Funding the Future

Tax cuts for the rich do not trickle down, they just ma...

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The economic consequences of major tax cuts for the rich

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Abstract

The last 50 years has seen a dramatic decline in taxes on the rich across the advanced democracies. There is still fervent debate in both political and academic circles, however, about the economic consequences of this sweeping change in tax policy. This article contributes to this debate by utilizing a newly constructed indicator of taxes on the rich to identify all instances of major tax reductions on the rich in 18 Organisation for Economic Co-operation and Development (OECD) countries between 1965 and 2015. We then estimate the average effects of these major tax reforms on key macroeconomic aggregates. We find tax cuts for the rich lead to higher income inequality in both the short- and medium-term. In contrast, such reforms do not have any significant effect on economic growth or unemployment. Our results therefore provide strong evidence against the influential political–economic idea that tax cuts for the rich 'trickle down' to boost the wider economy.

I am not claiming to be an expert in the methods it uses to reach its conclusions and have not examined them in-depth, but they appear to be robust.

I note this from the conclusion:

> Our results have important implications for current debates around the economic consequences of taxing the rich, as they provide strong evidence that cutting taxes on the rich increases top income shares, but has little effect on economic performance. These findings are in line with a growing pool of macro-level panel studies on the economic consequences of cutting top marginal rates of income taxation (Angelopoulos *et al.*, 2007; Piketty *et al.*, 2014), as well as Rubolino and Waldenström's (2020) synthetic control analysis of major tax cuts for the rich in Australia, New Zealand and Norway.
>
> One open question is why our findings differ from the small number of studies that have found that higher top marginal income tax rates and tax progressivity adversely affect economic growth (Padovano and Galli, 2002; Gemmell et al., 2014)? One reason could be our more comprehensive approach that takes different taxes into account when measuring tax cuts for the rich. We have argued that this approach has several advantages over relying on single tax rates and indicators. Our results also hold, however, when using statutory tax rates as the main independent variable (as in Gemmell *et al.*, 2014). Hence, the most likely reason for the difference in our

That looks pretty significant to me.