate crime. At that time, Vice-

President of the United States, Dick Cheney, and former Chief Executive Officer of

Halliburton awarded the most profitable government contracts for supplies and services

in the war to Halliburton. These contracts resulted in no-bid, cost-plus contractual work

with no oversight or competitive pricing (Reifert 2006: 38). Rothe (2006) also found that

Halliburton's ties extended beyond Cheney and included President Bush's family.

President Bush and his administration became known for awarding contracts to

"corporations for who they know rather than what they know, and a system in which

cronyism is more important than competence" (Rothe 2006: 334). The social harms that

resulted from this collusion were violation of laws, including but not limited to federal

purchasing law and contracting law, and the continuing draining of federal monies

towards expensive private contracts (i.e., Halliburton receiving all of the defense

contracts for a period of time).

Aside from the contracts awarded during the Iraq War, Kramer and Michalowski

(2005) make a case that the Iraq War itself is a state-corporate crime. They refer to the

Nuremberg Charter which states that "wars of aggression—the most destructive and

destabilizing of all state-initiated harms—are the 'supreme international crime'" (2006:

199). Many researchers have provided evidence of the invasion of Iraq as a violation of

the United Nations Charter and as other international laws (Boyle 2004; Falk 2004;

Kramer & Michalowski 2005; Kramer, Michalowski & Rothe 2005; Mandel 2004; Sands

2005; Weeramantry 2003). Kramer and Michalowski map out the direct collusion that

took place with corporations and the U.S. Government under the administration of

George W. Bush with the mutual imperialistic goal of world political and economic

power. They provide evidence of short-term and long-term goals with calculated steps.

This same climate facilitated the increase of corporate welfare initiatives and decrease of

corporate accountability that I will discuss in subsequent chapters. The full impact of the

Iraq War is yet to be seen or uncovered. Social harms that resulted from the Iraq War and

include human deaths, reduced tax revenues, environmental degradation, the breaking of

international embargos, the exploitation of labor (especially female labor), job losses, and

so forth.

Summary

These case studies revealed both active and the passive roles of the state and how

those roles form direct collusion with a corporate actor. They also demonstrated the

social harms that resulted. Each of the case studies discussed above can be understood in

terms of the various levels of analysis and catalysts of action offered by the integrated

theory of state-corporate crime. Case studies of state-corporate crime have seen an

increase in the 1990s into current times, especially in international settings.   Aside from

theory elaboration, the previously mentioned case studies raised questions as to the role

of corporations now that they have global presence, the role of nation-states, and the

global effects of neoliberal policy. Lastly, further case studies of state-corporate crime

included the corporations involved in "Enron-Era Economics" where "creative" and often

illegal accounting practices were used to inflate stock value. With transnational

corporations and the laws and government agencies favoring corporations, it is likely that

new cases of state-corporate crime will emerge. As Michalowski and Kramer (2006)

argue, to "re-create business corporations as partners in the project of creating an

economic democracy guided by ethics of inclusion will be seen as fanciful by those faced

with immediate obligations to increase the corporate bottom line" (Michalowski and

Kramer 2006: 184).

Structural equation modeling analysis will be conducted to examine an explanation of the state-corporate crime that had occurred when the government's failure to restrict or rollback corporate welfare initiatives resulted in social harms, namely the decline in the corporate contribution to the federal and state tax base. The time frame for analysis will be from 1980 to 2005. The data will be gathered at three significant points in time, using the technique of panel data analysis (the significance of the three points in time will be addressed later in the chapter under the heading of panel data). One strength of my research design is the use of quantitative analysis using an existing corporate/business database called Compustat; however, the limitations of this is that some corporations do not report their numbers, leading to missing data or inaccurately reporting information. Another strength of my method is that it attempts to test the integrated theory of state-corporate crime quantitatively to add the growing qualitative research on this topic. Currently there is no existing quantitative study of state-corporate crime. The limitation of my method is the difficulty of operationalizing and demonstrating social harm. In the research, social harm is the least developed concept of the theory and it is typically described concisely and qualitatively.

What is Structural Equation Modeling

Structural equation models are "stochastic models in which each equation represents a causal link, rather than a mere empirical association" (Goldberger 1972: 979). Structural Equation Modeling (SEM) is a tool for statistical inference, typically applied when variables are not directly observable, which is why SEM is used in non-

experimental situations. SEM is used to test a cause and effect relationship or relationships. Because of the pressure to prove causal relationships, it should be no surprise that "increased use for the techniques of structural equation modeling have recently appeared in behavioral sciences journals. These techniques include causal modeling, path diagrams, ordinary least-squares regression analysis, and powerful methods for model analysis such as LISREL" (Biddle & Marlin 1987: 4).

It is important to have a brief history of SEM in order to understand all the components involved in the process. The history begins with causal modeling. Causal modeling was a method suggested to improve causal inferences from field data (Bentler 1980; Heise 1975; Kenny 1979). Causal modeling begins with a hypothesis/statement with independent and dependent variables and gathering the data that is a measure of the variable even though it is not directly observable. Then with a series and web of correlations the model is determined to be causal or not. As causal models become more complex, it is assumed that there are multiple independent variables that affect the dependent variable and the researcher has to account for both intervening and control variables. The strongest case of a causal model is when they are applied longitudinally or at appropriate waves of data collection; therefore, it is argued that the strongest evidence for a causal relationship is with the use of panel data (Biddle & Marlin 1987: 5).

Although not always, causal models are usually accompanied by path diagrams. A path diagram is typically set up where "the independent variables appear at the left-hand margin of the diagram, intervening variables are scattered in the middle, and dependent variables are placed toward the right [and] arrows are also drawn from

independent variables to intervening variables, and from both independent and intervening variables to dependent variables, to indicate causal relations presumed in the model" (Biddle & Marlin 1987: 5). The purpose of the path diagrams is to provide a visual diagram for a theorized relationship between variables. When data is yielded and relationships are found to be either significant or non-significant, the model incorporates the results and becomes a model based on data rather than simply theory.

Aside from path diagrams, SEM incorporates regression analysis. To demonstrate causal relationships especially in experimental settings, Analysis of Variance (ANOVA) was used. ANOVA is meant for designs where the independent variables are not related; however in society, sociology and other non-experimental settings, the independent variables tend to be inter-related (Biddle and Marlin 1978). Regression analysis takes into account the inter-relationships between the independent variables as well as the relationship between each of the independent variables and the dependent variable. "Simple regression enables one to estimate the degree to which a given variable explains another and… [multiple regression analysis] enables one to examine a set of explanatory variables to see how much each explains variance in the dependent variable, holding constant the effects of other variables in the explanatory set" (Biddle & Marlin 1978: 7). Software applications have made multiple regression analysis a relatively simple process.

For the purpose of this study, SEM was selected to test causal relationships between tax savings and corporate position and corporate position and income tax contribution. I am also using panel data techniques because I want to test the effect of tax savings over time. Panel data analysis is an effective statistical tool when looking at

multiple variables longitudinally. Since my study tests the impact of tax savings on

corporate position and corporate position on tax contribution, panel data analysis allows

me to look at the data prior to, immediately after, and at the peak of corporate welfare

initiatives. I include path diagrams for both national and state level data. The reason I am

doing analysis at the national level is because since the implementation of corporate

welfare initiatives, corporate income tax as a share of total income tax has fallen from an

average of 25-35% before the corporate welfare initiatives of the 80s to as low as 15%

after the introduction of corporate welfare initiatives (Taube 2000). The reason I am

doing analysis at the state level is because during the 1980s, states competed against one

another to attract businesses to their state (Grant II 1995). One way they attracted states

is by reducing their tax liability or tax savings as an incentive. Therefore along with a

decreased corporate income tax contribution at the federal level, there was also a

decreased corporate income tax contribution to the state (i.e., corporate income tax

contribution in California fell from an average of 25% to under 10%) (California Budget

Project 2002). Finally, I use complex multivariate statistical analysis. The data analysis

was conducted in SPSS, which has a program labeled Amos. Amos creates the models to

test hypotheses and confirm causal relationships among all the variables involved.

