

INCOME INEQUALITY AND JOB CREATION

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Inequality \Rightarrow household savings behavior \Rightarrow aggregate demand \Rightarrow output
- ▶ New angle of this paper:
Inequality \Rightarrow household savings allocation \Rightarrow **firm financing** \Rightarrow **job creation**

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 2. Banks' access to deposits affects their costs of funds and ability to lend

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 1. Higher income earners hold relatively fewer bank deposits, more stocks and bonds
 2. Banks' access to deposits affects their costs of funds and ability to lend
- ▶ Novel economic mechanism:
 - ▶ If relatively more income accrues to top earners
 - ▶ ... relative funding conditions for firms with access to equity, bonds improve
 - ▶ ... but relative financing costs of bank-dependent firms increase
 - ▶ ... job creation at bank-dependent firms slows relative to other firms

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 - ▶ Exploit variation in top income shares across US states from 1980 to 2015
 - ▶ Develop instrumental variable strategy
 - ▶ Study net job creation across firm sizes as proxy for bank dependence
 - ▶ Also examine bank outcome variables and exploit industry variation

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 - ▶ Study net job creation across firm sizes as proxy for bank dependence
 - ▶ Also examine bank outcome variables and exploit industry variation
 - ▶ **Findings:**
 - 10 pp increase in the top 10% income share reduces net job creation by small firms by 1.6 pp relative to large firms
 - 1/5 of effect through lower entry and exit

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3. Quantitative macroeconomic model

- ▶ Heterogeneous households: nonhomothetic preferences over different savings types
- ▶ Heterogeneous firms: transitions from bank-dependent to public funding
- ▶ Deposit and capital markets connect HH and firms in general equilibrium
- ▶ Main experiment: increase top 10% income share from about 35% to 50%

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- ▶ Main experiment: increase top 10% income share from about 35% to 50%
- ▶ **Findings:**
 - Small firm employment share declines (13% of data), labor share falls (7.5-15%)
 - Moderate decrease in aggregate employment and output: around 0.3%
 - Shutting off portfolio heterogeneity leads to underestimation of welfare effects

CONTRIBUTION TO THE LITERATURE

- ▶ **Empirical work on effects of inequality on the economy:**

Barro (2000), Forbes (2000), Coibion, Gorodnichenko, Kudlyak, and Mondragon (2020), Braggion, Dwarkasing, and Ongena (2021)

- ▶ We provide evidence for a novel channel, use variation within US

- ▶ **Macroeconomic effects of inequality through HH's intertemporal decisions:**

Auclert and Rognlie (2017, 2020), Mian, Straub, and Sufi (2021, 2025)

- ▶ We show inequality affects the economy through changes in firms' financing conditions, as households adjust the allocation of their savings

- ▶ **Declining business dynamism and the rising footprint of large firms:**

Decker, Haltiwanger, Jarmin, and Miranda (2016), Autor, Dorn, Katz, Patterson, and Van Reenen (2020), ...

- ▶ We suggest rising top income shares as another driver behind these trends

- ▶ **Jointly modeling HH portfolio choice and heterogeneity in firm financing**

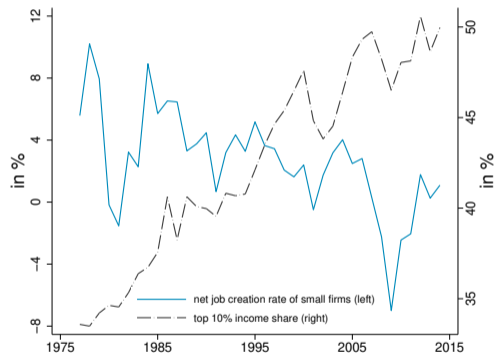
STRUCTURE OF THE PRESENTATION

1. Motivating observations and proposed channel
2. Empirical analysis
3. Structural model
4. Conclusion

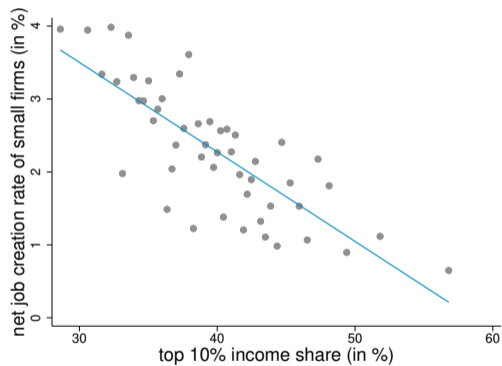
MOTIVATING OBSERVATIONS AND PROPOSED CHANNEL

TOP INCOMES AND JOB CREATION

SOURCES: BDS AND FRANK (2009)



