THE MYTH OF MILLIONAIRE TAX FLIGHT

How Place Still Matters for the Rich

CRISTOBAL YOUNG

STANFORD UNIVERSITY PRESS
STANFORD, CALIFORNIA

Stanford University Press
Stanford, California

©2018 by the Board of Trustees of the Leland Stanford Junior University. All rights reserved.

No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, or in any information storage or retrieval system without the prior written permission of Stanford University Press.

Printed in the United States of America on acid-free, archival-quality paper

Library of Congress Cataloging-in-Publication Data

[CIP to come]

Typeset by Bruce Lundquist in 10/15 Minion Pro

Table of Contents

List of Figures vii

Acknowledgments ix

1. Millionaire Taxes in a World with Few Borders 1
2. Do the Rich Flee High Taxes? 15
3. Global Billionaires and International Tax Havens 43
4. Place as a Form of Capital 67
5. Millionaires and the Future of Taxation 97

Notes 113

References 121

Index 129

2

Do the Rich Flee High Taxes?

Hedge fund manager David Tepper—one of the richest people in America—relocated from New Jersey to Florida in 2016. In doing so, he reignited a heated debate about tax flight among the rich. While Tepper did not publicly discuss his reasons for moving, many commentators attributed it to New Jersey's millionaire tax. Indeed, his move seemed to confirm the simple economics conveyed in Governor Chris Christie's warning: "If you tax them, they will leave."[1]

Internationally, there have been high-profile occasions of tax flight. In 2013, French actor Gerard Depardieu renounced his citizenship and moved to Russia to avoid France's high tax burden. At the time, Russia's deputy prime minister boasted about his country's 13 percent flat income tax. "The West," he said, "has an especially poor knowledge of our tax system. When they learn about it, we expect a mass migration of wealthy Europeans to Russia."[2]

Are these anecdotes capturing an important reality of the elite today? Do millionaires migrate more often than the rest of us? Or are we searching for confirmation of wrongheaded assumptions about elites and globalization? It seems obvious that millionaires *travel* more often than the general public—travel is a classic luxury good. But business travel and vacationing are very different from moving one's home and life to a new state. To what extent do top income earners migrate away from places with high income taxes?

From one perspective, we can think of top income earners as "mobile millionaires" who are searching for the lowest tax places to live. The rich have the resources to move, and they have marketable skills that could be valued in many different places. Indeed, most Americans see the rich as different from ordinary folks. In surveys, they say the rich are intelligent and hardworking but also greedy and less honest.[3] Tax migration fits easily into this framework, suggesting a kind of astute-but-detached calculating nature, an acquisitive drive that supersedes social bonds and emotional ties to home.

Such views of the rich may well be accurate. But the alternative perspective is to think of the rich as "embedded elites" who have little need or interest in moving away from places where they are highly successful. Migration may be less about personality and more about circumstance. People move not because they are cold and calculating but because of where their opportunities lie. By definition, elites are at the top of their game. They have become very successful in the place where they live: In many cases, they have become deeply embedded insiders, rich not only in income but also in personal connections and social capital. Often, they are late-career professionals and past the age or life-cycle stage when one is likely to move. They have ascended to the top of the income hierarchy, which pushes them into a high tax bracket but also signals high-level insider status. The incentive for such individuals to move elsewhere is unclear, at best.

Which view of the rich is more accurate? Are the rich mobile millionaires or embedded elites? Answering this question will help us determine appropriate tax policies for elites: Should states and countries have higher or lower millionaire taxes? If the rich are highly mobile, it may not be realistic to have millionaire taxes. However, if the rich are embedded elites, higher tax rates on million-dollar incomes are more viable.

. . .

One of the biggest challenges in studying millionaires is getting reliable data on them: Those at the top are hard to reach, and they do not tend to respond to social surveys. A group of political scientists commented on the challenges of interviewing millionaires: "It is extremely difficult to make personal contact with wealthy Americans. Most of them are very busy. Most zealously protect their privacy. They often surround themselves with profes-

sional gatekeepers whose job it is to fend off people like us."[4] After extensive efforts using experienced hired staff, they were able to interview only 83 millionaires in Chicago for their study.

This chapter takes a different strategy. I use big data from administrative tax records. Millionaires must file taxes, and this provides census-scale data on their income and where they live. I analyze restricted IRS data on the tax returns filed by all million-dollar income earners in every state, over the thirteen years of 1999 to 2011. The data set includes 45 million de-identified tax records on high income earners. These are the federal tax returns of every high-income individual in the country, showing where millionaires live and where they move. The data were anonymized so it was not possible to look up and see, for example, who is taxpayer number 8498251. But every person's tax returns were tracked over time, showing where the person lived over the thirteen-year time period.[5] People who moved—that is, changed the state from which they file their federal taxes—in a year when they earned $1 million or more are labeled "millionaire migrants."

In a typical year, about 500,000 people earn at least $1 million in income. This group is more exclusive than the 1 percent—specifically, they are the 0.3 percent. On average, they earn about $1.7 million in a year—roughly 32 times the median household income. The term "millionaire" often connotes accumulated wealth, but these data refer to annual incomes—people who make more in one year than what many people ever accumulate over their lifetime.[6]

With these data, we can probe a series of questions that follow from the mobile millionaire versus the embedded elite hypotheses. First, do top income earners tend to live in low-tax states? Second, are they highly mobile—do they show high rates of migration? And third, when millionaires move, do they tend to gravitate toward states with lower taxes on the rich? Answering these questions will give clear insight into whether millionaires should be thought of as mobile or embedded.

State Tax Systems: Soaking the Rich or Taxing the Poor?

The defining feature of a state tax system is the balance between sales tax and income tax. Sales tax is regressive, placing a higher tax burden on lower income earners. The income tax is progressive, so that the tax rate rises with

economic success. States have different mixes of these two types of taxation, which have differential effects on different social classes.[7]

A sales tax is regressive due to two compounding factors. First, the sales tax is nominally a flat tax. The tax rate is the same whether you are buying bread or buying a Bentley: Luxuries are taxed at the same rate as necessities. Second, the sales tax applies only to income that is spent on consumption. In principle, this provides a good incentive: People can avoid taxation by saving or investing more of their income, which is both good for personal finances and good for the economy (unless we are in a recession). In practice, however, it is much harder for the poor to save than it is for the rich. The poor typically spend all of their income each year, whereas top earners are often able to save a substantial portion of their earnings.

In a world without economic hardship, the sales tax would make a lot of sense. It is easy to administer. It is a relatively invisible tax: We pay a little bit of it each time we buy something we want, and we do not file an annual report documenting how much we paid in total. And a sales/consumption tax seems to help encourage saving. But in our world where people's ability to save is very uneven, the sales tax introduces significant economic unfairness.

The gasoline tax is a case in point. Gasoline is a pollutant for our environment, so it should be taxed simply to discourage gas-guzzling SUVs and long commutes. But fuel consumption does not vary much by income level. Households typically spend about $3,000 a year on gasoline.[8] Fuel consumption does of course rise with income, but the difference between the top and the bottom income earners is not large.[9] There is only so much gas a rich person can use. This means gasoline taxes are a much larger part of poor people's budgets than they are of rich people's budgets.

So it is with sales taxes in general. Across the country, the poor typically pay about 7 percent of their income in sales and excise taxes. But top income earners pay only about 1 percent of their income toward such taxes.[10] This makes life harder for lower income earners. States that rely on sales taxes are making low- and middle-income families pay for a much larger share of the overall cost of running the state.

Income taxes are central to balancing out the unfairness of the sales tax. The poor pay almost nothing in state income taxes (0.2 percent), whereas

average top earners pay about 4 percent of their total budget in state income taxes.[11] Indeed, high income earners contribute a large portion of the revenues generated from state income tax. But although state income taxes are progressive, they do not fully balance out sales taxes, because sales taxes tend to generate more revenue. In every state, the poor pay a greater share of their budgets in state and local taxes than do the rich. Part of why the poor are struggling is because "the state and local taxes they face make them even poorer," as Kathy Newman and Rourke O'Brien document in their book *Taxing the Poor*.[12]

In essence, all state tax systems are regressive. But states that rely more on income taxes come the closest to tax fairness. In California, for example, the rich pay about 7.5 percent of their budgets in state and local taxes—mostly through the income tax. Lower income Californians pay about 10 percent of their budget in tax but mostly through the sales tax. The tax disparity is about 2.5 percentage points—one of the smallest in the country. Florida provides a stark contrast: The poor pay about 12 percent of their income in state and local taxes, while the rich pay only 2 percent. Washington State has the most unequal tax burden in the country: The poor pay a 17 percent overall tax rate, whereas top income earners pay less than 3 percent. This is the result of a system of high sales tax combined with no state income tax.[13]

Millionaire taxes are often derided as "soak the rich" tax policies. However, state tax systems infringe on the incomes and standard of living of the poor much more than for the well-to-do. As a share of people's incomes, existing state tax systems impact the poor and the middle class much more than the rich. At the state level, "soak the rich" income taxes are more about balancing out the regressive features of the sales tax. State millionaire taxes, if feasible, could make significant progress in restoring fairness to the state tax systems, while helping to alleviate inequality. This is why it is so important to investigate the implications of these taxes.

The decentralized American political system means that some states have adopted much more progressive tax systems than others. At the same time, the United States can be thought of as a world composed of fifty-one small open economies with free migration between them. Can states sustain taxation on the rich when other nearby states have no income tax at all? How sustainable are these varieties of elite taxation in the United States?

Where Do the Highest Income Earners Live?

By and large, the different tax systems at the state level have been in place for a long time. Most state income taxes were originally adopted in the 1960s and 1970s.[14] The last major state tax reform occurred in 1991, when Connecticut shifted from being a relative tax haven to adopting a progressive income tax. Of course, there have been many smaller changes since then, but the relative ranking of high- and low-tax states for top income earners has not changed much in the past three decades. If millionaires are strongly motivated to live in states that minimize their tax burden, they have had generations to make it happen.