Causal Models

    This dissertation examines whether there is a significant relationship between

corporate position and tax savings and corporate position and federal and state income

tax contribution. Here, I measure harm by reduction in federal income tax or state

income tax. The structural equation models address two relationships: the relationship

between the corporate position and tax savings and the relationship between corporation

position and federal/state income tax. The national model addresses the

relationship between corporate position and federal income tax. The state model

addresses the relationship between corporate position and state income tax. Once the

data is plotted over time, I expect to find that the more a company engages in tax savings,

the more that a company will grow in size, and as it grows, its contribution to the state

and federal tax bases will decline. The reason for this is the rhetoric of implementing

corporate welfare initiatives in the 1980s was to address the growing corporate debt so

that once stable, companies could contribute to their local, state and federal economies.

However, many of these companies once recovered and earning multi-million dollar or

billion dollar profits continued to take advantage of the tax savings while giving less and

less via federal and state income tax.

The sample will be the Fortune 100 companies from 1980. This cohort will be

analyzed at the three points in time. The Fortune 100 companies were chosen because

they own a majority of the assets in the United States and would be very likely to take

full advantage of tax incentives (Fortune 2010). Also the 1980 Fortune 100 cohort was in

place prior to the mid-1980s implementation of corporate welfare initiatives so I can

monitor the influence of the corporate welfare initiatives over time. Fortune defines their

methodology as:

> Companies are ranked by total revenue for their respective fiscal years. Included
> in the survey are U.S. incorporated companies filing financial statements with a
> government agency. This includes private companies and cooperatives that file a
> 10-K or a comparable financial statement with a government agency, and mutual
> insurance companies that file with state regulators. It also includes companies
> that file with a government agency but are owned by private companies,
> domestic or foreign, that do not file such financial statements. Excluded are

private companies not filing with a government agency; companies incorporated outside the U.S.; and U.S. companies owned or controlled by other companies, domestic or foreign, that file with a government agency. Also excluded are companies that failed to report full financial statements for at least three quarters of the current fiscal year. (Fortune 2007)

The range of the revenues for the top 100 companies in 1980 was from 3393 to 79106.5 million and the range of the profits for the top 100 in 1980 was from 169.8 to 4295.2 million (Fortune 2010). As you can tell from the range, all of them reached billion dollar revenues and multi-million to billion dollar profits. The richest company from the Fortune 100 was Exxon Mobil, whose industry is oil. In 1990, Exxon Mobil was ranked as number three, and in 2005, they were ranked as number two. In fact out of the top 10, 6 of the companies are coded in the oil industry.

Panel Data

The time frame for my analysis will be from 1980 to 2005. The data will be gathered at three points in time, using the technique of panel data analysis. The first point in time will be 1980 because this year is prior to the institutionalization of many of the recent corporate welfare initiatives, namely corporate tax savings schemes associated with New Federalism. The second point in time will be 1990 because most of the significant forms of corporate welfare legislation were put into place from the early to late 1980s. This period is recognized as the period of New Federalism (Grant II 1995). The third point in time will be 2005, which is after Congress and President Bush reduced corporate income taxes to its lowest levels since the Reagan Administration (Congressional Budget Office and the Joint Committee on Taxation 2002).

Variables

The units of analysis are corporations, state governments, and the federal government. Compustat database and Fortune are the data sources for all the variables in the study. Compustat is a national and international database on capital and corporate companies (Compustat via Wharton retrieved 2010). Also, state location, where the main corporate office is located, and the assistance from the federal government will be treated as attributes of the corporate entity. The independent variables will be corporate position and national tax savings from corporate welfare legislation. The unit of measurement for the independent variables will be in millions of dollars. The dependent variable will be the corporate entity's federal/state income tax contribution, specifically federal income taxes paid and state income taxes paid. The unit of measurement for the dependent variables will be in millions of dollars. The values for these independent and dependent variables are millions of dollars, which can range from the negative millions to the positive billions of dollars. The control variables will include state location, where the main corporate office is located and industry type (i.e., agricultural, finance, etc.). State location of the main corporate base is an important factor because it affects the corporate welfare initiatives available to companies as well as economic conditions. Industry type is an important factor because, as stated earlier, some industries were favored by government more than others.

Hypotheses

H1: Tax Savings and Corporate Position

I hypothesize that the higher its corporate position the more a company will benefit from corporate welfare programs, leading to higher tax savings, between 1980 and 2005. Tax savings will be operationalized as tax credits and deferred taxes as reported in the Compustat annual database, which is a national and international database on capital and corporate companies (Compustat via Wharton retrieved 2010). Corporate position will be operationalized as the number location on the Fortune ranking from 1-1000.

H2: Corporate Position and Decrease in Federal Tax Contribution

The second hypothesis is that as corporate position increases, the corporations will decrease their federal income tax contributions. Even though this study is directly related to corporate welfare initiatives, corporate position may be influenced by many variables besides tax savings. I consider the decrease of the proportion of the federal tax contribution from corporations as a social harm because it reduces the public revenue available to the public via social services, decreases federal and state budgets placing them in deficits and it places an increased tax burden on individuals. This hypothesis will account for both companies that performed well (increased corporate position) and companies that did not perform well (decreased corporate position).

Within the Compustat database, there is a ratio level of measurement of annual tax savings for companies, which is numerical as opposed to categorical and has a true zero. Corporate position will be operationalized in three ways: number location on the

Fortune listing, corporate size, and corporate efficiency. *Corporate size* will be measured in terms of the total value of corporate assets. There is a standard measure of corporate assets as defined by Moody's *Handbook of Common Stock* (1996). *Corporate efficiency* will be defined as operating efficiency. Operating efficiency is the gross profit after deducting operating costs and expenses. Moody defined operating efficiency as the "percentage of gross revenues remaining after all cost and expenses other than expenses of non-operating nature such as interest…minority provisions, and income taxes are deducted" (Moody 1996: 6a). This definition was used because reported profits exclude tax write-offs. Measures of corporate size and corporate efficiency are both provided in the Compustat database.

H3: Corporate Position and Decrease in State Tax Contribution

A third hypothesis focuses on all states. As corporate position increases, the corporations stationed in the state where their main corporate office is located will decrease their state tax contributions to their respective state from 1980 to 2005. Similar to H2, corporate position may be influenced by many variables besides tax savings.

Table 1 summarizes the three hypotheses and the predicted direction of the relationships between the dependent and independent variables.

Path Diagrams

Figure 2 in the Appendix B is a path diagram expressing a causal national model between tax savings, corporate position, and federal income tax contribution

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Table 1. Hypotheses Predicting the Effects of Independent Variables on Dependent Variables

Hypothesis	Independent Variable	Dependent Variable	Prediction
H1	Tax Savings	Corporate Position	Positive
H2/H3	Corporate Position		Negative
H2a/H3a	Fortune Rank	Contributions to Federal Income Tax/State Income Tax	Negative
H2b/H3b	Corporate Size (Corporate Assets)	Contributions to Federal Income Tax/State Income Tax	Negative
H2c/H3c	Corporate Efficiency	Contributions to Federal Income Tax/State Income Tax	Negative

Figure 3 in the Appendix C is a path diagram expressing the causal model of states about

tax savings, corporate position, and decreased corporate state income tax contribution.

Socially Injurious

A goal of this research is to define and measure social injury. By conducting the

research quantitatively, I will attempt to identify the line between what is socially

injurious and not socially injurious. Defining this threshold would be a significant

contribution to the literature on state-corporate crimes, since most of the literature

assumes that the audience "knows" what is socially injurious without specifying how

those harms are measured. For the purpose of this study, I consider decreased corporate

tax contribution to the federal tax base (national model) and decreased corporate tax

contribution to the state tax base (state model) despite increased corporate profits to be

socially harmful.. There are many negative consequences of decreased tax revenues from

corporations' resources, which include draining the federal treasury and increased tax burden on individual taxpayers. I discuss each of these social harms more fully below.

