Geoff: Hello, and welcome to the Inequality Podcast. I'm Geoff Wodtke. Today, we have Cristobal Young joining us, who is currently an Associate Professor of Sociology at Cornell University. Cristobal studies income inequality and its link with elite taxation. These topics are obviously central to both historical and contemporary patterns of social stratification in the U.S., so it's a pleasure to welcome you. Thanks so much for joining us.

Cristobal: Thanks for having me, guys. It's great to be here.

Geoff: As you know, obviously, elite taxation can play a critical role in reducing income inequality, supporting equitable economic growth, financing public goods, roads, schools, and parks that can improve quality of life and expand opportunity for folks further down the income ladder. And we're living in a time of rising inequality in governments at every level, or facing hard questions about how to respond. One response, perhaps the most basic, is to tax the well off and use that revenue to invest in education, infrastructure, and public services that benefit everyone. And this begs the question: what happens when places actually try to do this? And that's what I was hoping to talk about with you today. But first, I wonder if we could just begin with a bit of historical context. By briefly outlining how taxation has changed over time in the US, in particular, can you outline for us how top income tax rates have changed since the end of World War II?

Cristobal Young: So, for a lot of the post-war period from the 1950s to the 60s, early 70s, top income tax rates at the federal level were really high. They were over 90%. So once you're making over a million dollars a year, basically every extra dollar you earn after that first million, about 90% is going to federal income tax. Above a million folks are really only keeping 10 cents on the dollar. So these are very high tax rates at the marginal rate. And today, that federal tax rate, the top tax rate, is down to 37%. So these tax rates have come down a lot over the years, especially in the 1980s under Reagan's tax reforms. You know, interestingly enough, this period where we had this really high tax rates, 50s and 60s in particular, we're also a period of sort of golden age of American capitalism with, you know, really strong economic growth, low inequality, sort of broad-based income growth, where we grew a large middle class, really, for I would say the first time in human history, and had, you know, exactly the kind of broad-based prosperity that we'd like to have more of today and that we're really struggling with today. And you know, it's tempting to think that those two really did have something to do with each other, and plenty of research has looked at that link.

Geoff: So what role, I mean, have changes in the top tax rates played in rising income inequality, which we've, you know, seen since the

early 1980s?

Cristobal: I would say in two ways. First, you know, if we're going to have programs that support low-income folks in the middle class, nutritional support, Head Start, Pell grants, Medicare, Medicaid, the money for those programs has to come somewhere. And so it makes a lot of sense in my view that the folks who are benefiting the most from American capitalism are also paying the most to help people who are struggling. So this is how the income tax system works. It's the element of public policy, in general, that does the most to offset income inequality. It's, you know, the one sort of clearly progressive tool, or the most clearly progressive tool on the fiscal side anyway, on the tax side that we have, that directly sort of reduces the gap between the rich and the poor. And so, you know, federal income taxes are doing less of that than they used to. And so that's sort of directly implicated in the rise of inequality.

And, you know, the timing in the early 80s, as you said, that's when we really saw inequality starting to take off. That's also when we saw, you know, enormous cuts in the top tax rate. So that's sort of this direct and pretty intuitive way the tax policy affects the gap between the rich and the poor. Now, the second way is that, you know, back when the top tax rate was like 91%, there simply wasn't a lot of point in making more than a million dollars a year or more in income. So what we saw after those big tax cuts was really huge waves of compensation bargaining at the top that really bit up, for example, CEO pay, new compensation packages, worth tens or hundreds of millions of dollars a year, though it never used to really exist. And wouldn't have made much sense to be paying anyone that much when so much of it would just go to taxes, like, if you're a company, like, why am I paying my CEO $50 million a year when that's mostly just taxes? If you think about the 1970s, you know, CEOs made about 20 to 30 times the pay of an average worker. And this skyrocketed in the 80s through the 90s.

And the new normal now is that CEOs make 200 to 300 times, you know, an average of what an average worker gets paid. So it's like a 10-fold increase in pay going to the very top. And I would say, you know, for no apparent reason, I think people still debate this, but there was no increase in productivity or corporate performance when, you know, they started paying the CEO way more money. I think it's just like people at the top had untapped bargaining power. And when taxes came down dramatically, a lot of CEOs started saying, "Why are you paying me a million dollars a year, you should pay me 10 million dollars a year." So this is another way that taxes can sort of change the calculus of how much money is going to the top. So it's sort of like saying taxes play a role in predestribution. Okay, so they don't just affect the after-tax distribution of who gets what after tax and transfers, but it directly affects, you know, how much companies are willing to pay and how much people at the top are sort of going to bargain hard for

really big pay increases.