So, the first and most basic test of the mobile millionaire hypothesis examines whether millionaires are especially concentrated in low-tax states. The average state has 1.4 millionaires for every 1,000 residents. The highest millionaire concentration is in Connecticut, with 4.4 per 1,000 population. Filling out the top five states/districts are the District of Columbia (3.6), New York (3.0), New Jersey (2.8), and Massachusetts (2.7). Elite income earners are heavily concentrated in the mid-Atlantic region, particularly along the "BosWash corridor." These are also generally high-tax states for top income earners. Nevertheless, some low-tax states, such as Florida and Nevada, also have above-average millionaire concentrations (both 2.0).

Figure 2.1 shows millionaire concentrations for every state, compared to the income tax rate on top earners. The left side of the figure shows the states with zero income tax. Millionaire density in these states ranges from 1.0 per 1,000 people in Tennessee to 2.0 in Florida; as a group, the zero-tax states have about average concentrations of millionaires. As we move rightward in the graph, we see states with higher and higher tax rates on the rich. Millionaire concentration inches up slightly as the tax rate rises. This is especially clear for New York, New Jersey, and California, which are high-tax states with a high concentration of millionaires.

Millionaires are not any more likely to live in states with low or no income taxes (such as Texas or Florida) than in states with high income taxes (such as New Jersey or California). Millionaires in America are more or less evenly distributed among high- and low-tax states, and they do not show a clear preference for one or the other.

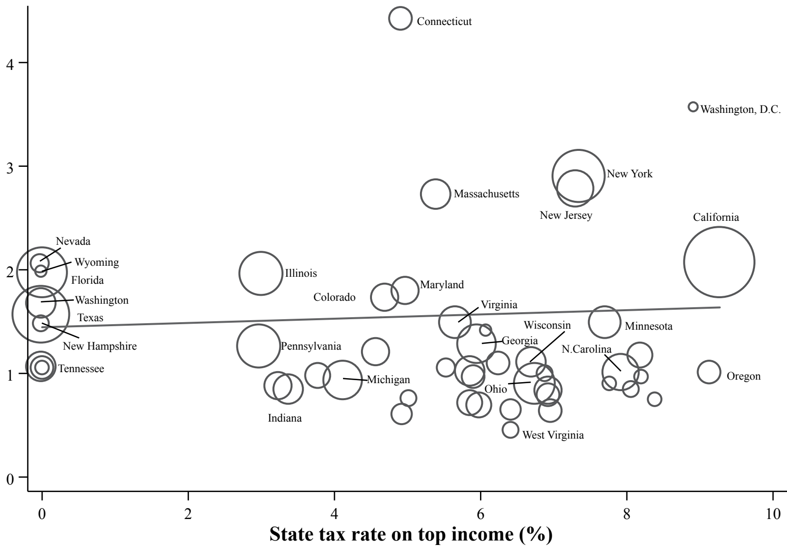

Figure 2.1. **Millionaire Concentration and Top State Tax Rates, 1999 to 2011**. States are weighted by overall population as indicated by circle size (i.e., California is the largest circle because it has the largest overall population). The states on the left are zero-tax states; states shown toward the right have increasingly higher tax rates on the rich. The tax rate is the effective income tax rate on a representative millionaire (earning $1.7 million per year). The line shows the weak relationship between millionaire concentration and top tax rate (the slope of the linear regression). Sources: U.S. Department of the Treasury, IRS microdata (N = 45 million) and the NBER TAXSIM program. Adapted from Young et al. (2016).

Millionaire Migration

"There is nothing more portable," a California Senate leader once said, "than a millionaire and his money."[15] This is the notion of a jet-set elite, for whom place is fluid and fungible; this group can readily change their location when need or advantage calls for it. As it turns out, these notions are completely wrong.

The rate of migration among millionaires is low. Millionaires move less often than the general public and much less often than the poor. Figure 2.2

shows annual migration by income level, starting with the left side (the very lowest incomes) and moving to the right for people earning millions per year. The highest migration rates are among low income earners. People making only about $10,000 per year have a 4.5 percent migration rate. These folks are struggling, and migration seems to be part of their survival strategy and their search for work. People are more likely to move when things are not working out for them where they live. Low income earners move almost twice as often as millionaires.

In general, migration declines steadily as income rises. The least mobile people are those earning about $100,000, who have a 2 percent migration rate. The intuition that top income earners are very mobile is simply wrong. For the general population, the migration rate is 2.9 percent. For millionaires, the migration rate is only 2.4 percent.

There is, however, some truth in the mobile millionaire hypothesis. Above $100,000 in annual income, migration does begin to inch back upward. At

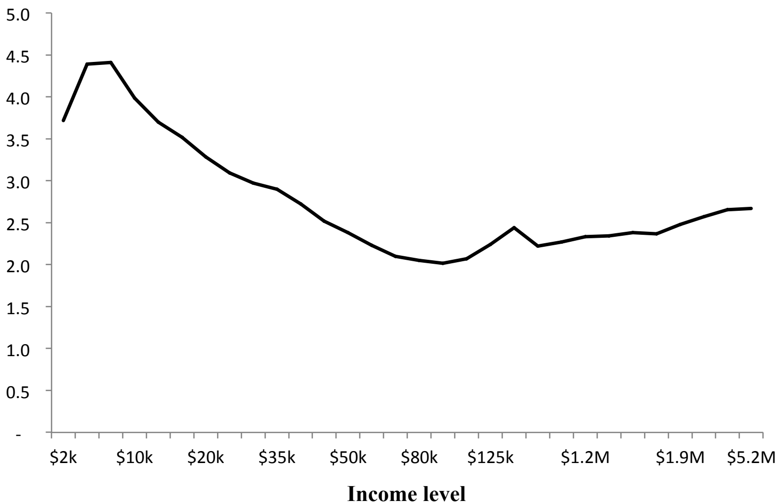

Figure 2.2. **Migration Rates by Income Level, 1999 to 2011.** The graph indicates that migration declines as people earn higher incomes. Sources: U.S. Department of the Treasury, IRS microdata, 1 percent sample of all tax filers (N = 24 million) and 100 percent sample of people making $1 million or more (N = 45 million). Adapted from Young et al. (2016).

best, one can say that millionaires are more residentially mobile than the upper middle class. But even people making over $5 million per year (the last data point in Figure 2.2) have a migration rate of 2.7 percent—still lower than the population average and much lower than the rate among the poor.

We tend to think of mobility—the ability to live wherever one wishes—as a form of freedom and one of the privileges enjoyed by the rich. Mobility and migration are ingrained ideals in U.S. culture, fitting in with the belief that the rich are more geographically mobile than the poor. It has been said that "to move, to change—that is what enjoys prestige, as against stability, which is often synonymous with inaction."[16] Despite its evocative resonance with ideals of freedom, interstate migration has been declining for decades.[17] If this kind of mobility is freedom, then that freedom has been fading in America, especially for the rich.

The fact that the poor have the highest migration rates should challenge these understandings of migration. Migration is mostly about people who are struggling to find opportunities, not those who are cashing in on their success. *Travel* and *migration* are very different things, and they are done by different social classes. Jet-setting around Europe and Asia is a luxury good that is largely restricted to families of considerable means. Migration, in contrast, means uprooting one's life and restarting in a new place, and it is much more common among the poor. Conflating actual migration with business and leisure travel has led to mistaken assumptions about the migration rates of millionaires.

Tax-Induced Migration

The rate of millionaire migration is low. However, when millionaires do move, how often are they moving specifically for tax purposes? How can we tell if a move is motivated by tax avoidance? In practice, this is a difficult question, because people's internal motivations are hard to observe. But, the first criterion is that the move must be from a higher tax to a lower tax state. If a move does not save on taxes—or indeed, if it *increases* taxes—it cannot be called "tax migration."

Do millionaires ever move into states that charge them higher income taxes? Yes. In fact, this is very common. Some 32 percent of millionaire migrations in our data were moves to a state that charged the individuals a

higher income tax rate than where they came from. Each of these moves contradicts the notion of tax-induced migration—they are moves that happened *despite* the tax hit involved. An additional 21 percent of moves were tax neutral—moves between states with essentially the same tax rate.[18] This reinforces the idea that millionaires often move for reasons unrelated to taxes. Finally, the remaining 47 percent of migrations were toward a state with a lower tax rate on elites, so that the mover had a lower tax rate after the move. These are the moves that provide evidence of tax-motivated migration.

Overall, these data give some fairly clear evidence of tax motivation in millionaire migration: The rich are more likely to move to places that charge them lower taxes (47 percent) than to places that charge them higher taxes (32 percent). The difference between these flows (47 percent versus 32 percent) shows the "excess" migration from high- to low-tax states, which amounts to 15 percent of migrations. In other words, about 15 percent of millionaire migrations on balance appear to have a tax motivation and provide a tax advantage.

Elsewhere, my coauthors and I have published much more sophisticated and detailed statistical analysis for readers wanting to wade through multiple levels of scientific rigor. However, the simple analysis shown above gives a good representation of what is found with more advanced methods. The more complex models analyze flows of millionaires from each one of the fifty states and the District of Columbia into every other state. These analyses use so-called gravity models to look at migration flows between 2,550 possible state pairings—such New York to Florida, New York to South Carolina, New York to Illinois, and so on for every state pair and in both directions. The results show a statistically significant effect of millionaires gravitating toward states with lower tax rates on top incomes. The effect is modest in size but robust across many different model specifications and different subgroups of millionaires.

For example, do the conclusions change if we take into account other tax rates that are important for state revenues, such as the sales tax or the property tax? What if a state has an inheritance tax? What if we consider how migration is affected by the economic prosperity of states, taking into account state unemployment rates and average incomes? What if we account for the natural climate, measured by winter temperatures? Perhaps most

importantly, what if we consider the price of residential land, which captures the desirability of residing in a state? All of these are good questions, but none of these factors changes the basic conclusion that millionaires are prone to move to lower tax states. Taken together, these control variables actually make that conclusion a bit stronger.