Draining the Federal Treasury

One potentially costly form of corporate welfare is programs that provide subsidized loans or insurance to businesses. Two examples include the export-import bank that provides over $700 million a year to subsidize financing to foreign purchases of U.S. goods and the Overseas Private Investment Corporation that provides over $70 million a year in loans and insurance to U.S. companies who invest in developing nations. This endeavor along with other government loan programs to businesses has purportedly cost the taxpayers millions of dollars because the delinquency rate for these loans on average is 8% (typically 3% for commercial lenders) and in some cases even higher (Farmers Home Administration has a delinquency rate of 50%) (U.S. Census Bureau 2002). I seek to examine whether corporate welfare has led to a continuous draining of the federal treasury. Declined federal and/or state tax base is a form of social harm because it has been accompanied by the increased tax liability of individual. Less revenue from corporate taxes has negatively affected funding to public education and other vital social services, and ultimately reduces the health of the economy. For example, "spending for corporate welfare programs outweighs spending for low-income programs by more than three to one: $167 billion to $51.7 billion" (Center on Budget and Policy Priorities 1995). Another example is "over 90% of the budget cuts passed by the last Congress (as of 1996) cut spending for the poor-- programs that ensure food for the needy, housing for the homeless, job training for the unemployed, community health

care for the sick… [while] only 3.9% of total federal outlays (*as* of 1996) go to programs that solely benefit poor people. (Center on Budget and Policy Priorities 1996). Therefore, one form of conceptualizing social harm is in terms of a decline in the proportion of tax contributions from corporations to the federal and state tax base. "During the three-year period, pretax corporate profits climbed 23.5%. However, corporate income tax revenues rose just 7.7% from 1996-1999" (Taube 200).

Increased Taxation Among the Public

Research indicates that a second consequence of corporate welfare is the growing tax burden on the taxpayers (Institute on Taxation and Economic Policy 1998). The California Budget Project reports that for California "over the past two decades, the burden of funding state services has shifted from corporate to individual taxpayers" (2002). The personal income tax is forecast to provide 54.8 percent of state General Fund revenues in 2002-3, up from 34.8 percent in 1980-81 (California Budget Project 2002). Corporate tax receipts are expected to provide 7.6 percent of General Fund revenues in 2002-3, down from 14.4 percent in 1980-81 (Congressional Budget Office 2002). From U.S. census data, it was found that new, increased, and expanded corporate tax breaks are responsible for the decline in the share of state revenues provided by the corporate income tax" (Congressional Budget Office 2002). This research suggests that as Congress continued to reduce welfare spending for individuals and families; it increased welfare spending for private businesses. Moreover, as corporate taxes declined, state and federal governments increased the burdens on individual taxpayers for raising revenues.

Conclusion

 As stated earlier, one of the strengths of my research design is the use quanitative

methods using an existing corporate/business database called Compustat, which is widely

accepted and reliable database in social science. This data is limited however, since

corporations frequently do not report all of the information requested, creating missing

data problems. There may also be problems of inaccurate reporting of corporate

information. Nevertheless, the Compustat database does provide the best quantitative

information available on corporations and their activities. Prior research in support of the

integrated theory of state-corporate crime is mainly based on qualitative case studies, as

discussed in Chapter Two. Testing a hypothesis of state-corporate crime using

quantitative methods adds to the existing research by examining empirical evidence

based on many cases, which is a strength of quantitative methods.

Chapter Four: Findings from Quantitative Analysis

In this chapter, I will present the results from my quantitative analysis regarding the relationships between corporate position and tax contributions. My main conclusion from this chapter is that there is significant quantitative support for all three hypotheses. As stated in Chapter Three, I hypothesize H1: the higher its corporate position the more a company will benefit from higher tax savings, H2: as corporate position increases, the corporations will decrease their federal income tax contributions, and H3: as corporate position increases, the corporations stationed in the state where their main corporate office is located will decrease their state income tax contributions. The chapter includes 1) descriptive statistics of the independent and dependent variables for all Fortune 100 companies from the 1980 cohort, 2) sampling changes, 3) findings for companies who were ranked as Fortune 100 companies for all three time periods and 4) findings for all companies ranked in the 1980 Fortune 100. The technique is structural equation modeling using conventional regression.

Descriptive Statistics for All 1980 Fortune 100

As stated in Chapter Three, there are multiple variables: tax savings measured as tax credits and tax deferments, corporate position measured by Fortune rank, corporate size and corporate efficiency, federal income tax, and state income tax. The control variables, state location and industry code, were not included because they are nominal variables. The following three tables (tables 2, 3 and 4) provide descriptive statistics for all variables at 1980. The sample of these tables incorporates all of 1980 Fortune 100. Tax savings was measured by tax deferments and tax credits. For tax deferments, the

Table 2. Descriptive Statistics for Variables in 1980							
	Mean	Median	Mode	Std. Deviation	Range	Minimum	Maximum
Tax Savings							
Tax Deferments	96.38	35.00	10	177.563	1257	-81	1127
Tax Credits	455.72	209.40	134	792.403	6217	1	6218
Corporate Position							
Fortune Rank	50	50	50	29	99	1	100
Corporate Size (Assets)	3223.19	2130.60	3694	3435.437	23458	0	23459
Corporate Efficiency	1508.2820	324.400	-1097.3	9971.86799	101096.3	-1097.3	99999.00
Federal Income Tax	161.84	82.85	6	246.734	1947	-644	1303
State Income Tax	28.64	17.00	13	41.708	240	-21	219

Note: Values are represented in millions with the exception of rank.

Table 3. Descriptive Statistics for Variables in 1990							
	Mean	Median	Mode	Std. Deviation	Range	Minimum	Maximum
Tax Savings							
Tax Deferments	2.71	.95	-214	173.199	1065	-483	582
Tax Credits	1268.51	650.58	0	1919.274	12568	0	12568
Corporate Position							
Fortune rank	51.3200	41.00	1	40.16593	177.00	1	178.00
Corporate Size (Assets)	857.4324	486.650	219.00	1053.30135	5373.30	-1149.00	4224.30
Corporate Efficiency	4556.56	3424.65	3	5475.777	38917	3	38920
Federal Income Tax	190.01	108.50	2	262.385	1931	-450	1481
State Income Tax	35.83	19.00	17	50.153	340	-8	332

Note: Values are represented in millions with the exception of rank.

Table 4. Descriptive Statistics for Variables in 2005							
	Mean	Median	Mode	Std. Deviation	Range	Minimum	Maximum
Tax Savings							
Tax Deferments	76.05	12.65	-75	540.920	3863	-1678	2185
Tax Credits	2685.98	817	125	4581.525	20872	6	20878
Corporate Position							
Fortune rank	160.6441	106.0000	2	168.17896	855.00	2	857.00
Corporate Size (Assets)	11726.24	7488.00	7567	13336.521	72442	900	73342
Corporate Efficiency	2095.545	1149.50	859.00	5314.38901	42792.20	-17462.20	25330.00
Federal Income Tax	642.72	395.00	395	1060.102	5971	-301	5670
State Income Tax	81.14	35.00	-2	151.051	888	-86	802

Note: Values are represented in millions with the exception of rank.

mean is $96.38 million in 1980, $2.71 million in 1990, and $76.05 million in 2005. The

tax deferment of 1980 is indicative of a period of corporate debt where companies could

not afford to pay their share of taxes, and opted to defer their tax liability. By 1990, all

the available tax credit provided a competing option to tax deferments and by 2005 with

the onset of an economic downturn, tax deferments again became a viable option. For

tax credits, the mean is $455.72 million in 1980, $1.268 billion in 1990, and $2.685

billion in 2005. This pattern supports the timeline when welfare initiatives including

available tax credits for corporations were at their highest by 2002. Even after 2002,

these initiatives continued to be funded at level or increased funding. For Fortune rank,

the mean is 50 for 1980, 51 for 1990 and 161 for 2005. For corporate size, the mean is

$3.223 billion in 1980, $857.432 million in 1990, and $11,726 billion. The drop in 1990

could be due to the fact that many companies were still restructuring, which includes

buying and selling of assets, well into the 1990s (Grant II 1995). However, the enormous

jump of corporate size in 2005 is evidence of how much ranked companies grew. For

corporate efficiency, the mean is $1508.282 million in 1980, $4.557 billion in 1990, and

$2.096 billion in 2005. Even though companies grew in terms of their assets, the

decrease of corporate efficiency in 2005 can be due to declining profits in an economic

downturn. For federal income tax paid, the mean is $161.84 million in 1980, $190.01

million in 1990, and $642.72 in 2005. For state income tax paid, the mean is $28.64

million in 1980, $35.83 million in 1990, and $81.14 million in 2005. As indicated by the

growth in assets between 1980 to 2005, corporate size increased by over 3638 times;

whereas federal income tax contribution increased by 4 times and state tax contribution

increased by 3 times. The wealth of a company is in its corporate size, its assets, not just

its year to year profits. In the meantime, tax credits peaked at 2.7 billion in 2005. The

trends present in the descriptive statistics illustrate the expected relationship between

corporate position and tax savings and corporate position and federal/state income tax

contribution. Companies were growing at rates that overwhelmingly surpassed their tax

contribution, while they were taking advantage of more tax credits than they did before.