Steven: So I wanted to just ask you a follow-up question, which is the relationship between progressive taxes and norms. There's famous stories about CEOs who didn't think they should be paid some extremely high ratio to the average worker. And I'm wondering if you think that it's plausible also that a society that sets progressive taxes also helps set the norms that determine bargaining of that type.

Cristobal: Yeah, I mean, absolutely. You can, you can easily imagine, you know, a world where it's just been standard that you make merely 20 to 30 times, you know, average worker pay. And then that starts breaking down. Some people start making way more than this. You can easily imagine how it sets off this just sort of feeling that, like, well, hey, why is that guy getting paid 100 million? Like, surely I'm worth some of that. Like that guy's not so much better than me. Why is he getting paid so much more?

So you can just imagine, you know, CEOs sort of looking at each other's pay packages, you know, just informally at the country club or something, you know, and starting to think like, am I a sucker here? So yeah, I do think there's this sort of direct connection between, you know, what feels right. And what's happening, you know, these sort of comparisons that can really change what felt right to suddenly, it feels like, you're being sort of short-changed or something.

Geoff: So I mean, we've talked about a number of arguments for why top tax rates might ought to be higher, right, financing public goods, reducing inequality. I mean, what are some of the arguments against raising top tax rates? These could be, you know, principled or like, you know, ethical objections to taxing high-earners or just like practical concerns with like, you know, implementing higher taxes on top earners.

Cristobal: You know, I think a lot of the main arguments and arguments that, you know, critics tend to draw on is some version that, you know, the tax is going to be counterproductive. So, think about the opposite of this compensation bargaining model. So in practice, when tax rates went down in the 80s, you know, the people at the top just started demanding sort of ever higher pay for essentially the same work. But, you know, what many policy advocates say and, you know, real concern could be, you know, a different version of that. If tax rates go down, people start working harder, become more productive, essentially because the returns to working long hours increase. You know, I think, you know, it's easy to imagine this in the case where, you know, you've got people who are working part-time. So they've got extra capacity, you know, the tax rates go down, people start thinking, oh, well, you know, I mean, the effective pay for more work hours, this has gone up quite a bit. I'd like to work more hours.

So that argument, basically, if you cut taxes, people, you know, it increases the incentives, the work incentives, that argument never made great sense when we're talking about people at the very top, you know, CEOs, corporate lawyers and so forth, the highest paid people in the country because those folks are already in super competitive fields. They're already working really long hours, and it doesn't, you know, seem to matter exactly what their pay packages are. They're all working, you know, full tilt already. So I would compare it, sticking with this, you know, university analogy, you know, if you give the Harvard professors a tax cut, are they going to start publishing more? I think you have to jump through a lot of mental hoops to think that that would happen. But, you know, I think it's still correct to worry about work incentives in general, but I don't think, you know, it's ever made a great deal of sense when we're talking about taxing top income on the other side, you know, the ethical side, you know, I do think it's really important that taxes should be fair, tax should be perceived as fair. And that's sort of a process of saying, okay, these are the operational costs we have, including, you know, historical operating costs that we never paid for, aka federal debt, which apparently we're about to dramatically increase. So what's a fair way to cover these costs?

And I think everyone can have their, everyone can have their own intuitions on this. And then we have to talk about, we have to work through an answer that people, you know, can sort of come to an agreement around. But, you know, for me, if you're barely getting bought, you shouldn't have to pay very much of America's operating costs. If you're really successful in making, you know, 10 times as much as, you know, a typical worker, you should be covering a lot more of those operating costs. But, but again, you know, people do bring different fairness principles and moral arguments, these, these questions, we're just touching on it here. But, you know, there isn't a right answer, you know, the kinds of research I've been doing in studying top income earners is more about, you know, what can we do? What kinds of tax policies would be effective in raising revenue? And then there's, you know, another moral argument that happens alongside that.