The conclusion also is much the same for super-elite earners making at least $10 million per year. It is the same for millionaires who own businesses and for those who mostly live off capital gains. The most important difference, however, is that among the general population, taxes do *not* affect migration patterns. Top income earners are more motivated than the general public to find a lower tax place to live.

It is clear from these data that tax migration among millionaires is occurring. How large is the effect? What kind of impact does this have on the geography of the elite in America?

The overall millionaire migration rate is low: 2.4 percent. Further, only a small portion of these moves—15 percent—bring a net tax advantage. Overall *tax migration* among millionaires is thus a small fraction out of a small fraction: 15 percent of 2.4 percent. Only 0.3 percent of the overall millionaire population, on balance, shifted to a lower tax state.

Let's put this in more concrete terms. Over thirteen years, there were about 135,000 millionaire migrations in America. The net movement of millionaires into lower tax states during the years 1999 to 2011 amounts to about 20,000 millionaires. However, this is from a population of 3.7 million people who collectively filed 45 million annual tax returns during this time. Tax-induced movements represent a vanishingly small share of the millionaire population.

There is a grain of truth in concerns about millionaire tax flight. When millionaires do migrate, they are more likely to move to a state with a lower tax rate. However, the effect is small and has little impact on a state's overall stock of millionaires.[19]

The Florida Effect

One of the most striking facts about tax migration is that, if we temporarily set aside migration between Florida and other states, the evidence for tax migration virtually disappears. The reasons for this are intriguing.

Florida has a lot of millionaire migration. About 30 percent of all millionaire migrations in the United States involve Florida: Roughly 20 percent are top earners moving to Florida, and another 10 percent are top earners leaving Florida. Virtually every state in the country, but especially New York and New Jersey, sees at least some net migration of its top earners into the state. Florida does not create many of its own millionaires, and without these inflows it would have a declining millionaire population. But vibrant millionaire inflows are having a big influence on the state.

Setting aside migrations in and out of Florida, it is almost equally likely that a millionaire will move to a state with a higher tax rate as a lower tax rate: 35 percent of moves are to higher tax states, 38 percent are to lower tax states. The 3-percentage point difference is negligible, demonstrating that there is little interest among millionaires in the tax difference between "sending" and "receiving" states. (The remaining 27 percent of moves are between states with roughly the same tax rate.)

This is important because, in the business of offering low-tax rates to millionaires, Florida has at least six real competitors: Texas, Tennessee, New Hampshire, Nevada, Wyoming, and Washington. All of these states have the same zero income tax rate as Florida. Florida is not the only state with no income tax on the rich, but it is the only state that seems to achieve tax haven status. Why are these other states unable to systematically attract the rich from high-tax states?

It could be that Florida simply has a monopoly on tax haven status in the United States. If high income earners wish to avoid paying state income tax, they simply move to Florida rather than to any of its low-tax competitors. Other options are nice, but one tax haven is good enough. Indeed, tax havens might be natural monopolies, because place is a network good. If millionaires like to live in places that have other millionaires, one tax haven state might become a focus of tacit coordination and become *the* place to go.

By analogy, with social media, almost everyone uses Facebook rather than Myspace or any other comparable website, because almost everyone else is on Facebook. Facebook is a natural monopoly because people need only one social networking site, and it works best to have everyone on the same site. Similarly, if millionaires want to be around other high-status people and want to enjoy similar kinds of expensive amenities, such as golf

courses and fine-dining establishments, tax havens might be most appealing when most millionaires all go to the same place. In this sense, there is nothing surprising about Florida's unique status as a magnate for millionaire migration: It is better for millionaires if there is just one good tax haven on which they can all converge.

At the same time, Florida is unique in a number of ways that are unrelated to taxes. It is the only state with coastal access to the Caribbean Sea. Florida is the Hawaii of the East Coast, with similar amounts of warmth and sunshine. Unlike the other low-tax states, it is tremendously popular as a vacation destination and a cruise ship port. Florida is in the South, but Floridians are not Southerners, and most of the state is culturally very different from the Deep South. The city of Tampa is more like the Jersey Shore than Alabama, and many rich Florida enclaves are most comparable to the Hamptons. So, for the rich, is Florida a tax haven or a luxury resort? Does Florida migration demonstrate the benefits of maintaining a low-tax rate for the rich, or does it show the benefits of being an East Coast tropical location?

Here is the key question: If Florida had a millionaire tax rate equal to that in New York and New Jersey—from which many of its migrants come—would this break the allure of the Sunshine State? Would Texas, New Hampshire, and Wyoming become the new centers for millionaire migration? Or would a high-tax Florida continue to be the migration destination for East Coast elites? Part of Florida's migration may well fade if it became a high-tax state. But it is hard to know how much.

One of the disappointing facts about Florida is that, despite its tax haven standing, Florida is not entirely a low-tax state. The benefits of attracting millionaires have not trickled down to lower income earners—at least not in their tax bill. The state has high sales and excise taxes, which result in high-tax burdens on lower income earners. The overall effective tax rate on the poor in Florida is many times higher than that of top earners (12 percent versus 2 percent). For the poorest 20 percent of income earners, Florida has one of the highest tax rates in the country.[20]

Border Counties and Border Cities

Given the questions and doubts raised by Florida, how can we dig deeper into the millionaire data to search for evidence of tax migration? Can we test

the mobile millionaire hypothesis in a way that is not skewed by Florida's tropical appeal?

The geographic borders of states offer another pathway into exploring tax migration. Border regions showcase the contrasts between different state policies, within a narrow geographic space that makes relocation easy.

The border between Oregon and Washington is the most striking example. Oregon has long had one of the most progressive income tax systems in the country. Washington State, in contrast, has never had a state income tax.[21] Oregon expects high income earners to pay much of the state's operating costs, whereas Washington relies on sales taxes that place much of the revenue burden on lower income earners. In simpler terms, Oregon taxes the rich, while Washington taxes the poor. These two tax systems meet along the banks of the Columbia River—progressive taxation sits cheek by jowl with a system of regressive taxation.

For someone on an afternoon walk, any spot along the border between Oregon and Washington might seem much like the other (Figure 2.3). If taxes are important to where high-income people live, the top earners in the Oregon border counties do not need to move to Florida: They can simply relocate to the other side of the river, staying close to home but with a potentially large tax savings. In the figure, the medium shading on the Washington side shows where rich Oregonians could move for the same tax savings as Florida's. Think of this possibility as "local" millionaire migration: It might not show up in the broader statistics of migration across all fifty states, but in these narrow border counties, do the rich tend to cluster on the low-tax side of the border?

The goal of the border-county analysis is to focus on regions where people see two counties as basically identical—except for the difference in state policies. Oregon and Washington are separated by a major river, but some seventeen bridges cross it. Mobility is easy in this border region. The geographic area is arbitrarily separated by a state line, and you can move across it with little real difference in your day-to-day life. Such a place brings the differences in state policies to the forefront: In this relatively frictionless space, people can simply cross the river for a different tax policy.

In reality, of course, it is never quite that easy. For homeowners, selling a house and buying on the other side of the river comes with big transaction

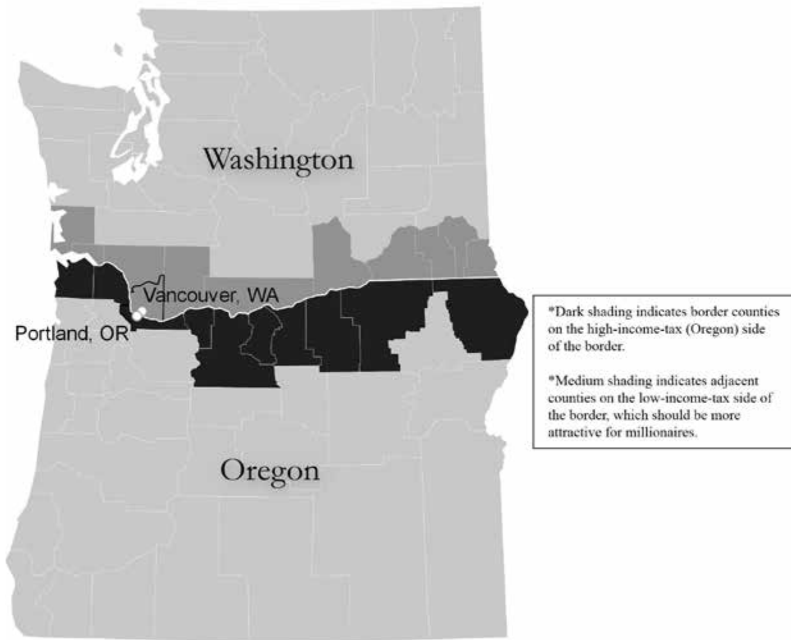

Figure 2.3. Border Counties of Washington and Oregon. Dark shading indicates border counties on the high-income-tax (Oregon) side of the border. Medium shading indicates adjacent counties on the low-income-tax (Washington) side of the border, which should be more attractive to millionaires. Adapted from Young et al. (2016).

costs in the form of commissions, attorneys' fees, and closing costs. Also, in most states, income is taxed where it is earned, so people would have to move both their residence and their job across the border to get the tax advantage.[22] And tax-advantageous counties are not always in commutable areas. Border counties can sometimes span long distances—in some cases, 180 miles across the Mojave Desert. Finally, people often have strong emotional attachments to their state, even when they are close to the border. For example, Vermont and New Hampshire might form a small commutable zone on the map, but residents have remarkably strong views about the state to which they belong.

These caveats aside, border regions minimize the cost of moving, and they help us focus on places that are otherwise identical except for state policies. Small geographic border regions have some sharp discontinuities

in top tax rates but few obvious barriers to crossing the border. These are great places to look for the consequences of even small differences in how we tax the rich.