Sampling

Even though the descriptive statistics included information on all 1980 Fortune

100 companies, I decided to make some sampling changes. In total, 18 models were run.

The sample was the Fortune 100 companies of 1980. However, for the first 9 models in

table 5, table 6, and table 7, the sample included companies from the original 1980

Fortune 100 that were ranked in the top 100 at all three points in time. A reason for this

change is that when I ran the initial data models for all of the 1980 Fortune 100 cohort, the data did not make sense and variables that should be correlated (i.e., indicators of corporate position) were not. But as I later realized, I made key errors, where I did not account for missing data or data coded differently because the company was part of an acquisition or merger. Once I corrected my mistakes, I ran an additional 9 models with the full 1980 Fortune 100 cohort accounting for missing data or coding differences.

Sample 1

For the first 9 models, the sample size began as 100 companies that represented the top 100 ranked companies from the 1980 Fortune rankings. By 1990, 75 of those companies (75%) were still ranked by the Fortune. However, 23 out of 25 (92%) companies that were unranked merged or were acquired by ranked companies. The mid-1980s to the 1990s was an opportune time for corporations to restructure, merge, subsidiarize or go after acquisitions tax-free as a result of two key corporate welfare initiatives: the Tax Reform Act of 1986 and the Revenue Act of 1987 (Grant II 1995). Many of these companies were not in financial troubles with the exception of difficulties in the steel industry. However companies during this period took advantage of tax-free restructuring to maximize their profits, and in many cases the existing ranked corporations competed in fierce buy outs or aggressive take-overs (Grant II 1995). Out of the 75 companies that were ranked, sixty three of the companies (84%) were ranked in the top 100 companies and all 75 (100%) companies were ranked in the top 200 in 1990 meaning that some companies dropped from the top 100 and became ranked in the top 200. By 2005, only 59 of the original Fortune 100 companies from 1980 were still

ranked in the by Fortune 1000 leaving 41 companies unranked by Fortune. However 37

of the 41 (90%) of the unranked companies merged or were acquired by ranked

companies during the 1990s. Out of the 59 companies that were ranked, 27 (46%) were

in the Fortune 100, 56 (95%) were in the Fortune 500 and all 59 (100%) were ranked in

the Fortune 1000. Therefore at the end of three points in time, 59 of the original 1980

Fortune 100 companies made up the sample size for the first 9 models in tables 5, 6 and

7. As stated earlier, Compustat is an extensive corporate database, but many companies

do not to provide complete information. As a result, the models excluded companies

(N=14) that had missing data. For 1980, the sample includes 43 companies. For 1990 and

2005, it only includes 36 companies.

Sample 2

Sample two includes the full 1980 Fortune 100 cohort accounting for missing data

or coding differences. The way I accounted for the missing data was excluding it when I

ran the statistics so that it would not be interpreted as zero value. The way I accounted

for unranked companies is I coded mergers and acquisitions as 9999 and companies who

failed (i.e., bankruptcy, closed down) as 999 under the variable of rank; however, I

included all the information regarding the other variables as long as the information was

available in Compustat (Even though Compustat is an extensive corporate database,

many companies do not to provide complete information).

Findings from Regression Analysis: Sample 1

Table 5 presents a model of corporate position and federal income tax at the three

different points in time and it tests the relationship between corporate position and federal

income tax contribution. For all tables, numbers not presented in the parenthesis are standardized coefficients, and numbers in the parenthesis represent unstandardized coefficients. I used a one-tailed to test the direction of the effects. Model 1 addresses the three indicators of corporate position (Fortune rank, corporate efficiency, and corporate size) and federal income tax contribution at the first point time, 1980. In model 1, each of the variables had its expected effect. As Table 5 shows, the three variables that measure corporate position—corporate rank, efficiency, and size-- are significantly related to each other. This is not surprising because assets and profits are factors that are accounted for in a Fortune ranking. More importantly, the model itself yields a significant relationship between corporate position and federal income tax contribution at the first point in time, 1980 ($R^2=0.64**$). In 1980, 64% of the variance in federal income tax contributions can be explained by corporate position. As I expected, I found a significant relationship between one indicator of corporate position and federal income tax contribution in 1980.

Model 2 addresses the same variables as model 1 for the second point in time, 1990. For model 2, similar significant correlations to model one's correlations were found among the indicators of corporate position although the relationships were not as strong. Like model 1, model 2 has a strong variance in explainingfederal income tax contribution at the second point in time ($R^2=0.55**$). In 1990, 55% of the variance in federal income tax contribution can be explained by corporate position at the second point in time. As I expected, I found a significant relationship between corporate position and federal income tax contribution in 1990.

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Table 5. Coefficients and Pearson Correlation from the Regression of Federal Income Tax paid on Corporate Position

Variables	Model 1-Year 1980	Model 2-Year 1990	Model 3-Year 2005
Corporate Position			
Fortune Rank	0.336 (0.32)	-3.706* (-0.454)	-0.450 (-0.053)
Corporate Efficiency	0.471** (1.243)	0.078 (.342)	0.299** (1.250)
Corporate Size (Corporate Assets)	-0.035 (-.493)	-0.003 (-.083)	-0.035* (-0.430)
R^2	0.64**	0.55**	0.77**
Number of Cases	43	36	36
Pearson Correlation			
Rank and Efficiency	-0.615**	-0.449**	-0.436**
Rank and Size	-0.658**	-0.528**	-0.521**
Efficiency and Size	0.922**	0.788**	0.915**

*p < .05   **p < .01 (one-tailed tests)

federal income tax contribution can be explained by corporate position at the second point in time. As I expected, I found a significant relationship between corporate position and federal income tax contribution in 1990.

Model 3 addresses the same variables as the previous models for the third point in time, 2005. For model 3, similar slightly weaker significant correlations were found among the indicators of corporate position with the exception of the relationship between corporate efficiency and corporate profits. The correlation between corporate efficiency and the strength of corporate profits is similar to the strength found in 1980. Like the previous models, model 3 yields a significant relationship between corporate position and federal income tax contribution at the third point in time (R^2=0.77**). In 2005, 77% of the variance in federal income tax contribution can be explained by corporate position.

As I expected, I found a significant relationship between two indicators of corporate position and federal income tax contribution in 2005.

Even though the models explained much of the variance in federal income tax contribution, I found a significant relationship between corporate efficiency and federal income tax contribution in 1990. Corporate efficiency had a positive and strong relationship with corporate position, meaning as profits increase so does corporate tax liability. Although not significant indicators of corporate position, size and rank had negative relationships with corporate position, which supports the second hypothesis because property, assets, and property taxes are tax write-offs for companies. In 1990, Fortune rank was a statistically significant indicator; it had a negative and strong relationship with corporate position (-3.706). Therefore, as the Fortune rank improved (i.e., 3, 2, 1), the larger the federal income tax contribution became. In 2005, corporate size was a significant indicator, and it had a negative and weak relationship with corporate position. Therefore, as a corporation grew in size, their federal income tax contribution decreased. This finding supports the pattern found in the descriptive statistics section, where companies were growing at rates that overwhelmingly surpassed their tax contribution. As I expected, I found a significant negative relationship between at least one indicator of corporate size and federal income tax contribution.

Table 6 presents a model of corporate position and state income tax contribution at the three different points in time and it tests the relationship between corporate position and state income tax contribution. Although Table 5 addresses the national model, the findings of the correlations between the indicators of corporate position are the same for

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table 6. Model 1 addresses the three indicators of corporate position and state income tax contribution at the first point in time. Model 1 explains a substantial proportion of the variance in state income tax contribution at the first point in time (R^2=0.81**). In 1980, 81% of the variance in state income tax contribution can be explained by corporate position. .