Geoff: So I mean, on that point, you know, in recent years, a number of US states have raised taxes on top earners, passing these so-called, you know, millionaire taxes. And on the other hand, you know, a number of states continue to basically levy no income tax at all. And so, you know, the question here kind of becomes, can some states tax the rich while others do not, or put differently, can higher tax states kind of retain, you know, their top earners and the revenues they contribute. And in public discourse, many seem to think that the answer to these questions is clearly no. They can't. And yet the title of your book, the myth of millionaire tax flight, challenges this common belief that raising taxes on the rich, practically speaking, will just lead them to leave. In this case, high-tech states at the

national level, you can imagine, you know, you know, internationally mobile millionaires. I want to know more about how you've studied this question, you know, whether raising taxes on the rich leads to this kind of, like, out-migration.

And such that the policy is kind of self-defeating.

Cristobal: There's this other practical objection to taxing the rich. And that's, you know, if they tax them, they might leave. You know, move to a lower tax jurisdiction, exactly like you're saying. And I think that is, you know, a serious potential risk, you know, especially for state governments. You know, the federal level, you know, rich Americans pretty much all live in the US. So, you know, it's not like in the EU, you know, France or Germany or something might have to worry about millionaires moving to another European state. That doesn't really happen in the US. But at the state level, you know, you can think of states as being sort of a microcosm for globalization, you know.

So, California and New York have top tax rates on the rich of about 13% of their effective income. You know, that's an addition to the federal rate. And, you know, Texas and Florida don't have a state income tax system. So, their tax rate, you know, their income tax rate is zero. So, you know, and I think, you know, everyone's aware of this at this point, everyone being, you know, the people that are paying these taxes in California, New York, all very aware that, you know, if I was in Texas, if I was in Florida, you know, some like 10% of my annual income will be going into my bank account rather than into the state coffers. So, you know, when state governments are taxing the rich, it is a risk that, you know, some of your top taxpayers might just move away and take their tax revenues with them. So, you know, how I've been looking at this, you know, is in a few ways, you know, most recently I've been working in collaboration with folks at the US Treasury Department analyzing essentially anonymized tax returns, IRS tax returns, big administrative data. We've got data on every top income earner in the country from every state in, you know, over 20 years.

So, anonymized tax returns really allow us to see where rich people live, and where they move to. So, we can really address this. And, you know, you do need, you know, this kind of research, it's really hard to get at, you know, using survey data because it's just, you know, we're talking about the very top 1% of income earners. It's really hard to get them in surveys. But, about 500,000 people a year make a million dollars a year more in income. If we just look at the whole population of top income earners, we can just ask a few basic questions. First, you know, where do millionaires, do they tend to live in low-tech states today? The answer to that is no millionaires per capita, you know, is highest in high-tech states like New Jersey, New York, California.

Now, low-tech states like Texas and Florida also have a lot of millionaires. So, it's really, you know, basically flat overall. There's essentially no relationship between the number of millionaires and the top tax rate in your state. You know, the importance of that is to just remember that, you know, New York has had relatively high taxes since the 1930s. And Texas has never had a state tax rate. So rich people have had generations to figure out where taxes are low in this country, but we still see, you know, a lot of attractiveness of, you know, New York and California. So, you know, just like the face validity of this argument is not very high, out of the gate. The second question is, you know, our millionaires are highly mobile.

And again, the answer is no, you know, cross-state migration, moving across state lines, declines with income. So, the more money people make, the less likely they are to move to a different state. Migration rates in general are really low in the US, and they've been declining for decades. So today, about 3% of Americans move to a different state each year. Low-income people move the most, even though moving is expensive and they often can't really afford it, but you know, they're searching for opportunity. They're trying to improve their situation. They're trying to find their economic place in the world, and moving is sort of part of how they're doing that. High-income people move the least.

So, millionaires move about half as often as low-income Americans. So, you know, millionaires, these people are making a million dollars a year in income. You know, they're a lot more rooted in their communities. You know, they've found success. They have built a career where they live. They're not at a life stage where moving seems very attractive. Essentially, you know, they're the late-career working rich. You know, bankers, lawyers, accountants, people at the top of the game.

They've got clients and staff, co-workers, and professional networks. The simplest way to think about it is essentially they've got an office job that pays them a lot of money. And that doesn't really make you mobile, you know, it makes you rooted and connected to where you live and where you built that career.