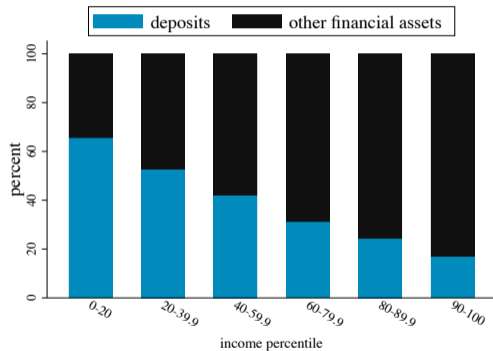
(A) Over time



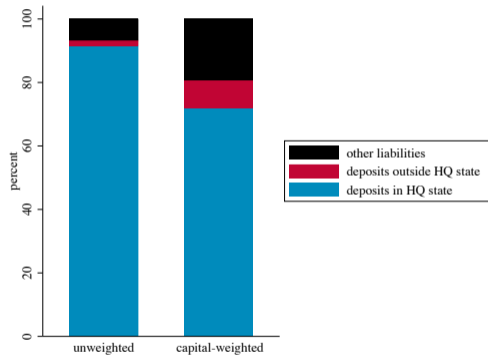
(B) Across states

HOUSEHOLD ASSET ALLOCATION AND BANK FUNDING SOURCES

SOURCE: SURVEY OF CONSUMER FINANCES



(C) Deposit shares across income groups



(D) Sources of US bank funding

DEPOSITS, BANKS, AND SMALL FIRMS

- ▶ Importance of deposits for US banking system

- ▶ Banks' access to deposits (cheap and stable) affects their cost of funds and ability to grant loans: Ivashina and Scharfstein (2010), Gilje, Loutskina, and Strahan (2016), Drechsler, Savov, and Schnabl (2017), ...

- ▶ Importance of bank funding for small firms

- ▶ Banks have a comparative advantage in screening and monitoring borrowers
- ▶ Small firms more affected by changes in credit supply: Becker and Ivashina (2014), Chodorow-Reich (2014), Liberti and Petersen (2019), ...

- ▶ Taking stock:
 - ▶ Low-income households hold relatively more deposits as a share of savings
 - ▶ Banks' access to deposits affects ability to fund small firms

- ▶ Based on observations, formulate hypothesis:

“As the top income share rises, a relatively larger amount of savings is held in stocks, bonds. Through this non-homotheticity in portfolio allocation, relative funding costs decline for firms that use market financing. Meanwhile, households' propensity to save in deposits relative to other assets declines. This increases the rate banks need to offer to attract a given amount of deposits, leading to an increase in loan rates. The cost of financing for bank-dependent firms (small firms and entrants) increases relative to other firms. In turn, they create relatively fewer jobs.”

EMPIRICAL ANALYSIS

- ▶ **Business Dynamics Statistics:** net job creation rate by state-firm size-year cell
- ▶ **Frank (2009):** annual state-level top 10%, 5%, 1%, and 0.1% income shares
 - ▶ Merged sample: 19,176 state-firm size-year obs for 47 states from 1981 to 2015
- ▶ **Call Reports:** bank-level income statement and balance sheet data

EMPIRICAL STRATEGY: BASELINE SPECIFICATION

$$njc_{s,f,t} = \beta_1 \text{top } 10\%_{s,t-1} + \beta_2 \text{small firm}_f \\ + \beta_3 \text{top } 10\% \times \text{small firm}_{s,f,t-1} + \text{ctrls}_{s,t-1} + \theta_{s,f} + \tau_{s,t} + \epsilon_{s,f,t}$$

- ▶ njc : annual net job creation rate in state (s), firm size (f), year (t)
- ▶ $\text{top } 10\%$: top 10% income share
- ▶ small firm_f : dummy for firms with 1 to 499 employees
- ▶ controls : log pop, unemployment rate, average income per capita growth, share of pop. aged 60 and above, share of black pop.
- ▶ $\theta_{s,f}$: state or state*firm size fixed effect
- ▶ $\tau_{s,t}$: time or state*time fixed effects

IDENTIFICATION STRATEGY: FIXED EFFECTS

- ▶ Include state*time FE to absorb a range of omitted variables
 - ▶ Globalization, skill-biased technical change, ...
- ▶ Reverse causality would need to occur within state-firm size-year cells
 - ▶ Lag top income share by one year and interact controls with 'small firm' dummy
 - ▶ Members of the top 10% are not only CEOs, but physicians, lawyers, ... Occupations
- ▶ In addition, develop IV approach

IDENTIFICATION STRATEGY: INSTRUMENTAL VARIABLES

- ▶ **IV strategy:** based on pre-determined top income share of each state
 - ▶ Predict evolution in state-level top income shares based on each state's 1970 top income share adjusted for the 'leave-one-out' national trend
 - ▶ Use predicted shares as IV for actual ones
- ▶ Second IV (in the paper): based on pre-determined industry exposure of each state
 - ▶ A small number of industries account for most of the rise in US income inequality (Haltiwanger, Hyatt, and Spletzer, 2024)
 - ▶ Use beginning-of-period employment share corresponding to these industries in each state, interacted with nationwide employment evolution in these industries

More info on IVs

MAIN RESULTS

VARIABLES	(1) net JCR	(2) net JCR	(3) extensive net JCR	(4) intensive net JCR	(5) net JCR	(6) low BD net JCR	(7) high BD net JCR
top 10% income share	-0.017 (0.129)						
small firm (1-499)	0.056*** (0.009)						
top 10% × small firm (1-499)	-0.124*** (0.021)	-0.161*** (0.022)	-0.027** (0.011)	-0.133*** (0.016)		-0.255*** (0.034)	-0.348*** (0.033)
top 10% × firms with 1-9 emp					-0.315*** (0.037)		
top 10% × firms with 10-99 emp					-0.098*** (0.023)		
top 10% × firms with 100-499 emp					-0.049*** (0.017)		
Observations	16,435	16,435	16,435	16,435	16,435	60,372	63,823
Controls	✓	-	-	-	-	-	-
State FE	✓	-	-	-	-	-	-
Year FE	✓	-	-	-	-	-	-
State*Size FE	-	✓	✓	✓	✓	✓	✓
State*Year FE	-	✓	✓	✓	✓	-	-
State*Industry*Year FE	-	-	-	-	-	✓	✓
F-stat	95.43	300.8	300.8	300.8	128.4	282.1	275.9