Model 2 addresses corporate position and state income tax contribution at the second point in time, 1990. Model 2 does not does not significantly explain variancein state income tax at the second point in time; however model 2 does explaine variance at a significance of .10 (R^2=0.41). Contrary to my expectations, I found that the relationship between corporate position and state income tax contribution in 1990 is not significant at .05.

Model 3 addresses corporate position and state income tax contribution at the third point in time. Model 3 explains 89% of the variance in 2005 state income tax contribution.

The third hypothesis is that as corporate position increases, corporations will decrease their state income tax contribution. Table 6 with model 1, model 2 and model 3 test this hypothesis at the three different points in time. Similar to table 5, corporate efficiency was the significant indicator of corporate position for 1980 and 2005 for table 6. In 1980, corporate efficiency had a weak and positive relationship with state income tax contribution. In 2005, corporate efficiency had a strong and positive relationship with state income tax contribution. Corporate efficiency has a positive relationship with corporate position, meaning that as profits increase so does corporate

Table 6. Coefficients and Pearson Correlation from the Regression of State Income Tax on Corporate Position

Variables	Model 1-Year 1980	Model 2-Year 1990	Model 3-Year 2005
Corporate Position			
Fortune Rank	0.009	-0.509*	-0.134
	(0.006)	(-0.474)	(-0.102)
Corporate Efficiency	0.080**	0.005	0.56**
	(1.344)	(0.139)	(1.546)
Corporate Size (Assets)	-0.005	.000	-0.009**
	(-0.506)	(-0.101)	(-0.760)
R^2	0.81**	0.41	0.885**
Number of Cases	34	29	33
Pearson Correlation			
Rank and Efficiency	-0.626**	-0.498**	-0.431**
Rank and Size	-0.676**	-0.506**	-0.537**
Efficiency and Assets	0.950**	0.804**	0.913**

$*p < .05$ $**p < .01$ (one-tailed tests)

tax liability. Although not statistically significant indicators of corporate position, assets and rank also have a negative relationship with corporate position, which supports the third hypothesis because property, assets, and property taxes are tax write-offs for companies. Similar to table 5, Fortune rank was a significant indicator and it had a negative and strong relationship with corporate position in 1990. Therefore as the Fortune rank gets higher (i.e., 3, 2, 1), the larger the federal income tax contribution. Similar to table 5, corporate size was a significant indicator and it had a negative and weak relationship with corporate position in 2005. Therefore, as a corporation grows in size, their state income tax contribution decreases. Like table 5, this finding supports the pattern found in the descriptive statistics section, where companies are growing at rates that overwhelmingly surpass their tax contribution. As I expected, I found a statistically

significant negative relationship between corporate size and state income tax contribution.

Table 7 presents a model of tax savings, control variables, and corporate position, which tests the relationship between corporate position and tax savings. Unlike the findings for table 5 and table 6, half of the bivariate correlations among the control variables and independent variables in model 1 are not statistically significant. The three relationships that are statistically significant are between industry code and deferred income taxes (-0.34), between industry code and tax credit (-0.29) and between deferred income taxes and tax credit (-0.91). In 1980, there is strong and negative relationship between industry code and deferred income taxes. In 1980, there is a strong and negative relationship between industry code and tax credit. I understand that multivariate results trump bivariate results. However I decided to discuss the following findings of bivariate relationships because they provide interesting information in support of theory. The data revealed a negative relationship between two bivariate correlations industry code and the two indicators of tax savings. The more times an industry code appeared then the more likely they were coded with a smaller number. For example, out of all the 1980 Fortune 100, the industry code with the highest frequency was oil; therefore, oil was coded as 1. Also, as stated earlier in the literature review, corporate welfare initiatives, including tax savings, favored some industries (i.e., defense, oil and agriculture) over other industries (citation). Therefore, it was not surprising to find a negative relationship between industry code and the two indicators of tax savings.

In 1980, there is a very strong positive relationship between deferred income taxes and tax credit. As I expected, I found a significant, strong and positive relationship between deferred income taxes and tax credit. It is reasonable that if a company qualifies for one form of tax savings, then they would take advantage of multiple forms of tax savings. Model 1 explained 22% of the variance in 1980 corporate position.

In model 2, only one bivariate correlation is significant, which is between industry code and tax credit (-0.11**). In 1990, there is a negative and moderate relationship between industry code and tax credit. Similar to model 1, I expected to find a negative and significant relationship between industry code and tax credit in model 2. Model 2 yields a significant relationship between tax savings and corporate position for the second point in time (0.25**). In 1990, 25% of the variance in corporate position can be explained by the model. As I expected, I found a significant relationship between corporate position and tax savings in 1990.

In model 3, the one bivariate correlation that is significant is between state and deferred income taxes (-0.29*). In 2005, there is a strong and negative relationship between state location and deferred income taxes. As expected, I found a strong and negative bivariate relationship between state location and deferred income taxes. The more times a state location appeared then the more likely they were coded with a smaller number. For example, out of all the 1980 Fortune 100, the state location with the highest frequency was Texas; therefore, Texas was coded as 1. Also, as state earlier in the

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Table 7. Coefficients and Pearson Correlation from the Regression of Corporate Position and Tax Savings and Control Variables			
Independent Variables Tax Savings	Model 1-Year 1980	Model 2-Year 1990	Model 3-Year 2005
Income Tax Deferred	0.004	.088	-0.142
Tax Credit	-0.012**	-0.006**	-0.012*
Control Variables			
State Location	0.232	-0.090	0.071
Industry Code	0.58	0.20	0.000
R^2	0.22**	0.25**	0.27*
Number of Cases			
Pearson Correlation			
Income Tax Deferred and Tax Credit	0.91**	0.06	-0.09
Income Tax Deferred and State Location	-0.12	-0.04	-0.29*
Income Tax Deferred and Industry Code	-0.34**	0.36	-0.09
Tax Credit and State Location	-0.12	-0.16	-0.10
Tax Credit and Industry Code	-0.29**	-0.11**	-0.18
State Location and Industry Code	0.08	0.08	0.08

$*p < .05$ $**p < .01$ (one-tailed tests)

literature, states competed against one another for businesses, and states used tax savings as one of the many incentives for companies to stay or relocate. Model 3 explains 27% of the variance in 2005 corporate position.

The first hypothesis argues that the higher its corporate position the more a company will benefit from corporate welfare programs, leading to higher tax savings, between 1980 and 2005. Table 7's model 1, model 2 and model 3 test this hypothesis at the three different points in time: 1980 (pre-corporate welfare), 1990 (corporate welfare period), and 2005 (after corporate income taxes were at its lowest in 2002). Based on all three models, tax credit had a significant impact on corporate position and tax credit had

a weak and negative relationship with corporate position. Basically as a company

receives more tax credit, their corporate rank in Fortune becomes smaller (1, 2, 3 instead

of 98, 99, 100); hence the negative relationship. The more tax credit a company receives,

thehigher their rank (i.e., 3, 2, 1, etc.). As I expected, I found a significant and negative

relationship between corporate position and tax credit for all three points in time.

Although a weak relationship, this finding strongly supports my argument that as

companies increase their position, they receive more tax credits. I define a weak

relationship as values that are less than .10. These findings also support the pattern found

in the descriptive statistics, where based on 2005, ranked companies took advantage of

more tax credits than they did before.

The second indicator of tax savings is tax deferments, which has no significant

effect for all three models. Contrary to what I expected, I found no significant

relationship between corporate position and tax deferments for all three models of table 7.

In terms of control variables, industry code had no influence on corporate position;

however, industry code significantly correlated with both indicators of tax savings in

1980. In terms of state location as a control variable, it had no influence in explaining

corporate position.

Findings from Regression Analysis: Sample 2

Table 8 presents a model of corporate position and federal income tax for all

Fortune 100 companies at the three different points in time and tests the relationship

between corporate position and federal income tax contribution. Model 1 addresses the

three indicators of corporate position (Fortune rank, corporate efficiency, and corporate

size) and federal income tax contribution at the first point time, 1980. In model 1, only

rank and corporate size were significantly correlated (-0.63) with each other. There is a

strong and negative relationship between 1980 rank and corporate size. These findings

are different from model 1 in table 5 (companies who were ranked at all three points in

time), where all the indicators were significantly correlated. Contrary to what I expected,

I found only one indicator of corporate position to be significantly correlated in 1980.