Steven: I think that's a very important point. So, consider the Silicon Valley, which is now the home of, you know, massive wealth. There's remarkably little in my judgment, migration, the low tax states. You may have, you know, famous cases like Zilan Musk, but is it itself to find explanations? We're not even about the tax rate. The point being that they're deep and profound agglomeration externalities. There's something that makes the Silicon Valley the most productive place on this planet in terms of IT, which makes New York City the place where the most productive lawyers are going to be located, etc. And so the, in order to move, it presupposes a separate

ability from one community, one economy to another.

So, I think what you said is exactly right. It's a myth to think that it's simply a matter that there are these million-dollar eardrops that are equally available in North Dakota as a Chicago or New York.

Cristobal: Yeah, exactly. I mean, so the way I think about it, in a big part of it is like, if you want to be at the top of your game in tech, you're going to be in Silicon Valley. You know, if you're trying to make a really successful startup, for example, you know, even venture capital is basically telling you, look, we're requiring that you come to California and work in this environment that's really driving the frontier. And there's not a ton of exceptions. So, you know, Texas, for example, is an interesting case because Texas has this legacy tech economy, you know, Texas sensor, you know, they were once really on the cutting edge. They still have some big tech companies, but they don't have a startup economy. It's this low-tech state, you'd think it would make a lot of sense. Elon Musk moved there.

You know, he got really mad at California at some point, right? But if you look at, you know, there's this great data on venture capital investments and all the venture capital deals that happen each year. And you can see where they happen. And it's like overwhelmingly happening in California. And you know, Texas has sort of like 2% of the venture capital market of venture capital investments, you know, you know, so if you want to be at the top of the game, you know, you need to be where other, you know, top players are happening, where the game is happening.

Geoff: So you have a, you know, a new study that I think illustrates this point effectively, that's focused on, kind of, the joint impact of the 2017 Tax Cuts and Jobs Act one. And then, and then, in addition to that, the impact of the pandemic, the COVID-19 pandemic on millionaire migration. So I wonder if you could tell us a little bit about what you found there about the impact of that change to top taxation across different states. And then separately, or I guess I should say kind of jointly, a few years later, the pandemic.

Cristobal: Yeah, great. Okay. So, you know, the newest research uses the 2017 Trump Tax Bill as a kind of natural experiment. So that bill limited federal deductions for state taxes. So, how this plays out is that, effectively, if your state has high taxes on millionaires, that's a tax increase for those folks. And if your state doesn't, you know, you benefited more from the other sort of tax cuts that were part of that Trump tax bill. So, essentially, for the most part, this was a tax hike on blue states, specifically rich people in blue states, to fund tax cuts for rich people in red states. You know, the main principle, it seems, was that, like, Republican donors should have more money and democratic donors should have less money.

That's basically what the tax bill did. So it had big implications at the state level and changed tax rates in states compared to one another. So what a millionaire pays in California compared to what they would pay in Texas rose by like 3% of their annual income. This was the largest increase in interstate tax differences that we'd seen in like 50 years. It's bigger than any of the single tax increases that California, New York, or different states have done and rolled up into one, a whole bunch of states. And a lot of people were predicting large-scale tax migration, you know, including like the governors of New York and California. So, so we have this big change. How did this affect millionaire migration out of states where the taxes went up?

The answer is not at all. So the increase in millionaire migration rates, if you just look at the first two years of the Trump tax bill, was essentially zero. It looks like basically, essentially, not a single person moved to a different state because of the tax increase. And you remember we're looking at the whole population of millionaires data from their tax returns. But we do see a change in where people move to. So, this is people deciding to move. And there was no increase in moving right among millionaires in high tax rates. But among the moves that do happen, they did become more focused on a low tax destination.

So we're sort of we're sort of taking this apart. There's a decision to move. And then there's the sort of decision of destination where you're going to land. And you can analyze these two. They're very natural to analyze separately. So, where you see the action is in the destination choice. Conditional on moving, low tax states became more appealing after the Trump tax bill. So we are seeing tax migration.

We are seeing some tax migration. You know, it's low, but tax migration is real and the pattern is real. So people are deciding where to move. People are deciding to move based on taxes. But once they've made that decision, you know, I'm moving from New York, that's the point where taxes enter the equation more clearly. But overall, we're looking at really small effects. And it's like it's hard to dislodge people with tax increases. Now what's really interesting here, as you mentioned, you know, so in the third year of the Trump tax bill, which became effective in 2018, 2019, 2020, we see the pandemic arrive.