► Top 10% share up by 10pp ⇒ relative decline in net JCR by small firms ≈ 1.6pp

BANK-LEVEL OUTCOMES

$$y_{b,t} = \delta \text{ top } 10\% \text{ income share}_{s,t-1} \\ + \text{controls}_{b,t-1} + \text{controls}_{s,t-1} + \theta_b + \tau_t + \epsilon_{b,t}.$$

- ▶ $y_{b,t}$: log amount of total deposits or the ratio of deposit expenses to total deposits of bank b headquartered in state s in year t (from Call Report data)
- ▶ Also look at C&I loan supply and interest rate income for subset of banks

BANK-LEVEL RESULTS

VARIABLES	(1) dep rate	(2) dep rate	(3) log(dep)	(4) log(dep)	(5) CI rate	(6) log(CI)
top 10% income share	10.606*** (2.580)		-2.328*** (0.576)		46.619*** (19.373)	-2.405*** (0.657)
top 1% income share		11.768*** (4.306)		-4.928*** (1.134)		
Observations	242,651	242,651	242,651	242,651	112,393	112,393
Bank FE	✓	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓	✓
F-stat	117.1	89.52	117.1	89.52	77.45	77.45

- ▶ Results consistent with deposit supply reduction driven by higher top incomes
- ▶ Effects stronger for higher top income thresholds
- ▶ Higher top incomes also reduce banks' C&I lending, increase interest income

TAKING STOCK

- ▶ Main result:
 - ▶ Rising top income shares reduce net job creation at small vs. large firms
- ▶ Evidence on mechanism:
 - ▶ Effect arises at the extensive and intensive margin
 - ▶ Effect is declining in firm size (reflecting lower informational frictions)
 - ▶ Effect stronger for small firms in sectors with higher bank dependence
 - ▶ Rising top income shares reduce deposits, increase deposit expenses

Further results and robustness

GENERAL EQUILIBRIUM MODEL

MODEL SETUP

- ▶ Infinite horizon real economy
- ▶ Heterogeneous households with uninsurable income risk and portfolio choice
- ▶ Heterogeneous firms
 - ▶ Ex-ante identical, idiosyncratic productivity, enter as *private* firms
 - ▶ Working capital constraint (bank dependence), fixed cost of operation
 - ▶ Transition choice to *public* firm to get access to capital market
- ▶ Representative bank

HOUSEHOLDS

- ▶ Continuum of infinitely lived households with within-period utility flow:

$$u(c_{i,t}, n_{i,t}, \tilde{n}_{i,t}) + v(d_{i,t}) = \frac{\bar{u}(c_{i,t}, n_{i,t}, \tilde{n}_{i,t})^{1-\sigma}}{1-\sigma} + \psi_d \frac{d_{i,t}^{1-\eta}}{1-\eta}$$

- ▶ $\eta > \sigma$ generates nonhomotheticity: deposits are *necessity good*
 - ▶ Stand-in for e.g. liquidity services disproportionately important for poorer HHs
- ▶ Budget constraint

$$c_{i,t} + d_{i,t+1} + k_{i,t+1} = s_{i,t}(w_t n_{i,t} + \tilde{w}_t \tilde{n}_{i,t}) + R_{k,t} k_{i,t} + R_{d,t} d_{i,t} + \Pi_{i,t} - T_{i,t},$$

where $d_{i,t+1}, k_{i,t+1} \geq 0$

FIRMS: PRIVATE FIRMS

- ▶ Each period, a mass $\tilde{\mu}_e$ of private firms enter; value function is

$$\tilde{V}(z_{j,t}, \tilde{f}_{j,t}) = \max_{\tilde{n}_{j,t}} \left\{ z_{j,t} \tilde{n}_{j,t}^\alpha - \{1 + \tilde{\phi}^e (R_{\ell,t} - 1)\} \tilde{f}_{j,t} - \{1 + \tilde{\phi} (R_{\ell,t} - 1)\} \tilde{w}_t \tilde{n}_{j,t} \right\} + \beta_f \mathbb{E}_t \left[\tilde{W}(z_{j,t+1}) | z_{j,t} \right]$$

- ▶ Optimal employment

$$\tilde{n}^*(z_{j,t}) = \left[\frac{\tilde{\alpha} z_{j,t}}{\{1 + (R_{\ell,t} - 1) \tilde{\phi}\} \tilde{w}_t} \right]^{\frac{1}{1-\tilde{\alpha}}}$$

- ▶ Exit if their value becomes negative \Rightarrow cutoff fixed cost

$$\tilde{V}(z_{j,t}, \tilde{f}^*(z_{j,t})) = 0$$

FIRMS: PRIVATE TO PUBLIC FIRM TRANSITION

- ▶ Random cost of going public $\tilde{\kappa}_{j,t}$
- ▶ Cutoff cost of becoming a public firm

$$V(z_{j,t}) - \tilde{\kappa}^*(z_{j,t}) = \int_0^{\tilde{f}^*(z_{j,t})} \tilde{V}(z_{j,t}, x) d\Phi_{\tilde{f}}(x)$$

