Crimson Publishers
Wings to the Research

Opinion

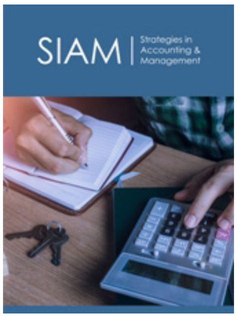
Corporate Profits and Economic Health

John P O'Connell[1]* and Arthur Jonath[2]

[1]Professor Emeritus, Department of Chemical Engineering, University of Virginia, Charlottesville, VA, USA

[2]Co-founder, Profit and Entropy, Portola Valley, CA, USA

ISSN: 2770-6648



***Corresponding author:** John P O'Connell, Professor Emeritus, Department of Chemical Engineering, University of Virginia, Charlottesville, VA, USA

Submission: July 23, 2026
Published: August 05, 2026

Volume 6 - Issue 3

How to cite this article: John P O'Connell* and Arthur Jonath. Corporate Profits and Economic Health. Strategies Account Manag. 6(3). SIAM. 000637. 2026.
DOI: 10.31031/SIAM.2026.06.000637

Abstract

Distribution of corporate profits affects the health of an economy. Choosing to reinvest into expanding capacity, supporting employment, and stimulating spending can contribute to economic health. Alternatively, extraction into idle accounts, diversion into nonproductive assets, or repurchasing stock can weaken circulation and increase wealth disparities. Our work on profit distribution and macroeconomic cash flow gives a rationale for encouraging productive reinvestment and suggests a non-value-added tax policy that could reward value creation and discourage value extraction.

Introduction

Criticisms of corporations have now become common. Corporate profits are at an all-time high [1] and titles of recent works include the words, "looting" and "sabotage" of America [2,3]. States are increasingly looking to their foundational corporate laws to combat corporate excesses [4]. Successful firms can choose what to do with their profits: return them to the circulating economy or remove them from the system by caching into idle assets. These decisions matter beyond the firm because profits are embedded in the broader circular economy connecting household purchasing power, business investment, and public welfare [5]. Large and persistent disparities in income and wealth can weaken trust, reduce social cohesion, and increase the risk of political instability [6]. Profit distribution should be judged by its contribution to long-run economic health as well as by its effect on short-run shareholder returns. The outcomes of profit choices are a central feature of our cash-flow structure for which we show the consequences of profit decisions for 25 recent years [7]. Caching is shown to vary with economic stress and there is a strong correlation of cached amounts with government deficits.

Managing profits

Productive reinvestment should expand capacity, support employment, and generate future revenue without reducing the economy's spending base. When profits are used to improve capital, technology, and operations, firms can increase their competitiveness and contribute to broader demand and supply expansion. In contrast, when profits are removed into inactive accounts or placed in low-productivity assets, their lack of contribution to the economy decreases the amount and Velocity of Money (VOM). Stock buybacks may raise earnings per share and benefit current equity holders, but they are unlikely to create new productive capacity or broader social value. For management scholars, this issue becomes: should corporate payout policy be evaluated only by shareholder value, or also by its positive effects on workers, consumers, and the economic enterprise? The present argument is that healthy profit distribution fosters durable value creation rather than financial extraction.

Policy implication

Current policies to enhance value creation are based on various specialized tax structures, all of which have weaknesses. Examples include Value Added Taxes (VAT) [8,9], Excess and

Windfall Profit Taxes (EPT/WPT) [10], Financial Transaction Taxes (FTT) [11], and Pigouvian taxes [12,13]. Complaints common to all the above taxes focus on their lack of fairness and their burdens on labor, firms, or society in general. An alternative policy which does not suffer from the above weaknesses is a Non-Value-Added tax (NVAT) [5,6,14]. NVAT is a graduated levy on producer profits that varies with a firm's value-to-recovery ratio. It targets profit allocation rather than consumption and is designed to reward reinvestment in productive activities and penalize profit retention for nonproductive uses. NVAT differs from the above methods in several respects that benefit both labor and the firm: uses a simple and well-defined ratio based on price and cost data; can be implemented through existing accounting records; creates incentives for corporate investment; is self-regulating because firms can lower their liability by implementing value-adding activities; should be highly acceptable because of its apparent fairness. NVAT is not a substitute for corporate income tax.