Within the United States, many bordering states have significant tax differences. Admittedly, tax differences are rarely as striking as at the Oregon–Washington border. But it is common to see tax differences representing 2 or 3 percent of top incomes.

Figure 2.4 maps all the counties that straddle state borders. These 1,100 counties that sit adjacent to interstate borders comprise 32 percent of the U.S. population and 35 percent of all U.S. millionaires. The darkest shading indicates counties on the high-tax side of the state border; the lightly shaded border counties are on the low-tax side. The average cross-border tax difference is 2.3 percentage points, with the sharpest differences greater than 7 points. Among the largest differences are Oregon–Washington (7.3), Vermont–New Hampshire (6.7), and North Carolina–Tennessee (6.4). Along state borders, do millionaires tend to cluster on the low-tax side of the state line?

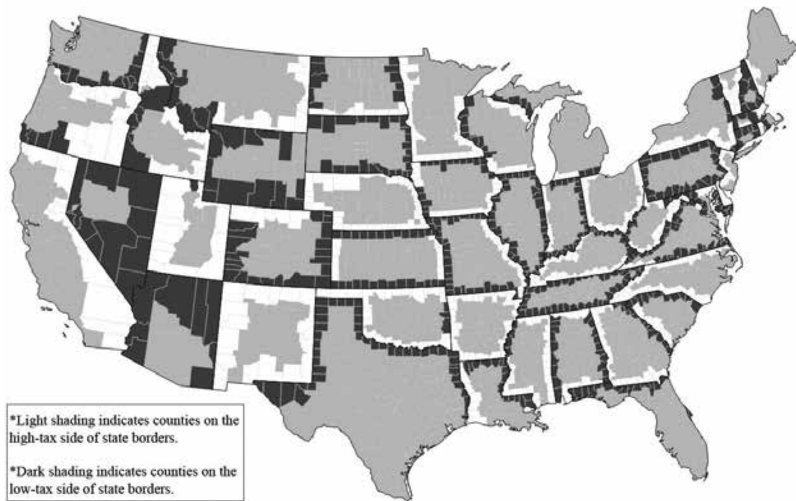

Figure 2.4. Border Counties and Tax Differences in the United States. Border counties comprise 32 percent of the U.S. population and 35 percent of all U.S. millionaires. Dark shading indicates counties on the high-tax side of state borders. Light shading indicates counties on the low-tax side. Adapted from Young et al. (2016).

These data can be analyzed in complex ways, but a simple look gives a fair impression. Between Oregon and Washington, millionaire density—the number of millionaires per thousand residents—is higher on the Oregon side. Along the Columbia River, millionaires actually tend to concentrate on the higher tax side of the border. This is striking because the tax policy differences between Oregon and Washington have, in broad form, been around as long as anyone can remember—they date back to the 1960s.[23] Generations have had time to shift the residential and business center of the border region toward the lower tax Washington side. Perhaps if there were no tax difference at the border, then *even more* millionaires would live on the Oregon side. But in the narrow geographic slice of the United States where millionaires face the single greatest tax difference at the border, they actually cluster on the high-tax side. This suggests that state income taxes are less important than we think.

Across the country, the picture we see along state borders in general is less clear. The Oregon–Washington border is a striking case study. However, in most border regions, millionaire density is higher on the side with lower taxes on elite incomes. Millionaires do tend to cluster on the low-tax side of states overall, but the difference is small and not statistically significant.

For even further granularity, we can focus on multistate cities—cities that cross a state border. As defined by the Census Bureau, the United States has 381 metropolitan areas, and 50 of these cities span at least one state border. Portland, Oregon, for example, is a border city with a significant portion of its metropolitan area across the bridge in Vancouver, Washington. Metro areas that cross state lines offer another way to look at small commutable regions that have different top taxes in different parts of the region.

In the case of Portland, the Oregon side is the growing hub of commercial and cultural life in the city, while the Washington side continues to be a sleepy, lower-middle-income suburb—despite decades of tax incentives pushing in the opposite direction. But overall, in border cities across the country, there is a small tendency for millionaire tax filers to live in the lower tax areas. Yet the difference is so small that it looks more like statistical noise than a compelling difference caused by tax rates on millionaires.

Taken together, the border county and border city analyses give weak evidence of tax migration. The findings are generally not statistically signifi-

cant, and the differences are small. But the low-tax sides of state borders do tend to have a bit larger millionaire population. Taxes are clearly only one of many motivations, but this supports the argument that at least some of the millionaire migration to Florida has a tax motivation.

Billionaires in the United States

So far, we have examined location and migration for very high income earners. Billionaires, however, are a whole different class of rich. Most millionaires are the "working rich," engrossed in their professional careers and businesses and typically at the peak of their careers. For example, the chief of surgery at Massachusetts General Hospital is unlikely to move to Florida to save on taxes—that would be walking away from one of the most prestigious and best-paying positions in the country. Billionaires, on the other hand, have so definitively "made it" that surely they are free to live wherever they wish. They've already made more money than they could ever spend. Under the mobile millionaire hypothesis, billionaires should be the most mobile and the most inclined to avoid taxes.

To get a closer look at the super-rich, I turned to the Forbes 400 list of richest Americans. I started with the 2010 list and then followed their residency to 2015. Many people fall off the list by 2015, but Forbes continues to track most of them even after that. So, with the help of some hardworking research assistants, it was possible to construct a data set of the 2010 Forbes billionaires including their status in 2015. The top people on the Forbes list in 2010 were Bill Gates, Warren Buffett, Larry Ellison, Christine Walton, and the brothers Charles and David Koch. Many of the Forbes 400 billionaires own private jets, travel extensively, and own properties around the world. Still, all but five of those on the list had a clear primary residency in both years. So, where do American billionaires live? Do they tend to live in—or move to—low-tax states?

Both high-tax and low-tax states are home to America's billionaires. For instance, California is home to the highest number—92—which also has the most progressive income tax in the country. New York, too, has a steeply progressive income tax regime and can claim 70 billionaires to take the second spot on a state-level geography of riches. The next two bil-

lionaire states, however, are low-tax Texas and Florida, each with exactly 35 billionaires.

Partly, this is an unfair comparison—it is no surprise that the four largest states by population have the largest billionaire populations. But even on a per capita basis, the sizable states with the most billionaires are New York and California, followed by Florida, Wisconsin, Connecticut, Washington, and Texas.[24] In general, there is little correlation between billionaire residency and the state tax rate on top incomes. Figure 2.5 shows that the connection between billionaire population per capita and top tax rates is largely flat. There is a slight upward trend, indicating higher billionaire residency in higher tax states, but the relationship is not statistically or sociologically significant. The richest people in America seem to simply live where they want to live, with little regard to tax rates.

Billionaire mobility is also relatively low throughout these years. Among the general population, about 8 percent of Americans move across

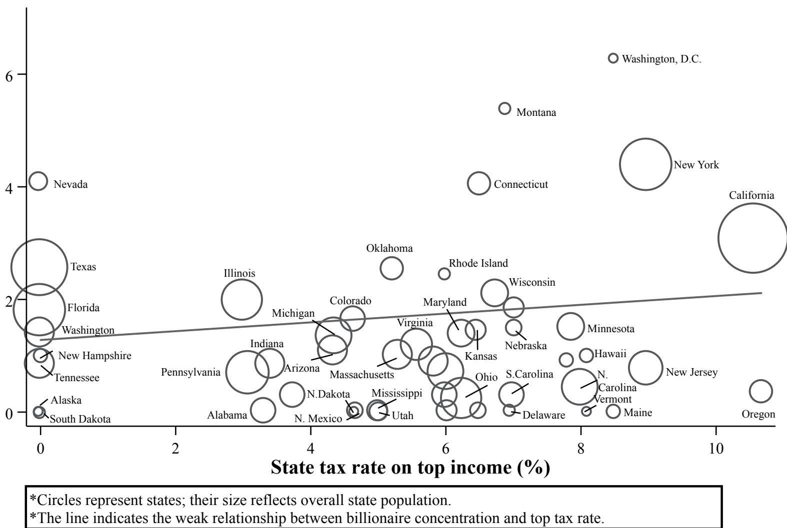

Figure 2.5. Forbes Billionaire Population Per Capita, by Top State Income Tax Rate, 2010. States are weighted by overall population as indicated by circle size. The relatively flat line indicates little relationship between income and state tax rate; that is, rich people in the United States simply live where they want to live, regardless of tax rates. Sources: Forbes 400 Richest Americans (2010) and the NBER TAXSIM program.

state lines over a five-year period.[25] Among the 2010 cohort of billionaires, only 6 percent moved (22 billionaires moved between 2010 and 2015). Note that 7 percent of the 2010 billionaires had died by 2015: Billionaires are more likely to die than to move from their primary residence.

Two additional points are important here. First, when billionaires move, it is typically to Florida. Of the 22 billionaires who moved, 10 (45 percent) relocated to the Sunshine State. No billionaires moved out of Florida. Some billionaires moved into states with a higher tax rate. Oprah Winfrey, for example, moved from Illinois to California, which clearly raised her income tax rate. But overall, the few billionaire moves that occur are strongly skewed toward the lower taxation in Florida.

Second, this time period—2010 to 2015—saw the biggest increase in a state millionaire tax in the United States in three decades. In California, Proposition 30 raised the millionaire tax rate by 3 percentage points—topping out at 13.3 percent—and pushed the boundary of elite taxation by state governments to new levels. The top rate in California was now higher than any time since World War II. Skeptics loudly warned about out-migration of the rich. Yet California saw no loss in its billionaires after the tax hike. None of the Forbes 400 migrated out of California, and the state went from having 84 to 92 of the Forbes 400 by 2015. Of course, the booming tech economy drove the growth in billionaires. But the new "tax on success" did not seem to hamper the state's economy or nudge out its most successful residents.