- ▶ Probability of becoming a public firm: $\tilde{p}(z_{j,t}) = Prob(\tilde{\kappa}_{j,t} \leq \tilde{\kappa}^*(z_{j,t}))$
- ▶ Firm's beginning of the period value

$$\tilde{W}(z_{j,t}) = \tilde{p}(z_{j,t}) \{V(z_{j,t}) - \bar{\kappa}(z_{j,t})\} + \{1 - \tilde{p}(z_{j,t})\} \int_0^{\tilde{f}^*(z_{j,t})} \tilde{V}(z_{j,t}, x) d\Phi_{\tilde{f}}(x),$$

FIRMS: PUBLIC FIRMS

- ▶ Access to capital market, no longer subject to working capital constraint
- ▶ A public firm's value function

$$V(z_{j,t}) = \max_{K_{j,t}, N_{j,t}} z_{j,t} K_{j,t}^\theta N_{j,t}^{\gamma-\theta} - (R_{k,t} + \delta - 1)K_{j,t} - w_t N_{j,t} \\ + \beta_f(1 - \lambda)\mathbb{E}_t [V(z_{j,t+1})|z_{j,t}]$$

- ▶ Optimal choices

$$R_{k,t} = \theta z_{j,t} (K_{j,t})^{\theta-1} (N_{j,t})^{\gamma-\theta} + 1 - \delta \\ w_t = (\gamma - \theta) z_{j,t} (K_{j,t})^\theta (N_{j,t})^{\gamma-\theta-1}$$

BANK

- ▶ Representative bank takes deposits from households, makes loans to private firms
- ▶ Fixed cost Ξ implies the zero-profit condition

$$R_t^d D_{t+1} + \Xi = R_t^l L_{t+1}$$

where $D_{t+1} = \int d_{i,t+1} di$ and $L_{t+1} = \int (\tilde{\phi} \tilde{w}_t \tilde{n}_{j,t} + \tilde{\phi}^e \tilde{f}_{j,t}) dj$

- ▶ Implies the following relationship between the loan rate and deposit rate

$$R_t^l = R_t^d + \frac{\Xi}{D_{t+1}}$$

INTUITION AND COMPARATIVE STATICS

- ▶ More income inequality will reduce supply of deposits, which increases $R_{\ell,t}$
- ▶ $R_{\ell,t}$ is critical for firm decisions

$\frac{\partial \tilde{n}_{j,t}^*}{\partial R_{\ell,t}} < 0$: higher loan rates reduce labor demand by active private firms

$\frac{\partial \tilde{f}^*}{\partial R_{\ell,t}} < 0$: higher loan rates make more private firms exit the market

$\frac{\partial \tilde{\kappa}_{j,t}^*}{\partial R_{\ell,t}} > 0$: higher loan rates make going public more attractive

- ▶ All these effects are stronger in magnitude for higher bank dependence $\tilde{\phi}$

- Calibrate model to stylized facts and estimates obtained from empirical analysis

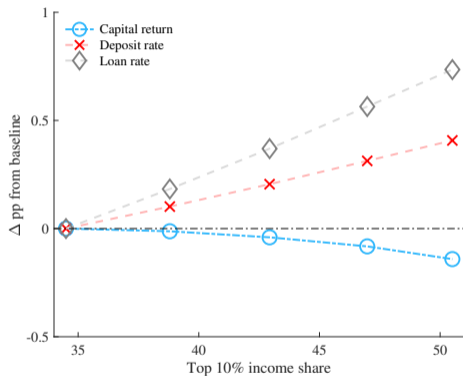
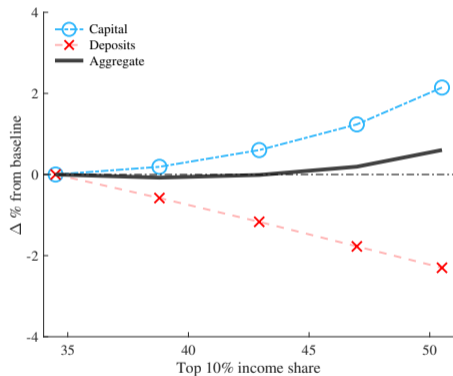
Parameter and description	Target (source)	Value	Model	Data
ψ_n Labor disutility (public)	Labor supply share 500+ (BDS)	1.2871	0.469	0.469
$\tilde{\psi}_n$ Labor disutility (private)	Labor supply share 1-499 (BDS)	1.2349	0.531	0.531
ψ_d Deposit utility scale	Deposit share in 3rd quintile (SCF)	0.0632	0.45	0.45
η Elasticity of deposit utility	Top 10% deposit share (SCF)	2.6096	0.22	0.22
β Household discount factor	Mean return US stock market	0.9182	1.08	1.08
s_H Productivity scale H vs. L	Top 10% income share (Frank (2009))	4.6324	0.346	0.346
θ Public firm capital share	Capital depreciation rate (NIPA)	0.2193	0.06	0.06
γ Public firm return to scale	Labor demand share 500+ (BDS)	0.9883	0.469	0.469
σ_z Firm productivity standard dev.	Labor demand share 1-499 (BDS)	0.0297	0.531	0.531
$\tilde{\phi}$ Private firm bank dependence	Intensive margin estimate	0.952	-0.133	-0.133
$\tilde{\phi}^e$ Private firm bank dependence	Extensive margin estimate	0.801	-0.027	-0.027
\tilde{f}_{max} Upper bound of fixed cost	Firm death rate (BDS)	0.0043	0.10	0.10
\tilde{K}_{max} Upper bound cost of going public	Share of firms 500+ (BDS)	14964	0.003	0.003
Ξ Banking sector fixed cost	Average deposit rate (Call Reports)	0.1018	1.04	1.04