However, for models 2 and 3, the three variables that measure corporate position—

corporate rank, efficiency, and size-- are significantly correlated, which are similar to the

findings for table 5. As I expected, I found significant relationships between all the

indicators of corporate position for 1990 and 2005.

Model 1 explained 38% of the variance in 1980 federal income tax contributions.

This is well below the proportion of variance explained by model 1 in table 5, where 64%

of the variance in federal income tax contributions was explained. As I expected,

corporate position significantly explained the variance in federal income tax contribution

in 1980. Even though the model was significant in explaining variance in federal income

tax contribution and based on the standardized coefficient, corporate size is the

significant indicator for 1980 (0.57). In 1980, there is a strong positive relationship

between corporate size and federal income tax contribution. This differs from model 1 in

table 5 where, corporate efficiency was the only statitistically significant indicator.

Model 2 in table 8 addresses the same variables for the second point in time,

1990. Like model 1, model 2 yields a significant relationship between corporate position

and federal income tax contribution at the second point in time (R^2=0.50). In 1990, 50%

Table 8. Coefficients and Pearson Correlation from the Regression of Federal Income Tax paid on Corporate Position for ALL Fortune 100			
Variables	Model 1-Year 1980	Model 2-Year 1990	Model 3-Year 2005
Corporate Position			
Fortune Rank	-0.08 (-0.63)	-0.25 (-1.74)	-0.04 (-0.28)
Corporate Efficiency	0.00 (0.00)	0.65 (0.17)	0.36** (0.07)
Corporate Size (Assets)	0.57** (0.041)	-0.15** (-0.01)	0.43 (0.03)
R^2	0.38**	0.50**	0.59**
Number of Cases	100	75	59
Pearson Correlation			
Rank and Efficiency	0.09	-0.54**	-0.31**
Rank and Size	-0.63**	-0.54**	-0.56 **
Efficiency and Size	-0.01	0.73**	0.80**

     $*p < .05$ $**p < .01$ (one-tailed tests)

of the variance in federal income tax contribution can be explained by corporate position.

As I expected, I found a significant relationship between corporate position and federal

income tax contribution in 1990. Model 2 of this table is comparable to model 2 of table

5, where 55% of the variance can be explained. Like model 1, corporate size is the only

statistically significant indicator for model 2 (-0.15). However, even though it is the

significant indicator, the findings are different from model 1 because the relationship is

moderate and negative. As I expected, I found a moderate and negative relationship

between corporate size and federal income tax contribution.

     Model 3 addresses the same variables as the previous models for the third point in

time, 2005. Model 3 explains 59% of the variance in 2005 federal income tax

contribution. This amount of variance explained is less that the variance explained by

model 3 of table 5, where 77% of the variance is explained. Also, unlike model 1 and 2,

Fortune rank is the statistically significant indicator (-0.04) not corporate size; however, the relationship between rank and federal income tax contribution is weak and negative. As I expected, I found significant relationships between some indicators of corporate position and federal income tax contribution for all three models.

Table 9 presents a model of corporate position and state income tax for all Fortune 100 companies at the three different points in time and it tests the relationship between corporate position and state income tax contribution. This model accounts for all states. The analyses in Table 9 include all Fortune 100 companies. Although table 9 is specific to the state, the findings of the correlations between the variables/indicators of corporate position are the same as those at the federal level. Model 1 addresses the three indicators of corporate position and state income tax contribution at the first point in time. Model 1 explains 37% of the variance in 1980 state income tax contribution. This amount of variance explained is substantially lower than model 1 of table 6 (companies who were ranked at all three points in time), where the variance was 81%. Model 2 addresses corporate position and state income tax contribution for all Fortune 100 companies at the second point in time. Model 2 explains 38% of the variance in 1990 state income tax contribution This finding is different from model 2 in table 6, where the model itself was not significant.

Model 3 addresses corporate position and state income tax contribution at the third point in time. Model 3 explains 53% of the variance in 2005 state income tax contribution. This amount of variance explained is substantially lower than model 3 of table 6, where the variance was 89%.

Table 9. Coefficients and Pearson Correlation from the Regression of State Income Tax on Corporate Position for ALL Fortune 100

Variables	Model 1-Year 1980	Model 2-Year 1990	Model 3-Year 2005
Corporate Position			
Fortune Rank	-0.12 (-0.16)	-0.29** (-0.37)	-0.06 (-0.06)
Corporate Efficiency	0.01 (0.00)	0.54 0.03	0.33** (0.01)
Corporate Size (Assets)	0.53** (0.01)	-0.18 (0.00)	0.40 (0.00)
R^2	0.37**	0.38**	0.53**
Number of Cases	100	75	59
Pearson Correlation			
Rank and Efficiency	0.09	-0.54**	-0.31**
Rank and Size	-0.63**	-0.54**	-0.56 **
Efficiency and Assets	-0.01	0.73**	0.80**

*$p < .05$ **$p < .01$ (one-tailed tests)

Unlike Table 8, the table 9 indicators of corporate position that are statistically

significant differ from each point in time. In 1980, the significant indicator is corporate

size with a strong positive relationship (0.53). This means that the more assets a

company had then the more they paid in taxes. In 1990, the significant indicator is

Fortune rank with a strong negative relationship (-0.29). This means that has the Fortune

rank gets higher (i.e., 3, 2, 1) then the more state income taxes a company would pay. In

2005, the significant indicator is corporate efficiency with a strong positive relationship

(0.33). Therefore the more profits a company makes then the more state income taxes

they pay. Contrary to what I expected, I found that the findings of the significant

indicators for all three points in time do not support the negative relationship I predicted

between corporate position and state income tax contribution. These findings are

different from the findings of table 6 and table 8.

Table 10 presents a model of tax savings, control variables, and corporate position for all Fortune 100, which tests the relationship between corporate position and tax savings. Unlike the findings in table 8 and table 9, almost all of the correlations amongst the control variables and independent variables in model 1, 2 and 3 are not significant. The only significant bivariate relationship is in 1980 between deferred income taxes and tax credit with a strong positive relationship (0.82). This significant relationship was also found in model 1 of table 7 (companies that were ranked at all three points in time). The first hypothesis argues that the higher its corporate position the more a company will benefit from corporate welfare programs, leading to higher tax savings, between 1980 and 2005. Table 10 model 1, model 2 and model 3 test this hypothesis at the three different points in time.

Model 1 explains 25% of the variance in corporate position. This is similar to the findings in model 1 of table 7, where 22% of the variance was explained. Model 2 explains 29% of the variance in 1990 corporate position. This is also similar to the findings in model 2 of table 7, where 25% of the variance is explained. Model 3 was not significant; whereas model 3 of table 7 was significant. Based on all three models, there was significant relationship between corporate position and tax savings, and for all three models, they were strong and negative relationships. Basically, as a company receives more tax credit, their corporate rank in Fortune becomes smaller (1,2,3 instead of 98, 98, 100); hence the negative relationship. So the more tax credit a company receives, then the higher the rank (i.e., 3, 2, 1, etc.). The second indicator of tax savings is tax deferments, which had no statistically significant effect. Unlike the weak relationships

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Table 10. Coefficients and Pearson Correlation from the Regression of Corporate Position and Tax Savings and Control Variables for All Fortune 100			
Independent Variables Tax Savings	Model 1-Year 1980	Model 2-Year 1990	Model 3-Year 2005
Income Tax Deferred	0.08 (0.01)	0.10 (0.02)	-0.19 (-0.06)
Tax Credit	-0.55** (-0.2)	-0.48** (-0.01)	-0.45* (-0.02)
Control Variables			
State Location	0.12 (1.12)	0.24 (3.03)	0.05 (2.56)
Industry Code	0.11 (1.03)	0.04 (0.51)	0.08 (4.08)
R^2	0.25**	0.29**	0.24
Number of Cases	100	75	59
Pearson Correlation			
Income Tax Deferred and Tax Credit	0.82**	0.10	-0.06
Income Tax Deferred and State Location	0.09	0.11	0.17
Income Tax Deferred and Industry Code	0.04	-0.04	-0.14
Tax Credit and State Location	0.11	0.06	-0.04
Tax Credit and Industry Code	0.07	-0.03	-0.04
State Location and Industry Code	0.07	0.07	.007

*p < .05   **p < .01 (one-tailed tests)

found between tax credit and corporate position in table 7, all three models of table 10 have strong relationships between tax credit and corporate position. Like table 7 and as I expected, I found a significant and negative relationships between tax credit and corporate position for all three models.