The Forbes list offers a compelling way to compare the millionaire tax data with public information on American billionaires. The billionaire data give greater confidence in what we learned from millionaires: The super-rich are spread more or less evenly across the country; they are not at all concentrated in low-tax states; and they have low migration rates, but when they do move, they have a fondness for Florida.

Why Millionaires Stay: The Demography of the Rich

Why is there so little migration among millionaires? How has the conventional wisdom—that the rich have exceptional mobility—gotten this so wrong? What social and economic factors might explain why the rich are embedded in their states?

In 2009, Facebook cofounder Eduardo Saverin moved from Florida to Singapore. He renounced his American citizenship about five months before Facebook's IPO in 2012. Estimates suggest he saved hundreds of millions in capital gains taxes. This is a bigger move than what this chapter has discussed so far—global mobility is the focus of Chapter 3—but Saverin illustrates something important about the demography of migration. Saverin was 27 years old when he moved. He was single and had no children. Saverin's shares in Facebook were worth a fortune—the company was already valued at $10 billion—but after a falling out, he no long worked at Facebook and was essentially independently wealthy. If more millionaires shared these characteristics—young, single, no children, and not working—migration would be a lot higher among the rich. All of these socioeconomic factors normally tie top income earners to the places where they live.

In the general population, marriage and children anchor people in place and make migration more difficult. Single people without children have the highest migration rates. Adding in either a spouse or children makes it harder to build consensus around a move and involves more tradeoffs. It turns out that this is no different for the rich. Both millionaires and the general population are much less likely to migrate if they are married or have children (Figure 2.6). The biggest difference is that millionaires are more likely to be married and have children. Some 90 percent of millionaires are married, compared to only 58 percent of general tax filers.

This reflects a growing social reality that, more and more, marriage has a strong income profile. In 1970, marriage rates were high and broadly similar across income levels; today there is a striking marriage gap across economic classes.[26] This is part of the reason why top earners have low migration rates. Single millionaires have a migration rate almost twice as high as married millionaires (4.1 percent and 2.2 percent, respectively). But hardly any millionaires are unmarried.

Likewise, having children in the home reduces migration rates by about one-third, regardless of one's income level. The challenge of taking kids out of school and separating them from their friends weighs on the conscience of both the rich and the poor alike. But millionaires are more likely to have children: 50 percent, compared to 40 percent among the general public. Family responsibilities are a tangible constraint on the migration of the

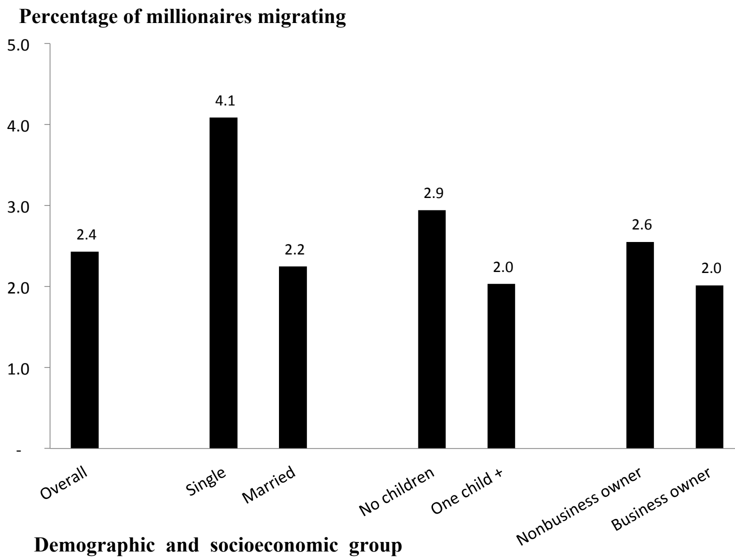

Figure 2.6. Millionaire Migration Rates, by Socioeconomic Group. Millionaires are less likely to migrate if they are married, have children at home, or own a business. Source: U.S. Department of the Treasury, IRS microdata, 1999–2011 (N = 45 million). Adapted from Young et al. (2016).

rich—in similar ways as for the general public—but such responsibilities are simply more common among top income earners. In the modern age, family is one of the rewards that accrue to those with economic success. This in turn makes the wealthy less mobile.

Finally, business ownership limits migration for those at the top. Owning a business ties people to their state. Business owners are at the center of a web of socioeconomic ties—connections to their customer base, their business partners, and their employees. The reality is that, because of the complexity of these ties, bosses are less mobile than their employees. And business ownership is highly concentrated among top income earners. Some 23 percent of millionaires own a business, compared to only 4 percent of the general public.

Finally, it is important to note that millionaires are the working rich. What are the main occupations of American millionaires? The majority are either executives or managers of major businesses (42 percent) or work

in finance (18 percent). A fair number are elite professionals, particularly lawyers (7 percent) and doctors (6 percent). Some 4 percent work in real estate.[27] Few of these occupations could be described as exceptionally mobile or easy to move across state lines.

Media coverage has sometimes focused on professional athletes as representative of the millionaire set. In 2013, professional golfer Phil Mickelson threatened to leave California after a new millionaire tax was passed.[28] He quickly apologized for the comments—he did not intend, apparently, to become the public face of the "bitter millionaire" movement. And, as of 2017, Mickelson still lives in California. But many PGA golfers, including Tiger Woods, live in Florida, and Woods attributes it in part to the tax rate.[29] Many top tennis players, such as the Williams sisters, also live in Florida.[30] These professional athletes are indeed the working rich, but their employer is a national and international circuit of competitions. This is an unusual type of work—even among the rich. Only 3 percent of top earners are in the combined occupational category of "sports, media, or arts." While such sports stars offer interesting anecdotes, most millionaires essentially work office jobs.

Inevitably, some occupations more easily lend themselves to geographic mobility than the average. Academia—my own profession—seems to have higher-than-average migration rates. However, it is likewise important to recognize that the combined occupational category of "professors and scientists" makes up only 1 percent of top income earners.[31]

The social demography of the rich—involving complex work commitments, business ownership, and greater family responsibilities—is part of why the rich are less mobile than the poor. However, none of these factors entirely explains the low migration among top earners. Money itself is a key factor in low migration: Economic success simply blunts the motivation to move.

The Puzzling Intersection of Education and Income

Education increases people's geographic mobility. In professional and technical fields, the job market is often national in scope. Especially for young people graduating out of top universities, the entire country is their job market, and many of them are courted by companies from all corners of the nation. This points to a fundamental puzzle: If the highly educated are very

mobile, how can it be that top-level income earners have so little mobility? This puzzle holds one of the keys to the mobile millionaire versus embedded elite debate.

The tax return data I use in this chapter do not include information about education—it is not something people report on their 1040 tax forms. To look at the role of education in migration, I draw on ten years of the American Community Survey. The U.S. Census Bureau has been interviewing about 1 percent of the U.S. population each year, giving a total sample of over 24 million people over the period from 2005 to 2014. The highest income earners are topcoded, so we cannot look specifically at millionaires. But we can get an extremely detailed look at migration by age and education level for the general population.

The census data readily confirm the basic fact we learned from the tax data: The more money you make, the less likely you are to move to a different state. The poor—those making $20,000 a year—have a migration rate of 2.8 percent. Those making $200,000 a year have a migration rate of only 1.7 percent. In more detailed analyses, demographic factors like age, marital status, education, and the like do not explain away this reality: Income ties people to place.

Yet, the census data also confirm the second part of the puzzle: More education means more migration. College graduates have a migration rate of 3.2 percent—twice the rate of those who dropped out of high school (1.6 percent). This fact is also not explained away by other demographic characteristics. Higher education expands one's geographic horizon.

Hence the puzzle: Why is migration high among the best educated yet somehow low among the top earners? These two groups are typically the same people. How can they have such different migration patterns?

The divergence occurs because migration happens mostly among people who have high education but low income. At first glance, this seems like a disappointing group of individuals for whom education did not pay off. But readers with college-age children may have insight into the puzzle. Those who have *both* high education *and* low income are mostly still quite young.

Education has tremendous impact on both income and migration, but the timing of these effects could not be more different. For income, the benefits of education accrue over the course of a long career. People complete

their last year of education *decades* before they earn their highest paychecks. In contrast, for geographic mobility, education has a profound impact that is close to instantaneous and very short-lived.

Figure 2.7 shows the age–migration timeline for people with different levels of education. Readers can place themselves in the graph by selecting the line that represents their highest level of education and then following the line from left to right—from age 18 to retirement. Migration rates decline over time for everyone. The differences across educational groups are dramatic—but only in the early years.

College graduates have migration rates mostly above 10 percent when they are in their 20s.[32] The parents of first-generation college students often

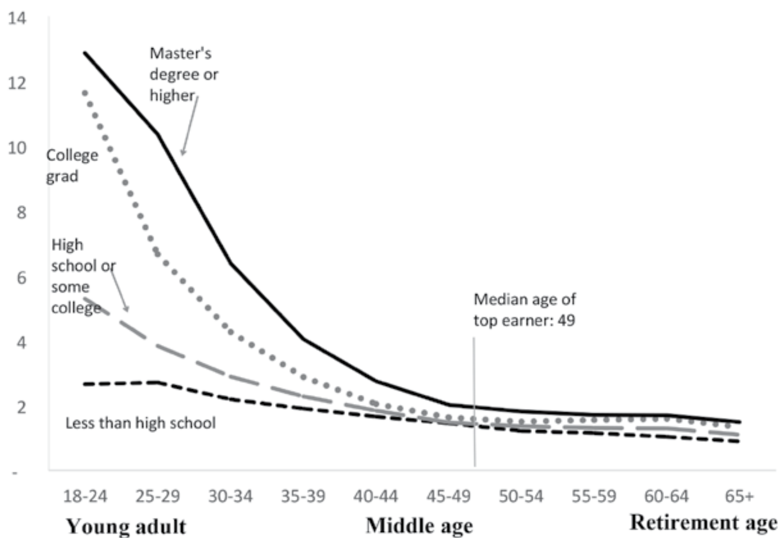

Figure 2.7. **Migration Rates by Age, for Different Levels of Education.** The figure shows the age–migration timeline for the general U.S. population. Migrations are across state lines. The highest point of migration is for young adults ages 18 to 24 with a master's degree or higher—most of whom are 23 to 24 years old. Migration rates decline over time for all education groups. The differences across education groups are dramatic but only when people are young. By middle age, all education groups have the same (low) rate of migration. Source: American Community Survey, 2005–2014 (N = 23 million).

worry about how education will change their families. It is a valid concern. College completion dramatically increases migration rates for young people. For people who did not complete high school, their migration rates are less than 3 percent. These two rates (10 percent versus 3 percent) reflect very different life trajectories. But there is also incredible convergence over time. If the highly educated do not migrate when they are young, the window closes very quickly. Migration rates plummet in the years after college. By age 35, roughly 80 percent of the educational difference in migration rates has been closed. By age 45, people with the most education have basically the same migration rates as people who dropped out of high school.