So in the middle of our doing this study, the pandemic, you know, lands, and that really changes things. So, you know, for a long time, I've been doing this research. I've been arguing that the reason why we see so little tax migration is essentially about embeddedness and place-specific social capital, the things that we were just talking about. But the rich are really connected in the places where they built their careers. And you know, you can't take your social network with you when you move. So moving away, you know, it has a big impact

on social capital and personal and professional relationships. These costs sort of act as a kind of exit tax on moving. What you give up when you move is a lot of your social connections and your professional connections, right?

So, for people who have a lot of embeddedness and a lot of social capital where they live, and I would say that most rich people are in that sort of category. So it really is not worth it to move for tax purposes because, you know, you have these costs, you know, what's the point of it? But the pandemic was essentially this shock to exactly the things that tie people to place, you know, and the pandemic really weakened essentially every connection that people have. So, time in the office felt dramatically; the number of people like swiping into office buildings, you know, felt like 90% when the pandemic landed, right? So people aren't going to work anymore. The time spent alone has increased a lot. If you think about non-household friends, families, you know, a lot of that sort of went away. You know, local amenities, the things that bring people out of their homes and into contact in their community, all that was shuttered.

You know, for families, you know, the schools were all shut down. So, you know, their kids' relationships with their teachers and classmates have sort of gone away. This basically covers the reasons why people say that they're attached to their communities, you know, work, family, school, you know, local amenities. And then at the same time, on top of this, you know, the pandemic really kicked off sort of large-scale adoption of remote technology, you know, that we're using right now. Technology that we've had for a long time, but we weren't using all of a sudden, you know, everybody's using it. So people's access to like their place-specific social capital, their social ties where they live, professional ties where they work, you know, that wasn't really accessible anymore until the extent that it was, it was happening over Zoom anyway, you know. And so it didn't really depend on geographic proximity anymore. Anyway, so now, now you see all of a sudden a lot of tax migration happening.

What we see all of a sudden jumping out of the tax returns is people moving, people specifically in high-tax states moving, the kind of movement that people were predicting when the Trump tax bill passed, but that we didn't see in the tax returns. So for high-tax states, you know, a millionaire out migration essentially doubled. You see that in 2021, in 2022, there's just sort of big movements. And by 2023, things basically return to normal, migration rates revert back to pre-pandemic levels. So, you know, from this view, you know, essentially looks like the pandemic lasted for two years. During that time, it really weakened people's attachments to place and making them much more sensitive to the tax rates that they're facing in their state. And so that's when you see, you know, people in Texas didn't move anywhere. People in Florida didn't move anywhere.

People in Tennessee, folks in low-tax states, there wasn't a migration out of cities or out of states. You only saw it in the high-tax states. And the higher the taxes were in your state, the more likely it was that there was an increase in migration. So, so like I said, so it was temporary, but I think, you know, it's really interesting because it helps us see the dynamics here. You know, a lot of people think there just must be a lot of tax migration. It's intuitive for people. You know, California has so much higher taxes than Texas. Why wouldn't people move?

You know, and that is what you see in a world where social ties are greatly diminished and the things that tie people to place are largely shuttered or moved online. So, you know, what changed during the pandemic wasn't the tax incentives themselves, but how people were responding to them. The social contacts of the tax incentives is what I would say. And once the social disruptions of the pandemic diminished, patterns of tax flight largely returned to the pre-pandemic levels.

Geoff: So, even if, like, in normal times when, you know, top earners are, you know, embedded in like the social fabric of their communities and it's hard to physically move, right? They can, you know, shift their income or exploit, you know, kind of legal or maybe quasi-legal, you know, tax avoidance strategies to avoid paying the higher taxes. And so I wonder, you know, is there evidence that top earners kind of expand their use of these kinds of strategies, you know, to reduce their tax burden, you know, without changing their address? When top rates are increased, or in other words, you know, like, do the rich stay put, but just move their money?