Conclusion

As I expected for table 5, I found a significant relationship between corporate position and federal income tax contribution for all three points in time. The most

important finding from table 5 is that I found a significant negative relationship between corporate size and federal income tax contribution in 2005. Contrary to my expectations, I found a significant relationship between corporate position and state income tax contribution for only two of the three models in table 6. However for 1980 and 2005, the models were very strong in explaining the variances in state income tax contribution. Like table 5, the table 6 findings support the pattern found in the descriptive statistics section, where companies are growing at rates that overwhelmingly surpass their tax contribution. Also, as I expected, I found a significant negative relationship between corporate size and federal income tax contribution. As I expected for table 7, I found a significant and negative relationship between corporate position and tax credit for all three points in time. Although a weak relationship, this finding strongly supports my argument that as companies increase their position, they receive more tax credits. However one finding that did not make sense was that there was no significant relationship between corporate position and tax deferments for all three models of table 7, especially considering how strongly correlated tax deferments and tax credits were in model 1 (1980). One speculation could be that tax credits replaced tax deferments as an option because if a company can reduce their tax liability then they can afford to pay the taxes they owe. These findings also support the pattern found in the descriptive statistics, where based on 2005 data, ranked companies are taking advantage of more tax credits than they did before.

The second 9 models are for all the Fortune 100 companies. Even though the sample is 100 and as stated earlier, not all companies reported their numbers to the

Compustat database and some companies were no longer ranked. Therefore, the models

ran excluded variables with missing data. As I expected for table 8, I found significant

relationships between corporate position and federal income tax contribution for all three

models. An interesting finding from model 8 is the moderate and negative relationship

between corporate size and federal income tax contribution in model 2, which was

opposite of the model one finding. As I shared earlier, one explanation for this is that in

1980, corporations were still making federal income tax contributions of over 20% of

their income, and after the introduction of corporate welfare initiatives, their profits

increased as they decreased their federal income tax contributions. As I expected in table

9, I found significant relationships between corporate position and state income tax

contribution for all three points in time. However, contrary to what I expected, I found

that the findings of the significant indicators for all three points in time do not support the

negative relationship I predicted between corporate position and state income tax

contribution. In table 10, I found significant relationships between corporate position and

tax savings for 1980 and 1990 only. The only significant bivariate relationship is in 1980

between deferred income taxes and tax credit with a strong positive relationship (0.82).

This relationship is reasonable because the more a company qualifies for tax credits, the

company should also qualify for tax deferments. An additional important finding of

table 10 is that I found a significant and negative relationship between tax credit and

corporate position for all three models.

The models of the companies who were ranked at all three points in time had by

far the stronger and larger variances for the relationships between corporate position and

federal and state income tax contribution. One explanation is that because they were

ranked at all three points, the effect of corporate position would be consistent and

predictable. Another interesting pattern is the strongest model with the largest variance

in explaining income tax contribution occurred in 2005, model 3 in table 5, 6, 8 and 9.

One explanation for this pattern could be that 1990 was too soon to see an effect of tax

savings on income tax contribution for both federal and state. Although the 1980s was

the starting point for corporate welfare initiatives, it was not until 2002 that the amount of

corporate welfare options offered was at its highest, which would explain the large

variance evident in 2005 for all models explaining the relationship between corporate

position and federal and state income tax contribution. For table 7 and table 10, which

tested the relationship between corporate position and tax savings, the models were

consistent in strength and variance across all three points in time. One reason could be

that tax savings could have been operationalized in over 100 ways that represent over 100

corporate welfare initiatives that companies could have taken advantage of and tax

savings is a small component of that concept. Considered together, the findings from all

the tables provide strong support for all three hypotheses: H1: the higher its corporate

position the more a company will benefit from higher tax savings, H2: as corporate

position increases, the corporations will decrease their federal income tax contributions,

and H3: as corporate position increases, the corporations stationed in the state where

their main corporate office is located will decrease their state tax contributions. At the

same time, corporate welfare initiatives have taken so many forms that tax savings alone

is not an adequate measure of corporate welfare; however, consolidated effects of

corporate welfare initiatives can be seen by the large variances found in 2005, which is after the point where corporate tax contribution was at its lowest and corporate welfare initiatives were at its highest.

Chapter Five: Conclusion

This study argued that the failure to stabilize or rollback corporate welfare initiatives has resulted in a significant decrease in corporate federal and state tax contributions, which in turn has caused social harm. I have further argued that the development of these corporate welfare initiatives fit the criteria of a "state-corporate crime" as defined by Kramer and Michalowski.

The purpose of this final chapter is to summarize the results of my research and to discuss its implications for society as well as future research. I will first review the main assumptions of the integrated theory of state-corporate crime and then summarize the findings from prior case studies that supports this theory. I will then follow up with a discussion of my quantitative analysis of the inter-relationships between corporate position, tax savings, and tax contributions and its limits. I will then discuss the implications of my research for future research on corporate welfare initiatives as well as the implications for social policy.

Chapter One provided the historical and theoretical context for this study. First, I reviewed the history of corporate welfare. I then reviewed the development of the concept of "state-corporate crime," and the current integrated theory of state-corporate crime. According to Kramer and Michalowski, three key components of state-corporate crime are direct cooperation between the state and corporations, a mutual goal, and social harm resulting from that cooperation and goal. For this study, direct cooperation was between corporations and the federal and state governments in developing corporate welfare initiatives. The mutual goal was to provide tax breaks for businesses. The social

harm that has resulted from those tax breaks was the decrease in federal and state income tax contributions, which has encouraged cutbacks in vital social services and increased the tax burdens of individual taxpayers.

The integrated theory of state corporate crime offered a multi-variable and multi-level analysis. Two of the three levels of analysis were used in this study, institutional and organizational level of analysis. New federalism, corporate debt, and market deregulation are the institutional factors that reintroduced corporate aid in the 1980s. There are three categories that act as a catalyst for action or inaction: motivation, opportunity, and control. The business failures of the 1970s and the increasing corporate debt of the early 1980s provided the economic pressure (motivation) on federal government to address those problems. New Federalism created the culture (motivation) that would strengthen the relationship between federal and state governments and reduce the strength of labor. As part of New Federalism, market deregulation created a culture (motivation) and removed obstacles (opportunity) from businesses by providing fewer federal regulation and tax-free restructuring. By making corporate aid into legislation, federal and state governments provided the legal means (opportunity) for businesses to take full advantage of corporate aid. With very limited controls in place (i.e., legal sanctions, media scrutiny, public opinion, social movements, and international reactions), multimillion and billion dollar companies continued to grow in size, contributed less to federal and state income taxes in proportion to the assets and wealth they accumulated, and continued to receive tax credits.

Profit maximization is the organizational factor that encouraged the development of state corporate aid in the 1980s. Profit maximization is a key aspect of corporate culture that provides the motivation for the development of corporate aid. Through profit maximization, businesses seek to maximize their present value, global worth, and maximize current earnings (Kopits 1976). Corporate welfare initiatives themselves are not deviant or criminal, but unrestricted and unregulated corporate aid is deviant when it takes away from public resources. As legislation, corporate aid normalized the deviance, providing the opportunity for it to occur. As a result the heads of companies and policy-makers frequently do not view the continuation of corporate aid as deviant or criminal, despite the negative social consequences it has for the wider society.

In the case studies reviewed in Chapter Two, we saw that social harms were caused by multiple actors and series of actions. These case studies provided evidence of direct collusion between a government agency and corporate actor and they demonstrated the social harms that resulted. The case studies demonstrated the various levels of analysis and catalysts of action offered by the integrated theory of state-corporate crime. Since social harm is a difficult concept to operationalize, the case studies provided examples of social harm and helped build the concept within the theory. For my study, it was the recent and international case studies (i.e., Exxon Oil Spill in 1989, government contracts with Halliburton, and Iraq War) that expanded the definition of social harm to include economic losses for the public, job losses, draining of federal monies, and reduced tax revenues.