Migration is a young person's game. These young movers may well enter the top income brackets in the future, but they are a long way off from earning top-level incomes. If 20-somethings with advanced education were the rich in America, the mobile millionaire hypothesis surely would hold true, and state tax systems would strain under the pressure of attracting and retaining them. The reality is the opposite. By the time college graduates have a solid start in their career, the likelihood of migrating is extremely low. The burst of migration among college graduates is remarkably brief.

This life-cycle dynamic helps make sense of why millionaires have such low rates of migration. The people moving across state lines are young. But high income is a feature of the late-career stage. Of course, some young people earn extremely high incomes—such as Eduardo Saverin or his former business partner Mark Zuckerberg. But, top incomes are much more typical of the late-career stage. The median top income earner in the census data is 49 years old. In contrast, the median adult mover is 31 years old. This is a gap of almost two decades—eighteen years of life. When people move, it is typically eighteen years before they hit their peak earnings phase. People choose where to live long before they know which tax bracket life has in store for them.

The most mobile people today—those with high education but low income—are nowhere close to being in the top tax brackets of states. The mobile are not millionaires or top tax payers. By the same token, today's millionaires have low mobility, but probably many of them moved when they were young and remember the experience.

Exit Versus Voice: The Discourse of Millionaire Migration

In the classic book *Exit, Voice, and Loyalty*, social scientist Albert Hirschman highlighted voice and exit as two alternative mechanisms to produce social and economic change.[33] "Voice" is the pathway of articulating discontent and advocating for specific improvements to social conditions, workplace practices, or government policies. "Exit" is the pathway of simply leaving—shopping elsewhere, quitting a job, or moving to a different state. Advocates of tax cuts within states argue that if taxes are not reduced, millionaires will exit. This chapter has shown that exit is not an easy option for most millionaires. Millionaires, simply put, rarely leave for states with low taxes. They are too embedded in their local communities to do so. They have kids in school, they are married, they have put down roots, and they have social and business connections in their communities. Their ongoing income depends on staying in the place where they have become highly successful and have insider economic status. The threat of exit is largely empty.

Why all the talk of exit when exit is so rare? Threatening to exit makes voice powerful. By itself, voice may be ineffective for policy change if actors do not have leverage. The threat of exit provides this leverage and has become popular as a form of pressure bargaining over tax rates. Advocates of low and regressive taxes routinely assert very high mobility among the rich. When millionaire taxes are on the table, critics do not engage arguments about fairness or merit. They threaten that the rich will leave. In California, critics of the Prop 30 millionaire tax warned that "when those required to pay this tax end up leaving the state . . . they will take their tax dollars with them."[34] In Maryland, critics dubbed a millionaire tax the "Get Out of Maryland Tax Act." The situation is the same for business regulation. Dire warnings of business migration in response to state regulations rarely materialize in practice. As sociologist Bruce Carruthers and economist Naomi Lamoreaux recently concluded in their review of the business regulation literature, "businesses typically have exercised their 'voice' option more vigorously than their 'exit' option."[35]

Political discourse has spun a hypothetical world of free-floating elites who have little attachment to place and much interest in leaving for lower tax locales. This world of mobile millionaires holds a grain of truth—some

millionaires do move to low-tax Florida. But top income earners in general are more like embedded elites: They are tied to place for a host of social and economic reasons, and thus are less mobile than the middle class or the poor. If states set their tax policies purely based on the risk of millionaire migration, top income tax rates would be higher in every state in the country.

5 Millionaires and the Future of Taxation

What is the connection, in this time of globalization, between the rich and the places where they live? Are the rich today mobile millionaires—unplugged from place, state, and nation; ever ready to move; and no longer accountable to the policymakers of these traditional geographies? Or are the rich better understood as embedded elites—rooted in the places where they found their success and where they have become deeply connected insiders?

This question of millionaire mobility is central to the kinds of policies that places and nations can sustain in the twenty-first century. Rising inequality in the United States and most nations of the world means that taxable income is increasingly concentrated among the 1 percent of income earners. If this tax base is prone to flight, places will be under growing strain to retain and attract top income earners with lower taxes, undermining the revenue base for vital public services and infrastructure.

This book explores remarkable new big data on where the rich live and where they move. The IRS tax data from everyone in the United States who ever filed a million-dollar tax return between 1999 and 2011 includes 45 million tax returns from 3.7 million top-earning individuals. This gives unique evidence of how often the rich move across state lines and how many of these moves are to lower-tax states.

For an international view of the migration and attachment to place of the rich, I draw on the Forbes list of the world's billionaires. These data show

where billionaires live, where they were born, how often they move after becoming wealthy, and how much national tax rates shape where they live.

The central finding of this book is that while millionaire migration and millionaire tax flight certainly occur, they are happening at the margins of social and economic significance. In the United States, millionaires move less than the general population: Their migration rates are lower than the middle class and much lower than the poor. The rich are more grounded in place than are lower income earners. Among the world's billionaires, the vast majority live in their country of birth, and only a small fraction—around 5 percent—move abroad after they amass their wealth. Millionaires and billionaires often have busy travel schedules, but few actually move their primary residence away from where they built their careers.

Among the modest set of millionaires who do move, income taxes matter, but less than one might expect. In the United States, almost all of the net millionaire migration to lower tax states is driven by movement into Florida. The Sunshine State systematically attracts rich people from high-tax states like New York, New Jersey, and Illinois. Other states with the same zero income tax system, like Texas and Tennessee, do not draw rich people from high-tax states. It is hard to tell how much taxes versus geography and climate make Florida attractive to the rich—although both probably matter.

Overall, the mobile millionaire thesis does not describe many rich people. As a group, top income earners are resistant to moving. This is partly because millionaires have family responsibilities that tie them to place: Compared to the general population, millionaires are much more likely to be married and more likely to have children at home. Millionaires are also much older than the typical person who moves across state lines.

Resistance to moving is also driven by a practical socioeconomic reality that income is partly tied to place. Unless one plans to retire, moving at the late-career stage often makes little financial sense. Moving means giving up a home-field advantage that helps sustain people's careers. Top income earners are mostly the working rich—such as managers, doctors, and lawyers. They can move their residence almost anywhere they wish, but it is more complicated to move their job and their income source to a lower tax state. Place is a form of capital for top income earners. Many of their competitive advantages are not portable.

Top-level income is often a joint product rather than a purely individual accomplishment. People with top incomes often have rich and layered connections to colleagues, collaborators, funders, and clients. These social, professional, and business ties lose much of their value when one moves away, and they are difficult to re-create in a place where one is relatively unknown. Migration often means walking away from place-specific social capital. The further afield one moves, the more one's social capital depreciates.

Top income earners also have specialized skills and knowledge—human capital—whose value is highest in certain places. New York is an ideal place to be an astute financial analyst, Boston is a great place to be a talented doctor, and Silicon Valley is the best place to be a brilliant programmer. Having one's skills in the right geographic place is key to achieving one's highest income potential. Florida and Nevada offer lower tax rates, but they also offer much lower returns to highly skilled labor. A central flaw in the mobile millionaire hypothesis is the assumption that top earners can make the same money anywhere they live. Human capital and especially social capital have place-specific returns, and moving to avoid taxes is unlikely to optimize what people can earn with their skills and abilities.

People who command the highest incomes rarely leave the places where they established their careers. Low migration among the rich is repeatedly documented in the tax returns of U.S. millionaires, in census data among the highly educated, and in the Forbes list of the world's billionaires. The rich largely live where they became successful. To be sure, most millionaires travel widely for business and leisure. They often retain teams of lawyers and accountants to probe the system for tax loopholes. But this does not render them a "transnational capitalist class" of global citizens beyond the reach of local or national policymakers.[1]

Neoclassical economic models misunderstand the reality of the rich and their connections to place. Conservative economists such as Martin Feldstein at Harvard have argued that states cannot pass progressive tax policies even temporarily without setting off large and painful outflows of top talent.[2] Many have used such simple economic models to predict that even modest taxes on the rich would result in millionaires moving by the thousands. The confidence of these predictions has been matched only by their inaccuracy—and by the lack of insight into how millionaires became top

income earners to begin with. This boils down to a longstanding vice in neoclassical economic theory: assuming people to be frictionless agents willing and able to move their lives and their work around in a frictionless world whenever a new incentive arises.

Many of the same conceptual flaws have been embraced by left-leaning critics of globalization. The "transnational capitalist class" was presented by sociologists and political economists as the emergent elite of the twenty-first century. In this view, the rich have grown indifferent to nationhood: They traverse the globe with both impunity and guile and have become more powerful than the nation-states that haplessly attempt to govern them. The notion of a transnational capitalist class was never based on much more than anecdote and intuition, but it captured the imagination of many scholars on the left.[3]

The mobile millionaire thesis attracts interest and support from across the political spectrum. On the right, the idea of millionaire migration is appealing because it challenges the viability of high taxes on the rich, which conservatives oppose on general principle. On the left, millionaire migration feeds a narrative of greedy and unpatriotic elites pushing the tax burden onto the backs of the poor and the middle class. Both sides use anecdotes about millionaire migration to advance their ideological arguments. The left and the right draw on a shared narrative of the mobile rich that is largely untrue.

