

Millionaires or Job Creators: What Really Happens to Employment When You Stick it to
the Rich?

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Abstract

This paper provides some factual evidence to a question heavily debated among lawmakers yet hardly ever investigated in the empirical literature. Does increasing taxes on the rich hurt or help employment growth? Proponents of tax hikes on the rich reject the idea that such taxes, which some refer to as “millionaire” taxes, have any negative impact on jobs. Critics, on the other hand, believe taxing the rich, whom they consider “job creators,” hurts the economy by destroying jobs or hampering job creation. To bring some facts to this debate, we estimate the effects of an increase in the relative tax burden of the well-to-do on aggregate employment growth using newly constructed time series based on the IRS-published Statistics of Income. We find strong and statistically significant positive effects in the short run and some evidence of negative effects in the long run. We use the [Romer and Romer(2010)] narrative record analysis to restrict our sample to a period of exclusively exogenous tax changes; Our results hold in the restricted sample. The results are also consistent across alternative specifications and estimation methods, including unrestricted and Bayesian VAR.

JEL classification: E62, H30, H20

Keywords: Fiscal policy, millionaire tax, income distribution, inequality, income tax, employment growth

References

- [Romer and Romer(2010)] Christina D Romer and David H Romer. The Macroeconomic Effects of Tax Changes : Estimates Based on a New Measure of Fiscal Shocks. *American Economic Review*, 100(June):763–801, 2010.