I argue that the corporations that the richest and most powerful corporations in the United States gained the largest tax savings from corporate welfare initiatives and experienced the largest reductions in their federal and state tax contributions. In Chapter Three, three hypotheses were introduced to test this argument. The methodology used to test these hypotheses was structural equation modeling at three different points in time: 1980 (before the surge of corporate welfare initiatives), 1990 (immediately after and during the surge of corporate welfare initiatives), and 2005 (after 2002 where corporate federal tax contribution reached a historical low). The main variables used in my data analysis were corporate position, tax savings, and tax contributions. Corporate position represents profit maximization in the organizational level of analysis. Tax Savings represents a component of New Federalism and the availability of legal means at the institutional level of analysis. Prior research on state-corporate crime has exclusively used the case study approach. To my knowledge, this dissertation represents the first attempt to examine the validity of state-corporate crime theory using quantitative data analysis.

As discussed in Chapter 4, my data included two samples. One sample included the companies from the 1980 Fortune 100 who were ranked at all three points in time (1980, 1990, and 2005). The second sample included all the 1980 Fortune 100 companies. The patterns found in the descriptive statistics supported my hypothesis. The structural equation modeling revealed support for the models and some support for the three hypotheses.

Research Limitations

Structural Equation Modeling is a quantitative method of data analysis and can provide evidence of causal relationships. In this study, the method was chosen because I wanted to provide evidence of causal relationships over a period of time for multiple companies as opposed to providing a study of a single case. Still, the first limitation of my research was the lack of descriptive narratives that case studies provide. The study would have been stronger if case studies could have been done on companies that were not ranked at subsequent periods. The reason is because most of them merged, were acquired or were taken over by ranked companies. Case studies of those companies would have provided information as to why some companies disappeared from the Fortune 100 list.

The second limitation of the study is the inability to test the integrated theory of state-corporate crime at the individual level. The individual level of analysis incorporates the definition of the situation. Along with the case study method, executives of the 1980 Fortune 100 companies needed to be interviewed to examine why they participated in the corporate welfare inititatives available to them and their view on those initiatives. Without the individual level of analysis, the quantitative analysis is not a comprehensive test of the integrated theory of state-corporate crime.

Future Research

The limitations of my dissertation set the stage for future research. Most work focusing on state-corporate crime is typically at the institutional and organizational levels; therefore, more research is needed at the individual level of analysis (Kauzlarich

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and Matthews 2006). In-depth interviews with executives, especially with executives from companies that were ranked during all three periods and from companies that lost their rank, would provide information about their decision-making, individual motivations, and the role that competitive individualism plays in encouraging companies to tax advantage of federal and state tax breaks. Future research should also include multiple case studies as opposed to a case study of a single event. As stated earlier, I think the case studies should focus on companies were not ranked at subsequent periods because most of them merged, were acquired or were taken over by ranked companies. Lastly, I would expand my sample to include the top 500 of the 1980 Fortune cohort and I would account for emerging companies in 1990 and 2005.

Social Implications of Research

Research on corporate welfare is probably more relevant today than any other point in U.S. history because Congress just voted to extend the Bush Tax Cuts, which include corporate tax cuts, for the next two years. Prior to this vote, President Obama intended to extend the cuts for incomes under $200,000 arguing that we cannot continue to give tax breaks or tax credits to the "wealthiest." Considering the current fiscal condition of the federal and state governments in the United States, the implications of this initial research would be significant. First, it would force us to revisit the states' and federal government's role as it relates to corporations and corporate agendas. This is an important first step towards holding the state and its political representatives accountable for protecting the public interest. The purpose of initial corporate welfare initiatives was to get companies out of their increasing corporate debts and into amassing profits.

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However, this research points to the question, "Now what?" Those goals have largely been achieved, as prior research has shown, my dissertation might provide evidence of the need to stop or reduce corporate tax credits in order to address the national deficit and state governmental deficits. In doing so, this dissertation seeks to shed light on the impact of corporate welfare initiatives on the public good.

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Appendix A

An Integrated Theoretical Model of State Corporate Crime

Levels of Analysis	Catalysts for Action		
	Motivation	*Opportunity*	*Control*
Institutional Environment	Culture of competition Economic pressure Organizational goals Performance emphasis	Availability of legal means Obstacles and constraints Blocked goals/strain Availability of illegal means Access to resources	International Reactions Political pressure Legal sanctions Media scrutiny Public opinion Social Movements
Organizational	Corporate culture Operative goals Subunit goals Managerial pressure	Instrumental rationality Internal constraints Defective SOPs Creation of illegal means Role specialization Task segregation Computer, telecommunications and networking technologies Normalization of deviance	Culture of compliance Subculture of resistance Codes of conduct Reward structure Safety and quality control Communication processes
Interactional	Socialization Social meaning Individual goals Competitive individualism Material Success emphasis	Definition of situations Perceptions of availability and attractiveness of illegal means	Personal morality Rationalization and techniques of neutralization Diffusion of responsibility Separation from consequences Obedience to Authority Group think

Kauzlarich and Kramer (1998)

Appendix B

Figure 1

Structural Equation Model—U.S. Model (A national model)

Corporate Position
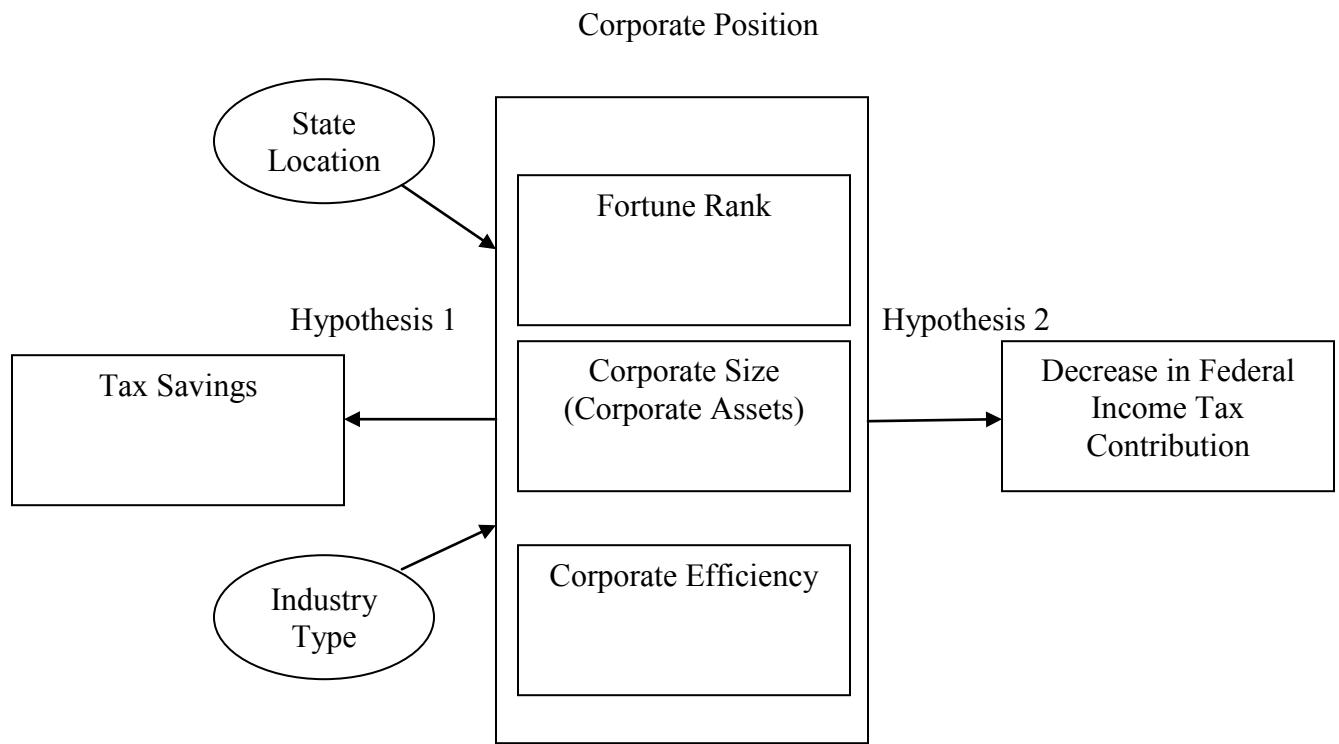
Appendix C

Figure 2

Structural Equation Model—The State Model (A State Model)

Corporate Position