Improving Tax Policy

Based on the findings of this book, how should states set their tax policies? Should states raise taxes on millionaires? Could some states gain revenue by becoming tax havens for migrating millionaires?

The Revenue Gains from Millionaire Taxes

Imagine a tax policy in which millionaires pay an extra 1 percent of their total income in state taxes.[4] Further, suppose that only one state passes such a tax, and all other states keep their tax policies unchanged. What would be the long-term implications of this tax for millionaire migration in the United States? From the analysis using IRS tax-return data presented in Chapter 2, I can estimate the expected amount of migration for each percentage point of tax increase in a state.

Millionaire migration is low overall and only weakly affected by tax differences between states. So, the effects of such a tax would be small. For a typical state, passing this extra 1 percent tax would lead to roughly 12 fewer in-migrations and 11 additional out-migrations, for a long-run population loss of 23 millionaires. However, the typical state has a long-run population of more than 9,000 millionaires. Over a thirteen-year period, this millionaire tax would cause a drop of 0.2 percent of the state's millionaire population.

What does this mean for a state's fiscal balance? Critics often warn that taxes will cause more revenue loss from fleeing millionaires than they will bring in. A loss of 0.2 percent of the millionaire population means 99.8 percent of the millionaire population remains and is subject to the new 1 percent millionaire tax policy. The 23 missing millionaires would take with them about $2.4 million in tax revenue. But the remaining millionaires would contribute an extra $176 million in revenue. Despite the observed tax migration, the revenue gain from the tax is an order of magnitude larger than the revenue loss from migration.

By extension, a 10 percent millionaire tax would mean a loss of 2 percent of a state's millionaires. This is a greater loss, but the remaining 98 percent of millionaires would pay an extra 10 percent of their incomes in tax revenue. With such a tax, the typical state would raise around $1.8 billion per year, with a revenue loss from out-migration of only $24 million. One must always be cautious with such extrapolations, but it helps to clarify the relatively insignificant tax-migration effects. If the only argument against taxing millionaires is that they will leave, then states can proceed to raise top income taxes significantly without fear of revenue loss.

Does It Pay to Become a Tax Haven?

What if we think about this from the other direction—that of cutting taxes? Could some states pick up windfall gains by becoming tax havens for high income earners?

In general, cutting taxes on top earners generates massive revenue losses. Because so few millionaires are mobile, cutting taxes attracts only a handful of new millionaires. But, to attract those millionaires, a state has to cut the tax rate for a vastly larger population of embedded elites—the state's non-moving millionaires.

The only way states could use taxes to attract millionaires without devastating their budgets is through highly selective tax incentives. New Jersey tax officials, for example, could reach out to rich people who might want to move to New Jersey if the tax rate were lower. The state might offer a tax break to new millionaires who have never lived in New Jersey. New York would be a good place to look for such individuals, and surely some would take the deal. With such a policy, New Jersey could attract some new millionaires without having to cut taxes on its very large base population of resident millionaires.

The problem with this kind of selective tax break for movers is that other states will correctly see this as an opportunistic attempt to poach their tax base. If New York retaliates by offering a similar tax break to New Jersey millionaires, the state of New Jersey would probably soon regret having opened this door. The only real beneficiaries of this kind of tax competition would be the small group of mobile millionaires who get selective tax breaks for moving away.

In the United States, no state has attempted to lure millionaires away with selective tax breaks for people moving from out of state. But such a tax policy has been enacted on the international scene. Both Switzerland and the Britain maintain tax loopholes for super-rich foreigners: They have progressive income taxes for their own citizens, but they allow rich expats to avoid the taxes of both their host country and their home country. These are essentially predatory policies that court elite migration by allowing foreigners to live by different and more favorable rules than those their domestic citizens have to follow. As noted in Chapter 3, a few dozen of the world's billionaires are taking advantage of these loopholes by residing in Switzerland and London, and probably thousands more of the lesser rich are doing so as well.

There is no principled defense of such policies even under the most "free market" economic thinking.[5] Countries can engage in legitimate tax competition by lowering their tax rates but not by offering special tax treatment to foreigners. Both Switzerland and Britain could reasonably face trade sanctions under World Trade Organization (WTO) rules of fair competition and equal treatment of locals and foreigners. Even modest sanctions—equal to the tax revenue losses these countries impose on other nations—would likely force the two countries to end tax breaks for rich foreigners, as the

policies have limited benefits for citizens and voters in Britain and Switzerland.[6] This is a case where global trade rules, when enforced, could help maintain the integrity of national tax policies. Tax breaks designed purely to attract rich foreigners likely constitute an "illegal subsidy" under WTO trade rules.[7]

When states can only attempt to attract millionaires on an open playing field—by cutting rates on all top income earners—there is no credible business case for becoming a tax haven. If states wish to adopt Florida's income tax policies,[8] they must recognize that such a change will attract only a few millionaires and will sharply reduce the amount of revenue that many thousands of top earners are contributing to the state budget. The fiscal cost of becoming a tax haven is prohibitive. When this path is pursued, it necessarily means cutting infrastructure and services or raising taxes on the poor.

The fundamental problem facing states that want to attract the rich is that millionaire migration rates are very low. If the migration rate among millionaires were ten times higher—say, 24 percent a year, rather than 2.4 percent—there might be a business case for cutting taxes on top incomes. But top income earners do not move very often, and taxes are not a big part of their migration decisions.

California and Kansas: Top Tax Rates and Fiscal Crises

The governor of Kansas, Sam Brownback, led a campaign to solve his state's budget problems by cutting taxes to stimulate growth and attract migration. Brownback insisted that "people move based on income tax rates," and his budget papers suggested that cutting income taxes would lead to higher revenue growth.[9] In 2011, Kansas passed a bill to lower its top tax rate from 6.45 to 4.5 percent; the bill also exempted many business owners from income tax entirely. Tax cuts to top earners were to be a "shot of adrenaline" to the state economy. It was pitched as a first step in a long-term goal of "getting to zero"—eliminating the income tax entirely, starting with tax breaks for the highest-income residents. The tax cuts set off deep revenue losses and an enormous budgetary hole. Escalating rounds of cuts to education and infrastructure followed.[10] In early 2017, the Kanas Supreme Court ruled that the state's education funding had fallen to unconstitutionally low levels.[11] The

state's economy has remained flatlined, lagging behind most of the country in job growth. The "adrenaline" of top tax cuts did not achieve much more than devastating the state's budget.

In the same year Governor Brownback was elected in Kansas, Governor Jerry Brown was elected in California on a different agenda. Kansas and California have little in common, but they offer each other a glimpse of the path not taken.

Throughout the 2000s, California was becoming an ungovernable mess. Although constitutionally required to balance the state budget each year, California only did that twice in the decade. Hidden borrowing from other government agencies often made up the difference. With the national economic meltdown in 2008, the state's perilous fiscal position was revealed. The budget deficit ballooned to over $20 billion; the state was missing one-fifth of the revenue needed to operate. The state cut $15 billion in spending in 2009—some $8 billion of that from education. Day-to-day cash-flow problems emerged, and at one point the state actually stopped paying its bills—remarkably issuing IOUs instead. California's bond rating plummeted to the lowest level in the country.

As the budget crisis continued, some of the more troubling proposals included selling off the state parks to private interests and shortening the school year by twenty days. The University of California system raised tuition rates by 32 percent in a single year. Throughout the crisis, using taxes to address the problem was off the table: Tax increases required a two-thirds supermajority in the state congress, and the Republican minority would not allow it. *The Economist* magazine ran a special feature referring to California as a "failed state" and asking, "How can a place which has so much going for it . . . be so poorly governed?"[12]

After Governor Brown was elected in 2011, he asked voters to approve a tax increase on high incomes via the proposition system. The governor's Proposition 30, as it was called, would bypass the Republican blockade in the state congress. Voters approved the proposition in 2012, increasing the income tax on top earners substantially, including a 3-percent tax on the highest earners.

As of 2016, California has exceeded revenue projections for years, posting large year-after-year budget surpluses. The days of budgetary accounting

games are over, the state fully paid off the deficit bonds issued by Governor Schwarzenegger during the crisis years, and it built up an $11 billion reserve fund. Independent budget scoring concluded that the state "is better prepared for an economic downturn than it has been at any point in decades."[13] Even Republican critics, despite reservations, acknowledge that the "soak-the-rich tax hike was a crucial budget healer."[14] Failed state no longer—California is back.

Collective Goods and Progressive Taxation

Any U.S. state can choose the path of higher and more progressive income taxes without causing an exodus of the rich. The "revenue-maximizing" tax rate on millionaires is higher than any state's current tax policy.[15] But many states do not want higher tax rates for the rich. States are collections of people deciding how much to tax themselves and how to share that tax burden. How much do people want collective public goods, such as infrastructure, schools, universities, safety nets, and transportation systems? And how much do people want private goods and individual spending power? In every state, people want some of both, and the political process is about getting the balance right. With this in mind, what is a reasonable way to share the cost of the collective goods we want?

Critics of progressive taxation have made a lot of fact-free arguments about the exceptional mobility of the rich. In the absence of tangible knowledge about millionaire mobility, people have continually made unrealistic claims to try to scare off serious policy discourse. In reality, the issue of tax migration is nearly irrelevant to the question of what state tax rates should be. Millionaire migration was a serious concern before we knew much about the migration behavior of top income earners. The mobile millionaire thesis turns out to have remarkably little empirical support—just enough to generate colorful anecdotes about millionaire tax flight, but not enough to be a real consideration in state tax policy.