Cristobal: Right, right. Sort of hiding their money in the offshore world. I've thought about this a lot. It's, you know, it's not something that I've been able to directly test using IRS data, but, you know, I can tell you sort of how this works. So, most forms of income are really hard to hide, and they get reported directly to the IRS and face withholding taxes. So, you know, there are some privately held businesses, you know, and Trump has one of those biggest example in the world would be, you know, Trump's businesses where, you know, there's a lot of just sort of trust, you know, there's a lot auditing but it can be hard to catch, you know, when people are sort of diverting money or sort of finding ways to not report that income. So to the extent that, you know, those are growing, you could see it, but for the most part, and, you know, again, most millionaires are the working rich. So, you know, they have an office job, they get a paycheck from an employer, they're just like, you know, regular folks in this regard.

So they face withholding taxes, you know, any of your financial income, your capital gains, or stuff, you know, the banks are taking withholding taxes. All this is reported really clearly. So, you know,

so you can really hide that from the IRS at the point of earning it. Here's how it can work and how it does, how it does work, is that once you've earned that money, you pay taxes on it, then you can move it into, like, the offshore world. And then there's a lot of, you know, games that go on, but again, you've already paid taxes on that income. So that's not tax avoidance, and that's totally legal to just go hide your money offshore post taxes, totally fine. Where it can have a tax advantage is if you now start investing that money from a shell company that's parked in the Cayman Islands or in Switzerland or something. And then that money is earning capital gains, investment income, and you're essentially pretending that you're a foreigner with a foreign shell company, you're not declaring that money, you don't face withholding taxes, you could just invest in, you know, just any sort of regular investment account and you tell the bank from your shell company in Switzerland, oh, I'm Swiss, I'm not American, I don't have to pay American taxes.

And then you don't face withholding. So if you don't declare that income that you don't pay taxes on it, you basically get away with not paying taxes on it. So that's the kind of income that you can sort of, you know, readily cheat on in the offshore world. And that's what the offshore world is good at, that form of tax evasion. The problem is, is that you do have to, it's easy to set up one of these accounts, but to really get away with significant tax avoidance evasion, you really have to be very careful, because it's illegal, you know, this is tax evisions, how they got Al Capone, you know, they didn't get them for killing people, they got them for, you know, evading taxes. So the penalties can be really severe. So you want to, if you're doing this, you really want to make sure that you don't get caught. And the companies that have been facilitating this kind of stuff, you know, they tend to get these leaks, you know, so the Panama papers, there's this Mozac Fonseca firm that was like setting up these shell companies.

And you know, one day somebody leaked all of it. Now you can see who's been doing this. And then the IRS comes knocking on your door, with the Secret Service, you know. But I think it probably only is really being done for like the super, super rich people who are maybe in, like, the hundred-million-dollar wealth category. I'm for your sort of run on them every day millionaires for that say who are working at, you know, Facebook or meadow or Google or something, or you know, a hedge fund or something, you know, it's not very realistic for them to generate significant tax savings in this, in this method. So, you know, it's an interesting thing to talk about. And it is a policy priority in its own right. But I don't think it sort of significantly shapes this sort of state tax migration calculus.

Geoff: What are some of the broader lessons you think your research offers for designing, you know, effective tax policy that might be aimed at, you know, reducing inequality and also kind of financing the

public goods that might promote, you know, upward mobility?

Cristobal: One of the things we do in this is we calculate what the optimal tax rate would be given what we see in migration in million tax migration. I guess without going through, this is sort of a literature on optimal tax rates that comes from economics. This is, you know, a manual, say as in you know, folks are sort of like the optimal tax guys, Hendrick Clevon. So, basically, I just sort of take their methodology off the shelf and apply it to, you know, our findings. And so what you see from that is in general, in a world with no tax migration, the, you know, Syed's calculation is that the optimal tax rate on millionaires would be about 73% top marginal tax rate. So, a lot higher than what we have today. Now, how does that apply to the state level? We do see some migration across states because of tax avoidance.

So, the elasticity, you know, is small. It's about, you know, a point one. So, if you raise the top tax rate at the state level by 10%, you lose maybe 1% of the millionaire tax, the millionaire population. Raise the tax rates by 10%, and lose 1% of your millionaires. So, that means that like the other 99% of millionaires in your state aren't going anywhere and are just paying the new tax rate. So, this is a very promising thing. So, it raises a lot of revenue. Now, if you put this, if you put this estimate straight into the optimal tax rate formula, it does bring it down.

