Internet Appendix

The Role of Taxes in the Disconnect between Corporate Performance and Economic Growth

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Table A1: Aggregate Stock Returns, Dividends, and Subsequent Economic Growth

Table A1 presents evidence of the relation between the aggregate wealth effect (measured using aggregate quarterly stock returns and aggregate dividends) and one quarter-ahead GDP and personal consumption expenditures. *Agg_ret* is the aggregate quarterly stock returns. *Agg_Div* is the aggregate quarterly dividends measured using the definitions in Boudoukh et al. (2007). All other variable definitions are in the Variable Appendix. t-statistics with Newey-West correction for autocorrelation are reported in parentheses. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively.

$$DV_{t+1} = \alpha + \varphi_1 Agg\_Ret_t + \varphi_2 Agg\_Div_t + \varphi_3 Term_t + \varphi_4 DEF_t + \varphi_5 One\_yr\_ret_t + \varepsilon_{t+1}$$

Dep Var	GDP_{t+1}		Con_{t+1}	
	(1)	(2)	(3)	(4)
Intercept	1.41***	3.44***	1.30***	2.75***
	(6.38)	(3.27)	(7.15)	(3.26)
Agg_Ret_t	**2.60****		**3.01*****	
	(2.26)		**(2.78)**	
Agg_Div_t		**0.79****		**0.55***
		(2.13)		**(1.81)**
$Term_t$	-6.28***	-5.53**	-6.54***	-5.76***
	(-2.63)	(-2.09)	(-4.12)	(-2.97)
DEF_t	-21.35	-37.59	-3.27	-14.09
	(-0.84)	(-1.37)	(-0.12)	(-0.48)
One_yr_ret	21.66***	21.05**	19.55**	19.70*
	(2.72)	(2.21)	(2.35)	(1.98)
Adj. R^2	0.10	0.09	0.15	0.09
Obs	143	143	143	143

Table A2: Corporate Profits and Economic Growth: Alternative Tax Difference Cutoff

Table A2 reports the results for regressions of corporate profit growth on quarter-ahead economic growth using alternative tax difference cut-offs. TaxCutoff is an indicator variable equal to 1 during periods in which the difference between the U.S. corporate tax rate and the average OECD corporate tax rate is above a certain cutoff (In columns 1 & 3 the cutoff is 1%; in columns 2 & 4 the cutoff is 5%). Variable definitions are provided in the Appendix. *t*-statistics with Newey-West correction for autocorrelation are reported in parentheses. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively.

Dep Var	GNP_{t+1}		GNP_{t+1}	
Tax_Diff Cutoff	1%	5%	1%	5%
	(1)	(2)	(3)	(4)
Intercept	1.19	2.86	1.23	3.01
	(0.97)	(1.37)	(0.97)	(1.43)
CPN_t	0.03	0.03***	0.03	0.02***
	(1.18)	(2.79)	(1.63)	(3.06)
$TaxCutoff_t$	0.08	0.61	0.10	0.62
	(0.45)	(1.06)	(0.54)	(1.03)
$TaxCutoff_t$*CPN_t	**-0.02**	**-0.03****	**-0.03**	**-0.02*****
	(-0.75)	**(-2.55)**	**(-1.30)**	**(-2.77)**
Crisis	-0.63***	-0.70***	-0.54**	-0.60***
	(-2.64)	(-3.05)	(-2.48)	(-2.79)
GNP_t	0.08	0.04	0.08	0.03
	(0.72)	(0.32)	(0.72)	(0.24)
$Term_t$	-0.82	-0.66	-0.94	-0.96
	(-0.61)	(-0.50)	(-0.72)	(-0.74)
DEF_t	11.32	6.75	7.12	3.59
	(0.64)	(0.41)	(0.40)	(0.22)
$T\text{-}bill_t$	5.02	5.22	6.49	6.64
	(1.02)	(1.15)	(1.23)	(1.33)
Ret_t	1.00	0.88	0.71	0.61
	(1.27)	(1.07)	(1.02)	(0.87)
$Recession_t$	-1.06***	-1.10***	-1.05***	-1.12***
	(-2.65)	(-2.62)	(-2.74)	(-2.75)
$Openness_t$	0.14	2.61	1.04	3.73
	(0.03)	(0.46)	(0.24)	(0.63)
$Tech_t$	0.07	0.05	0.08	0.05
	(1.55)	(0.84)	(1.44)	(0.83)
$Productivity_t$	0.01	-0.02	0.01	-0.02
	(0.75)	(-0.54)	(0.45)	(-0.71)
FX_t	0.00	-0.01	0.00	-0.01
	(-0.20)	(-0.63)	(-0.23)	(-0.63)
$Rel\_Inv\_opp_t$	-0.05	0.01	-0.03	0.03
	(-0.71)	(0.08)	(-0.47)	(0.33)
$Ineq_t$	-0.13***	-0.11***	-0.13***	-0.10**
	(-3.05)	(-3.01)	(-2.66)	(-2.58)
Adj. R^2	0.47	0.49	0.48	0.49
Obs	155	155	155	155