GENERAL EQUILIBRIUM EXPERIMENT

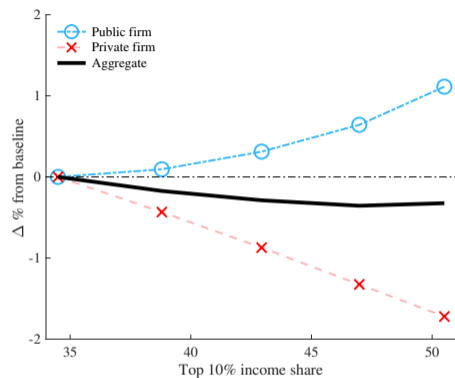
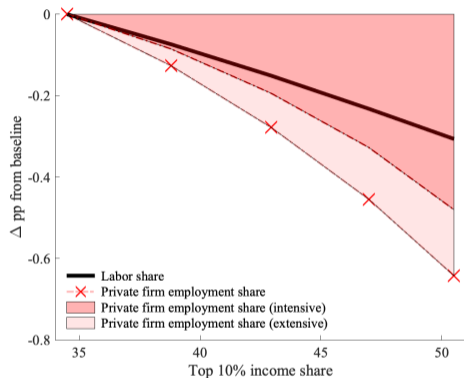
- ▶ Calibration of initial equilibrium mimics US economy in early 1980s
- ▶ Main experiment: increase top 10% income share from 34.5% to 50.5%
 - ▶ Income includes capital income, labor income and transfers
 - ▶ Achieve this by using permanent net zero transfers T_i
 - ▶ Idea is to generate a “neutral” inequality change
- ▶ Alternative experiment in the paper (not shown today):
 - ▶ L type households work for private firms, while H types work for public firms
 - ▶ Source of inequality: increase H type productivity (‘skill-biased technical change’)

SAVINGS AND ASSET RETURNS

MORE

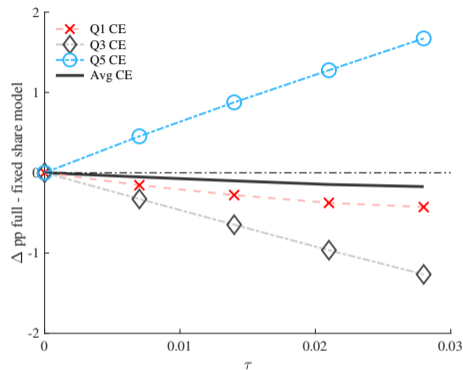
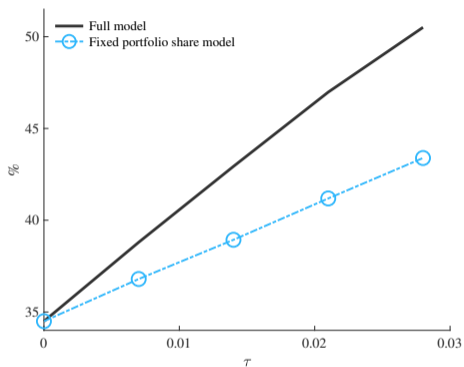


LABOR MARKET AND OUTPUT MORE



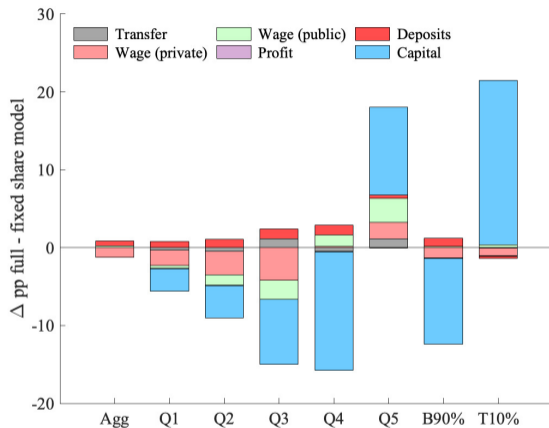
- ▶ Small firm employment share decreases by 0.64pp (18% of actual decline)
- ▶ Labor share decreases by 0.3pp (7.5-15% of actual decline)
- ▶ More output at large, less at small firms, modest reduction in aggregate output

WELFARE COUNTERFACTUALS



- ▶ Shutting down channel: less inequality for given redistribution scheme
- ▶ With our channel welfare rises more at the top; declines more at the bottom

WELFARE COUNTERFACTUALS



- ▶ Without portfolio heterogeneity, rich can invest less in high-return public firm, and wages at the private firm are higher

CONCLUSION

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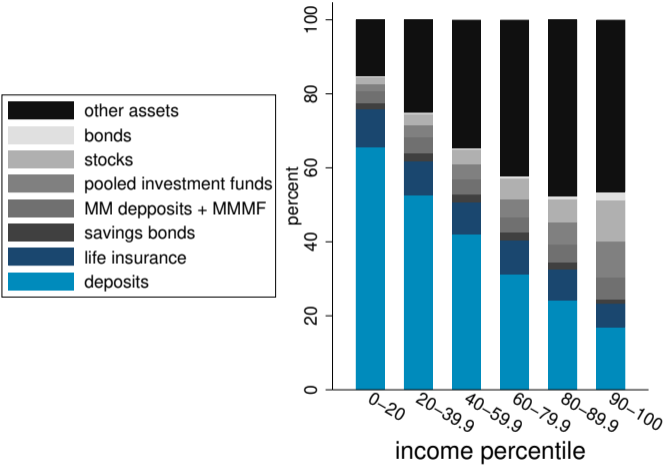
- ▶ The secular rise in inequality has repercussions for the macroeconomy
- ▶ Through changes in the portfolio allocation of households, rising top incomes suppress small firms' job creation relative to large firms
- ▶ Quantitative experiments suggest that these effects matter in the aggregate:
 - ▶ The rise in top incomes explains a sizeable share of the overall decline in small business employment as well as the labor share
 - ▶ Ignoring portfolio heterogeneity materially alters both aggregate and welfare implications of changes in income inequality and distributive policies