It does suggest there are some limits on how you would max out on the top tax rate at the state level faster than you would for the federal government. The feds don't have to worry about people moving away in practical terms. The states do a little bit. So, from 73% or so, the IRS calculated the federal level estimates are about 66% at the state level. So, basically, and that's a combined federal and state rate at the state level. So, you know, anyway, that's a lot higher than New York, California, than any state has today. So, every state could raise taxes on their top earners and generate substantial revenues. And then, and that's revenues that can go towards, on the flip side, funding things that support upward mobility, Head Start, you know, health care education, and so forth.

And I think the states that are most able to do this are like Florida, for example. Florida passed a million tax rate of 10% or something. They would raise a lot of revenue. New York and California are already much closer to their optimal rate. They're still below it, but they're closer to their optimal rate. And Florida's miles away from it. Florida could really, you know, I mean, they don't want to, right? But they're just choosing to shift that tax burden to lower-income earners in Florida.

So, Florida overall actually isn't a low-tech state. It's a high-tech state on the people that are paying the sales taxes and property taxes

in Florida. It's a very regressive state. But anyway, every state could raise and would raise substantial revenue by raising their top tax rate. And essentially, the reason for this is because, you know, these taxes do create incentives to move away, but those incentives are really muted by top earners embeddedness. You know, the late-career working rich are just not very mobile. So, you can give incentives to move, but they're already far from that calculus of being like, all right, I'm not going to live here anymore. Just because, you know, they're giving up so much of that, you know, social and professional networks and attachments to place.

But one of the things I want to do from a sort of broader perspective from this work is just sort of think about this idea of muted incentives. There's a lot of research that finds very muted incentives to things like the chalkboard analysis suggests that there should be large behavioral responses, and then you just don't see them. You know, one example I'm thinking about right now is the work on the China trade shock. You know, these sort of manufacturing communities in the rust belt get hit really hard by Chinese imports. A lot of people are losing work. Well, the trade folks were sort of saying, don't worry, you know, they'll just move into other industries. You know, they'll find work in new industries that are growing. You know, they don't need to work in manufacturing.

They'll transition or they'll move to other places where the economy is growing, and what you sort of see from the China trade shock is neither of those things happened. People were just sort of hoping that things would get better, and they didn't get better, and they're sort of stuck in these sort of very economically struggling places and just being really angry about it. And we don't really have anything for them because we don't have much in the way of a policy response, because we thought that they would respond to these negative shocks by moving away or moving to new industries. So I think there's a long list of these things.

Steven: Yeah, I think those points are well taken. You mentioned earlier that the migration in the United States is extremely low, but arguments of, you know, to say they ought to be, or it's a surprisingly low level of migration. Those are all conditional on treating migration as purely an economic decision and not accounting for the nature of social ties of the community, et cetera. So, you know, I might use a little bit different language in terms of the environment centers, but rather to say that in the specification of the determinants or, you know, what motivates people.

Cristobal: Right. The utility function.

Steven: Yes, the utility, the purely economic, you know, traditional economic explanations have a limited role.

Cristobal: Yeah. Yeah. And so that's the sort of point I'm trying to make. And just sort of saying, you know, if we think about embeddedness and social connections and those and social utility essentially, then, you know, low responsiveness to incentives is often not as surprising as it seems. You know, so another example would be that, you know, in the labor supply literature, you see especially high-income earners, they work full-time jobs, no matter what you pay them, you know, and that's sort of a long-standing, sort of a classic finding. And you sort of think, well, that's because, you know, pay is part of what motivates people to work, but they also get a lot of social status from work. They, you know, they sort of feel like they're prominent, you know, like they're a contributing member of their community. They get a lot of social status from maintaining a full-time job that you just don't get if you're, you know, you have to do a lot of explaining for yourself if you're not productively employed.

And so, you know, I think, again, we see like the incentive to work, you know, should depend on taxes and pay rates. And we just don't really see very much of that, especially at the top end. I think, you know, this is sort of explainable. So I guess I'm trying to say I want to sort of work on a agenda where we sort of think about what are all the places where we see, like, low responsiveness to incentives of any kind and sort of think, well, how are sort of social dynamics helping us to understand this, you know, sort of broadening it out from the tax finding per se. But, you know, maybe this is just sort of my own sort of, you know, interest in, like, a broader sort of social science sort of perspective on what, what can we more broadly learn from this tax migration literature. But I think it's interesting stuff to think about, you know, when the incentives aren't having as much, you know, lift as the sort of chalkboard analysis is suggested. Sorry, Steven, if chalkboard analysis is something the best of you, I mean, but, you know, I did economics in the 90s, you know, my master's degree was in the 90s, you know, so there's a lot of chalkboard analysis.

