

## Corporate Covid ‘Windfalls’ Are a Myth

*Some big companies rose to the occasion during the pandemic and did well. But there were losers too.*

By Donald L. Luskin

Now that its debt-funded relief program has become law, the Biden administration is looking to bankroll even bigger spending programs—the American Jobs Act, announced Wednesday, calls for higher taxes on corporations, and another bill is reportedly coming soon calling for higher taxes on wealthy individuals. The usual narrative pushing tax hikes is that the rich should pay their “fair share.” But President Biden has introduced a new one: that the rich got windfalls during the pandemic while ordinary people suffered.

There can be a debate about what constitutes a “fair share” of the overall tax burden. But the purported economic disparities in the pandemic among the middle class, the wealthy and corporations are illusory.

According to income data from the Commerce Department’s Bureau of Economic Analysis, wages, benefits and small-business proprietors’ income was running at \$1.08 trillion a month in February 2020, the last complete month before the pandemic started to shut down the economy. That was the peak after which things began to go downhill. By the end of the year, cumulative monthly losses of income compared with February’s added up to \$417 billion.

At first glance, those losses appear to have been borne by the millions who lost their jobs or businesses in the pandemic. According to the Labor Department’s Bureau of Labor Statistics, as many as 25.3 million became newly unemployed in April, and 8.9 million were still unemployed at year-end. The job losses were concentrated among lower income earners. On net, they fell entirely in the income brackets below \$1,000 a week, with half the losses in brackets below \$600.

At the same time, according to a study by the Federal Reserve Bank of San Francisco, those who kept their jobs saw little or no change in their earnings. The only evidence that higher earners did well in the pandemic is BLS data suggesting that incomes in the top 10% of earners grew, at most by 1.7%.

That’s hardly a windfall for the higher earners, but at least they kept their jobs while middle-class Americans who became unemployed lost. But this disparity has already been addressed by relief policy. The \$522 billion in state unemployment benefits and federal government top-ups more than offset the \$417 billion income loss. In the aggregate, the unemployed were quite literally paid 25% more not to work than to work—while the employed were paid no more to keep working.

Add to this the stimulus payments, which are separate and apart from unemployment benefits. These and other relief payments (other than unemployment benefits) were \$445 billion,

cumulatively, through year-end. The stimulus payments were means-tested, available fully only to persons earning under \$75,000 a year and quickly phasing out for those who earn more. No windfall for the rich there.

Large corporations also haven't received a pandemic windfall. To be sure, there were some winners, but there were losers too. Companies that could be expected to benefit from the need for people to shop and be entertained from home should have all been winners. According to Bloomberg, Amazon's earnings per share doubled in 2020. But where's the windfall? It wasn't luck that Amazon rose to the occasion, risking its capital and using its managerial expertise to hire half a million new employees in the pandemic.

There were no winners among the corporations in industries that suffered from the cessation of travel—such as airlines, hotels and energy producers. They saw their earnings swing to outright losses. According to Bloomberg data, S&P 500 estimated earnings stood at \$172 a share before the pandemic. By year-end 2020 they had fallen 19%, to \$139. Raising the corporate tax rate punishes them all, winners and losers alike. If anything, a tax break for corporations is be called for to encourage recovery.

Stock prices—as distinct from earnings—have risen about 81% from the pandemic bottom on March 23, 2020. Is that a windfall? It is surely a win for the brave few who dared to put their capital at risk to buy that day. But to get that gain investors with a buy-and-hold strategy had to endure a 33.8% decline from prepandemic highs. Taking both the initial loss and the subsequent gain into account, stocks are up a more modest 19.6%, not extravagantly better than the 11.5% historical average for comparable periods.

Those stock-market gains do benefit the wealthy, but they benefit everyone else, too. According to the Fed, 53% of American families own stocks, either directly or through mutual funds and retirement programs. Among the bottom 50% of income-earners, 31% of families own stocks.

It's time to set aside social-justice arguments that have no economic reality. Those who were hurt in the pandemic received relief, a great deal of it, and there is more on the way—more unemployment benefits, more stimulus checks.

Where's the justice in decrying people and corporations who profited by stepping up during the pandemic? Calling their well-earned profits mere windfalls demeans their service to us all. It is like resenting a nurse in a Covid ward for earning overtime by working two shifts. Should we think they suffer from survivors' guilt that needs expiation with higher taxes?

If the idea is to unite Americans, then it doesn't help to identify winners and losers falsely. We should be thankful that those who lost their jobs and businesses have compensation already. And we should thank, not punish with higher taxes, those who kept on working and investing—and profiting—for seeing America through a historic crisis.

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