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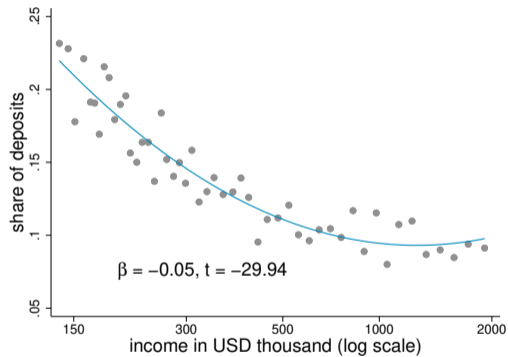
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APPENDIX SLIDES

MORE DETAILED BREAKDOWN OF FINANCIAL ASSETS

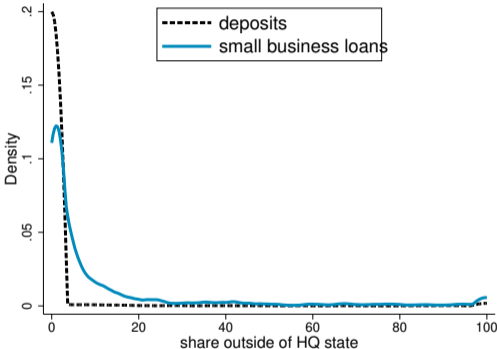


WITHIN TOP 10% AND RESPONSIVENESS



(A) Deposit share by income within top 10%

DISTRIBUTION OF BANKS



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SUMMARY STATISTICS: STATE LEVEL

Variable	Obs	Mean	Std. Dev.	Min	Max	P25	P50	P75
top 10% income share	1645	.407	.054	.252	.615	.369	.403	.438
top 1% income share	1645	.15	.044	.061	.353	.119	.143	.167
Gini index	1645	.569	.047	.459	.711	.543	.567	.597
net job creation rate	1645	.013	.022	-.053	.066	.002	.018	.028
net job creation rate, extensive	1645	.007	.006	-.005	.023	.002	.006	.011
net job creation rate, intensive	1645	.006	.018	-.048	.043	-.001	.011	.019
net job creation rate, small firms	1645	.02	.032	-.129	.151	.004	.022	.038
net job creation rate, large firms	1645	.007	.029	-.153	.107	-.009	.01	.025
income per capita (in th)	1645	27.642	12.121	7.958	73.834	17.644	25.962	36.092
population (in th)	1645	5567.107	6203.077	418.493	39032.44	1340.372	3668.976	6480.591
% old population	1645	.125	.021	.029	.19	.115	.127	.137
% black population	1645	.119	.12	.002	.705	.028	.082	.163
Δ income p.c.	1645	.047	.031	-.104	.262	.031	.047	.063
unemployment rate	1645	.061	.021	.023	.154	.045	.057	.073

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SUMMARY STATISTICS: BANK LEVEL

Variable	Obs	Mean	Std. Dev.	Min	Max	P25	P50	P75
log(deposits)	243674	11.093	1.317	0	16.647	10.206	10.966	11.826
deposit expense (in %)	243674	.935	.511	.013	3.254	.547	.931	1.291
log(C&I loans)	112884	9.535	1.712	0	14.787	8.421	9.446	10.575
C&I interest (in %)	112884	2.049	.991	0	22.463	1.469	1.859	2.378
log(assets)	243674	11.437	1.373	6.878	21.423	10.515	11.289	12.163
non-interest income (in %)	243674	10.564	8.172	.327	62.203	5.628	8.679	13.023
return on assets (in %)	243674	2.137	2.6	-13.984	8.015	1.531	2.504	3.353
deposits/liabilities	243674	.946	.085	0	1	.934	.978	.99
capital/liabilities	243424	.1	.044	0	.999	.078	.092	.112

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WHO ARE THE TOP EARNERS?