Steven: I miss chalkboards. I'm actually prepared to teach with them. So I'm with you.

Geoff: I mean, another thing that we've been talking a lot about, you know, like, you know, social embeddedness is muting incentives. And we haven't talked as much about just kind of like the temporal dynamics of all this. But, you know, again, talking about like your normal millionaires, right? We oftentimes talk about millionaires, top earners as if they're like this, you know, the top 1% is if they're like a stable class. But in fact, you know, many millionaires only achieve that status relatively late in their careers for a couple of years. They bounce in and out of that top bracket, maybe. And then, you know, their incomes tend to decline later in life. And so when you think about it from a dynamic perspective, like is someone going to, you know, move from where they've lived for, you know, possibly their

whole lives because they bounce into the highest tax bracket for a couple of years towards the end of their careers, right?

It's a different way of thinking about it as well.

Cristobal: The modal person who's a millionaire this year won't be making that much money next year, you know? A lot of these people are making the most money that they'll ever make. When you grab people out of the data, conditional on them being a millionaire, they're often making the most money that they'll ever earn in that year. So, you know, they might not be paying the super high super top, the very top tax bracket, for a lot of years in a row. So that's a factor as well. But I think, you know, the more general point is this sort of life stage thing. You know, the most mobile people in the country are recent college graduates, you know? So they're highly educated, they're starting their career, and there can be big returns to like moving to California, moving to New York, and so forth.

But, you know, what we see is just in general, there's a migration rates of that group that decline pretty quickly as they advance in their career. So by the time they're in their 40s, you know, their migration rates are really low. So in contrast, people who have never completed college, they have low migration rates their whole lives. You know, but these two groups converge to the same migration rate by the time, you know, people are in their 40s. So that means that, you know, those young college graduates, as they become established professionals, they're not moving anymore. They've got kids, their kids are in school, you know, just in general, there's a big life cycle dynamic to migration. And people put down roots rapidly. So in this sense, you know, yeah, millionaires aren't this sort of special class of people.

They are, they have a lot of money, but they are kind of like regular people have regular life concerns, you know, they typically do still have a boss, you know, they've got a spouse. Their spouse doesn't necessarily want to move for, you know, saving a bit of money on their taxes. They've got kids, the kids definitely don't want to move, because of tax incentives, you know, the kids are in school, and the kids don't want to move any more than anyone else's kids want to move. So there are, I think, a bunch of these, you know, regular life factors. Millionaires are relatively older, you know, the modal age of a millionaire is like 50. They typically have kids, they're much more married, you know, marriages become one of these things that's, you know, become almost sort of like part of the spoils of economic success in life, you know, so the millionaires, you know, you know, 90% of them are married, you know, compared to less than 60% of average Americans, you know. So, you know, they have a lot of social capital. If you just look at high income people in general, they know more people, you know, they have more friends, they have more professional colleagues, they have a lot more social ties, you know,

so all of these things that are just sort of, you know, sort of everyday reasons that make people less likely to move and what's distinctive about the riches, they just have more of those ties and more likely to be married, they're more likely to have kids, they have more friendships and ties in the community.

Geoff: All right, well, Christobal, thanks so much for joining us. I learned a lot and really appreciated it.

Cristobal: Yeah, great, grateful. Thanks so much for having me. This was really fun talking with you guys, so I really appreciate it.

Geoff: The Inequality Podcast is a production of the Stone Center for Research on Wealth and Equality and Mobility at the University of Chicago. I want to end the podcast by giving thanks to the people who really make it happen.

First, I want to thank our producer and engineer, Shane McKeon. Second, I'd like to thank our assistant director, Nina Gray, for production oversight and doing so much to bring the podcast to life. And lastly, our executive director, Grace Kolavo, for her support, not just for the podcast, but for every activity at the Stone Center. You can get in touch with us at stonecenter.uchicago.edu. Thanks for listening.

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