

Increasing top income tax rates would increase economic...

Published: January 13, 2026, 7:15 am

A new academic journal paper has something pretty interesting to add to the debate on the impact of higher than currently normal top rates of income tax. In their paper entitled '[Top marginal taxation and economic growth](#)' [Santo Milasi](#) and [Robert J. Waldmann](#) argue that there is a positive correlation between high rates of economic growth and high marginal top rates of tax. In their opinion:

The [estimates] suggest that the marginal effect of higher top tax rates becomes negative above a growth-maximizing tax rate in the order of 60%.

In other words, until that point is reached growth is stimulated and after it there is evidence that it falls. They add:

As top marginal tax rates observed after 1980 are below the estimated growth-maximizing level in most of the countries considered, a positive linear relationship between top marginal tax rates and GDP growth is found over the sub-period 1980—2009.

Or, to put it another way, cuts in top rates of tax had a negative impact on economies over this period. Their explanation is that:

Overall, results show that raising top marginal tax rates which are below their growth maximizing has the largest positive impact on growth when the related additional revenues are used to finance productive public expenditure, reduce budget deficits or reduce some other form of distortionary taxation.

So, top rates should fund infrastructure and reduce inequality. They might also reduce deficits. I would add, that would not be my choice.

The finding is, of course, entirely logical. We have known for a long time that the so-called Laffer effect, where higher rates of tax supposedly reduce effort, does not kick in until rates are sixty per cent or more. And we know, as a rule, that higher rates of tax encourage effort over observable ranges as people work harder to achieve net incomes given that the whole of our economy is geared to consumption, rightly or wrongly. Add

the two effects together and the effect that this paper observes is the logical consequence.

Bring it on, I say.