There are two central questions for political discussion. First, what level of public goods versus private consumption do we want for our state? And second, what is a fair way to share the cost of our public goods? These questions provide a full docket for a sensible political dialogue. For example, there

are reasonable debates to be had over whether states actually need more revenue. Countries like Sweden and France probably have little need for additional revenue, because of their already extensive provision of social services and public goods. In the United States, however, many aspects of education, public services, and infrastructure are in disrepair and lag behind other developed countries. U.S. policymakers need to focus on how best to address these problems through greater investments and improved efficiency.

Moral questions about tax fairness should also be more directly debated in the political sphere. Many people regard progressive income taxes as contrary to American values—as punitive measures against hard work and entrepreneurship that stem from a politics of envy. Many others believe that high income is a result of both effort and luck, and people with the greatest economic success bear greater moral responsibility to pay the operating costs of the American system. Open and honest debate around these issues is central to determining what level of progressive taxation is right for U.S. states.

Millionaire Taxes as an Intergenerational Transfer

Chapter 2 began with the story of New Jersey billionaire David Tepper moving to Florida. Tepper became emblematic in the press coverage of New Jersey's richest decamping for more favorable tax climates. Indeed, Mr. Tepper is not the only high-income resident who has moved to Florida. However, the coverage was excessive. Moreover, when millionaires move to states that charge them *higher* tax rates, such as when they move to California, it does not set off a media frenzy. A handful of prominent people, such as Oprah Winfrey, have moved from lower tax states to California in recent years. Yet, there were no media stories about how Oprah or others moved because they wanted to pay a *higher* state income tax. The only moves the media find interesting are cherry-picked examples of apparent tax migration. Full, comprehensive data on the migration of the rich gives a very different conclusion than the news media coverage.

It turns out that Mr. Tepper is not even a very good example of tax migration. Missed in all the media coverage is that Tepper is not actually from New Jersey. Tepper is a native of low-tax Pennsylvania, where he grew up and attended both college and graduate school. He moved to New Jersey—

where the top income tax rate is three times as high—to launch his investment business. He lived in the state for two decades, including twelve years after the New Jersey millionaire tax was passed, and he presumably paid a great deal of state income tax to New Jersey over the years.

Now heading into phased retirement, Mr. Tepper's move to Florida attracted much attention. Entirely missing from the coverage is that he moved from a state with a low, flat income tax to build a tremendous fortune in a high-tax state. New Jersey, despite its high-tax rate on the rich, produces a lot of millionaires; it is a good destination for young ambitious people to find success, and it has one of the highest millionaire concentrations (and one of the highest average incomes) in the country. The larger story of David Tepper is not so much about tax migration, but more about moving to a high-tax state to *achieve success*. If the press had reported Tepper's entire history of migration, this would have quickly tempered the impression that millionaires are leaving high-tax states.

Tepper moved to New Jersey many years before he knew how successful he would be and what tax rate he would be paying. This pattern of moving many years *before* achieving peak income is an important reality. Migration involves something of a Rawlsian "veil of ignorance" about the tax system. In the general population, people move across state lines when they are well educated but still young—usually some two decades before they hit their peak earnings phase. Among the world's billionaires, 16 percent live outside their country of birth, but two-thirds of this group moved at or before the beginning of their careers.

What kind of tax system would people want if they did not know whether they would be middle class or super-rich? Would the typical person care if there was a special tax rate on the super-rich? Most people who migrate are selecting where to live long before they know whether they will end up in the top tax bracket. Millionaires, in contrast, know what tax bracket they are in, but they are already rooted in place and have low migration rates as a result.

Because millionaires are usually late-career elites, a millionaire tax works as an intergenerational transfer. The tax draws revenues from the most successful members of the older generation as an endowment for younger people building their careers.

In a progressive income tax system, all people start life in the lowest tax bracket. Tax rates are low when people are beginning their careers and still have relatively low income. In America, highly educated young people are the most likely to move. They have high levels of education but do not yet have high income. They are not much concerned or affected by the tax rate on million-dollar incomes; if they ever make that much money, it will be decades in the future. People who ultimately become very successful will have to pay higher tax rates—but only once they achieve their highest economic aspirations. By the time people reach the height of their careers, their migration rates are dramatically lower than when they were young. The advanced-career rich are socially and economically embedded in the place where they live. Under a system of progressive income taxation, the highest tax rates fall on the least mobile individuals.

A recent interview study with the founders of the fastest-growing startup companies in the United States helps round out this point. The researchers, who interviewed 150 people from *Inc.* magazine's list of fastest-growing companies, sought to understand what the best entrepreneurs want in a city.[16] These founders had typically been mobile at some point in the past. But 80 percent of the founders had already lived in the area for at least two years before starting the company. For example, one founder was asked why he started his company in Park City, Utah. He replied, "My basement was located in Park City, and [the company] was started in my basement."[17] Park City is also a beautiful mountainous location, home to the U.S. Ski Team and the Sundance Film Festival.

The larger point is that the top startups in America were typically established wherever their founders happened to be living. Founders often spoke of urban amenities, the local talent pool, personal relationships, and access to their customer base as important to their company's location. But only 5 percent of founders mentioned the tax rate as a factor in where they chose to start their business. And once their business was established, 90 percent of founders kept their headquarters where they started out. In essence, once a startup is founded, it is already too late to try to lure it away with things like lower tax rates. If states want startup businesses, they need to grow them internally.

States have little ability to attract the highest income earners, but they can attract a pipeline of *future* top earners. One of the key components to

a city's success, as management professor Richard Florida has emphasized, is its ability to cultivate, retain, and attract mobile young professionals.[18] To attract these young, highly educated, and motivated individuals, however, states should not focus on cutting the top tax rate. Top tax rates are not a salient issue for early career individuals, because these people are not in the top tax brackets. Instead, states should focus on creating quality of life and urban amenities that are attractive to the mobile young. This includes investing in affordable housing and education. Local universities create a pipeline of high-skill individuals, and good K–12 schools help retain them when they are ready to start a family.

In this sense, too, millionaire taxes are intergenerational transfers. Places can use higher taxes on the rich to fund services and amenities that are valuable to the young. In this way, the late-career rich can help endow a strong future for the next generation. And ensuring a city or state is a place where young college grads want to live can have reverberating positive effects on the older generation. In New York City, for example, many late-career and retired rich want to stay in the city to remain close to their children—who often want to be in the city for social and professional reasons.

Crucial to making a millionaire tax an effective intergenerational transfer is ensuring that tax dollars are spent well and used to fund more livable cities and states. This includes education and infrastructure that benefit the wider public, funding for science and advanced education that nurture innovation, and support for social programs such as mental health services that take the rougher edges off urban life. Evidence-based public policy—using big data to rigorously evaluate the effectiveness of policies and focus on the programs that most improve people's lives and opportunities—is central to maintaining support for progressive taxation.[19] If we can ensure good state governance that spends tax dollars wisely, everyone's children—rich and poor alike—can benefit from the higher-tax rates paid by the older generation of elites.

Intergenerational transfers are common in economic life and public policy. Medicare and Social Security—two of the biggest U.S. social programs—are intergenerational transfers that provide health insurance and income support to retirees paid for by taxes on the working-age population. Millionaire taxes are largely paid by late-career professionals. Using those revenues

to support education and opportunities for the young parallels how professional families allocate resources within their own households. The upper middle classes and the rich deeply embrace the philosophy of "concerted cultivation" of their young—investing heavily in the development of their skills, confidence, and opportunities.[20] Millionaire taxes provide a way for states and cities to engage in the same kind of concerted cultivation of the young that we often see in professional families.

Millionaire taxes are often viewed through a lens of class conflict. Sociologist Monica Prasad has cautioned that political support for progressive taxation often fades when the emphasis is on class conflict.[21] The goal of redistribution can easily sound like retribution—a bitter, zero-sum politics that seeds its own backlash. This view of millionaire taxes is both counterproductive and empirically inaccurate. Combined with a commitment to evidence-based public policy, millionaire taxes are intergenerational transfers that support the ongoing vitality of places, states, and countries. Progressive taxes are paid by people with late-career success. The revenues pay for education, infrastructure, and public services that are most attractive to young, early-career individuals.

There is elegance to this system: Places provide infrastructure and services that are appealing to young professionals when they are most mobile, financed with a tax that the most successful of this class will eventually pay, but only in the future when they are an embedded, late-career elite. This intergenerational system of millionaire taxes is key to understanding why high-tax places—such as California and New York—can still thrive as centers for talent and elite economic success. These places train, retain, and attract talent when it is young, lower income, and mobile—and only make talent pay for the amenities as it becomes a successful elite with lives and careers enmeshed and embedded in place.

. . .

No one enjoys paying taxes. But in America, state budgets bear responsibility for kindergarten to grade 12 education, public universities, as well as much of the transportation infrastructure, social services, and police and judicial system. These systems make a big difference in our quality of life and in the opportunities available to young people.

We are living in an era of globalization, in which elites seem increasingly disconnected from the places where they live. But, this is largely a misunderstanding. Many industrial production systems have been offshored, although the professional and executive classes that manage these systems have not moved anywhere. Millionaires remain tied to where they live through career success and place-based human and social capital. They have a long accumulation of intangible capital that would be diminished by moving late in their careers to a place with lower taxes. The rich travel frequently for business and leisure, but rarely move away from the places where they found their success. Places and states are still central in holding elites to a social contract that upholds a commitment to shared prosperity.

The greater issue is that we are living in an era of rapidly rising inequality and diminished market opportunities for many. If we are to return to a time of shared prosperity—where the dividends of a productive society are enjoyed by many—millionaire taxes are part of the policy solution. It is still possible—indeed, about as much as ever—to tax the rich in this time of globalization. Combined with a credible commitment to use these revenues to support opportunities for the young, millionaire taxes can be part of a better future for all.