NVAT should use a measurable indicator distinguishing productive and nonproductive uses of profit for consistent application across firms and sectors. One proposal is the Value Recovery Ratio (VRR), defined as production cost divided by profit: VRR = Value / Profit = Cost / Profit for each transaction. Cost refers to the recorded cost of producing the good or service, and profit refers to the pre-tax gain from the transaction. This ratio is intended to approximate how much of the transaction's financial return is associated with production rather than for rent extraction. Transactions with low VRR, such as those generating large profits relative to recorded production costs, would fall into higher NVAT brackets. Transactions with high VRR, such as those in which profit is small relative to production cost, would have lower rates. In practice, the policy can be represented as a tiered tax schedule in which a firm's rate decreases as VRR increases. A simple schedule is preferable because it improves transparency and reduces compliance costs and evasion. NVAT should simultaneously solve several problems in the economy. The amount of money the wealthy remove from the economic cycle is lowered and working-class income is increased, decreasing the wealth/earnings gap and increasing the amount and VOM in the system.

Evidence is shown by macroeconomic calculations in [7] and financial transaction simulations in [14,15] that NVAT can be effective in modifying profit decisions and stimulating economic flows, including showing that immediate investment is better than later reinvestment. Issues that can be handled include executive compensation as a cost, alternative measures of value such as carbon footprint or pollution rate, and disposal of NVAT revenues. Preliminary calculations suggest that NVAT revenue could cover expected shortfalls in Social Security and Medicare. Opportunities are apparent for further research and policy design.

Conclusion

Policy action is needed to treat current contentious issues of profit and wealth distribution. A Non-Value-Added Tax (NVAT) could overcome the inadequacies of available tax policies. Brief description, justification, and implementation suggestions are given.

References

1. Marto R (2025) What's driving the surge in US Corporate Profits?
2. Lazonick W, Shin JS (2019) Predatory value extraction: How the looting of the business corporation became the US norm and how sustainable prosperity can be restored. Oxford University Press, Oxford UK.
3. Weissman R, Claybrook J (2023) The corporate sabotage of America's future and what we can do about it. Washington, DC, Public Citizen.
4. Moore T (2026) The states' secret weapon: Reclaiming the authority to limit corporate power.
5. Jonath A, O'Connell J, Khorasani F (2026) Managing profits for economic health. Economics Letters 258:112722.
6. Bienstman S (2023) Does inequality erode political trust? Frontiers in Political Science 5: 1197317.
7. O'Connell J, Jonath A (2024) A new macroeconomic cash flow model that includes profit distribution and a proposal for improving economic equity. Financ Innov In press.
8. OECD (2022) Consumption tax trends 2022. Paris: OECD.
9. European Commission (2020) Taxation trends in the European union. European Commission, Brussels, Belgium.
10. Brownlee W (2004) Federal taxation in America: A short history. (2nd edn), Cambridge, Cambridge University Press, UK.
11. Vasilev A (2020) Taxation and revenue extraction: A snapshot. Strategies Account Manag 2(2): 1.
12. Burman L, Gale W, Gault S, Kim B, Nunns J, et al. (2015) Financial transaction taxes in theory and practice. Tax Policy Center, Urban Institute and Brookings Institution.
13. Kagan J (2026) Pigovian tax explained: Definition, purpose, and real-world examples. Investopedia.
14. Jonath A, Goldwater R (2018) Introducing the Non-Value-Added Tax (NVAT): A fiscal tool to combat financial instability. In: Paper presented at the fifth international symposium in computational economics and finance. Paris, France.
15. Veryzhenko I, Jonath A, Harb E (2022) Non-value-added tax to improve market fairness and quality. Financial Innovation 8:18.