SOURCE: IPUMS

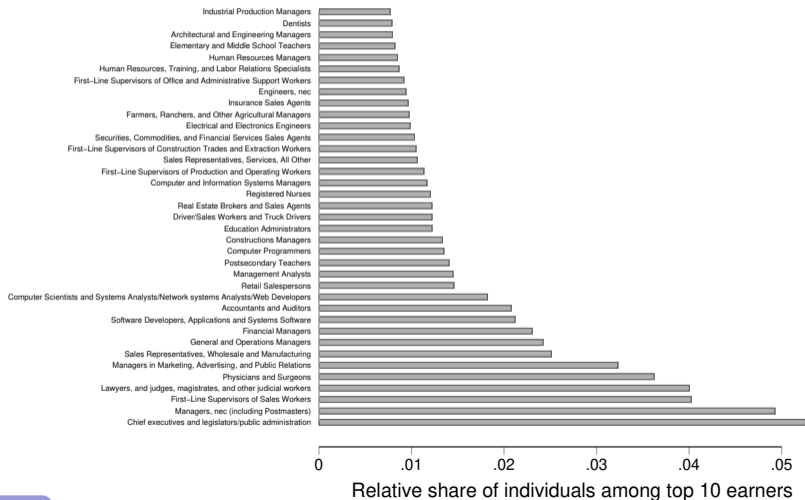
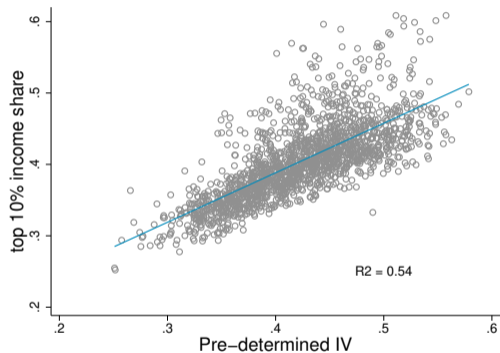
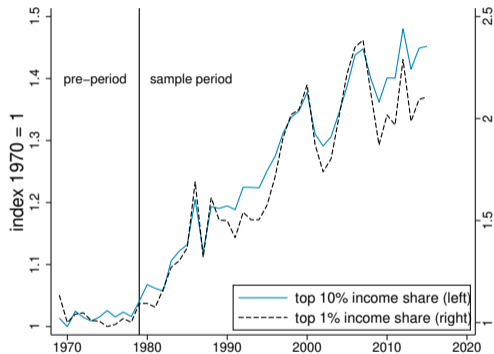


ILLUSTRATION OF PRE-DETERMINED SHARE IV

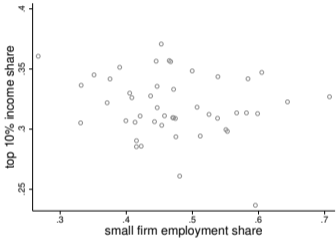


(A) First stage correlation

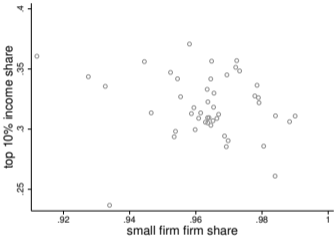


(B) Aggregate trends

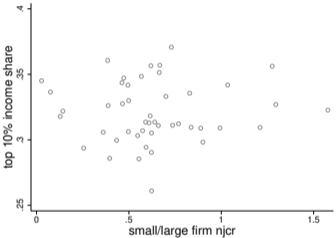
VALIDITY OF PRE-DETERMINED SHARE IV



(C) employment



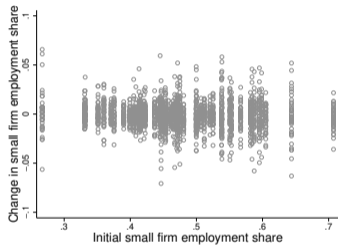
(D) firms



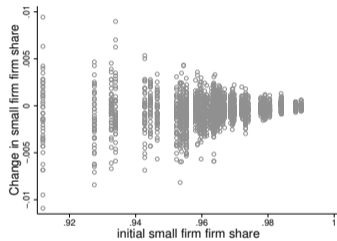
(E) net jcr

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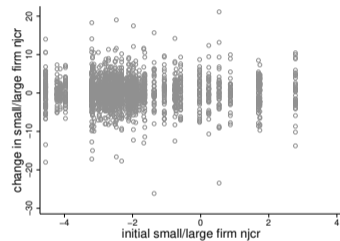
VALIDITY OF PRE-DETERMINED SHARE IV



(F) employment



(G) firms



(H) net jcr

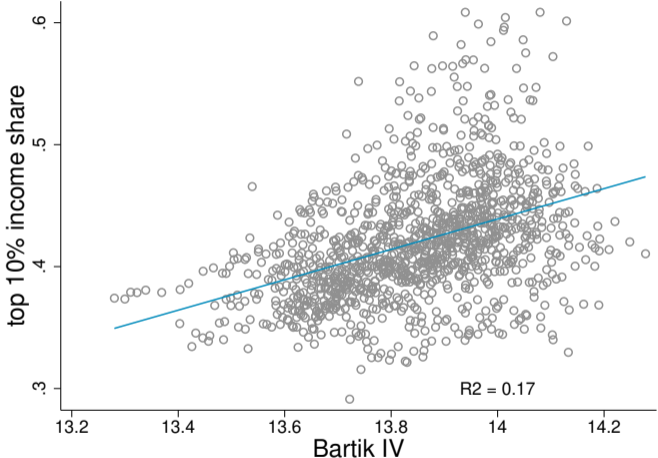
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VALIDITY OF PREDETERMINED SHARE IV

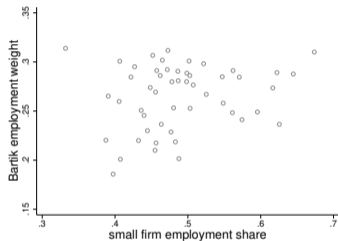
TABLE: Rising top incomes and job creation – pre-determined IV tests

	(1)	(2)	(3)	(4)	(5)	(6)
	baseline	<10k	<5k	baseline	FE	FE
VARIABLES	net JCR	net JCR	net JCR	net JCR	net JCR	drop i net JCR
top 10% × small firm (1-499)	-0.161*** (0.022)	-0.149*** (0.023)	-0.138*** (0.023)	-0.213*** (0.022)	-0.225*** (0.023)	-0.258*** (0.026)
Observations	16,435	14,790	13,148	192,968	192,968	142,945
State*Size FE	✓	✓	✓	✓	✓	✓
State*Year FE	✓	✓	✓	✓	-	-
State*Industry*Year FE	-	-	-	-	✓	✓

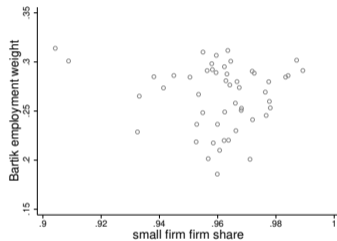
ILLUSTRATION OF BARTIK IV (FIRST STAGE)



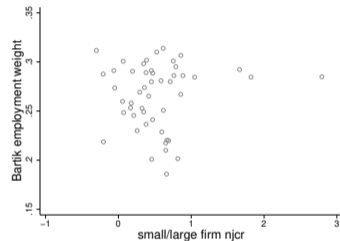
VALIDITY OF BARTIK IV



(I) employment



(J) firms



(K) net jcr

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VALIDITY OF BARTIK IV

TABLE: Initial employment shares

Variable	Obs	Mean	Std. Dev.	P1	P5	P50	P95	P99
emp share of s-i cell in i	1528	.02	.031	0	.001	.01	.067	.148
emp share of s-i cell in s	1528	.011	.015	0	0	.006	.04	.072

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VALIDITY OF BARTIK IV

TABLE: Rising top incomes and job creation – Bartik IV tests

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	baseline net JCR	<10k net JCR	<5k net JCR	baseline net JCR	FE net JCR	FE drop i net JCR
top 10% × small firm (1-499)	-0.108*** (0.024)	-0.089*** (0.026)	-0.083*** (0.025)	-0.146*** (0.029)	-0.139*** (0.028)	-0.142*** (0.033)
Observations	12,218	10,996	9,774	146,266	146,266	108,376
State*Size FE	✓	✓	✓	✓	✓	✓
State*Year FE	✓	✓	✓	✓	-	-
State*Industry*Year FE	-	-	-	-	✓	✓

VARIABLES	(1) net JCR	(2) net JCR	(3) ext net JCR	(4) int net JCR	(5) net JCR	(6) low BD net JCR	(7) high BD net JCR
top 10% income share	0.031 (0.022)						
small firm (1-499)	0.036*** (0.006)						
top 10% × small firm (1-499)	-0.073*** (0.014)	-0.116*** (0.018)	-0.021** (0.008)	-0.096*** (0.013)		-0.193*** (0.030)	-0.245*** (0.028)
top 10% × very small firm (1-9)					-0.239*** (0.030)		
top 10% × small firm (10-99)					-0.066*** (0.021)		
top 10% × medium firm (100-499)					-0.027 (0.016)		
Observations	16,435	16,435	16,435	16,435	16,435	60,372	63,823
Controls	✓	-	-	-	-	-	-
State FE	✓	-	-	-	-	-	-
Year FE	✓	-	-	-	-	-	-
State*Year FE	-	✓	✓	✓	✓	-	-
State*Size FE	-	✓	✓	✓	✓	✓	✓
State*Industry*Year FE	-	-	-	-	-	✓	✓

- ▶ Adding the second instrument gives similar results [details](#)
- ▶ More bank related results
 - ▶ Main results stronger in states where median bank smaller, more banks per capita
 - ▶ Effects on deposits and loans significantly less pronounced for larger banks [details](#)
- ▶ Alternative channels
 - ▶ Collateral, VC funding, education spending, excl. nontradables, ... [details](#)
- ▶ Decomposing net job creation
 - ▶ Decline in job creation by entrants accounts for 50% of fall in gross job creation
 - ▶ Lower reallocation rate [details](#)

ADDING SECOND INSTRUMENT

VARIABLES	(1) net JCR	(2) net JCR	(3) ext net JCR	(4) int net JCR	(5) net JCR	(6) low BD net JCR	(7) high BD net JCR
top 10% income share	-0.010 (0.122)						
small firm (1-499)	0.060*** (0.009)	0.000 (0.000)					
top 10% × small firm (1-499)	-0.134*** (0.021)	-0.161*** (0.023)	-0.026** (0.011)	-0.134*** (0.016)		-0.252*** (0.034)	-0.354*** (0.034)
top 10% × very small firm (1-9)					-0.316*** (0.037)		
top 10% × small firm (10-99)					-0.107*** (0.030)		
top 10% × medium firm (100-499)					-0.056** (0.023)		
Observations	16,435	16,435	16,435	16,435	16,435	60,372	63,823
Controls	✓	-	-	-	-	-	-
State FE	✓	-	-	-	-	-	-
Year FE	✓	-	-	-	-	-	-
State*Year FE	-	✓	✓	✓	✓	-	-
State*Size FE	-	✓	✓	✓	✓	✓	✓
State*Industry*Year FE	-	-	-	-	-	✓	✓
F-stat	56.89	165.1	165.1	165.1	106.9	282.1	275.9

CALL REPORTS – BANK SIZE

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
	log(dep)	dep rate	log(CI)	CI rate	state-level net JCR	state-level net JCR
top 10% income share	-13.331*** (0.919)	-12.971*** (0.827)	-20.017*** (2.459)	-43.645*** (3.523)		
top 10% × log(assets)	1.352*** (0.033)	1.269*** (0.038)	1.783*** (0.087)	4.175*** (0.138)		
top 10% × very small firm (1-9)					0.854** (0.403)	-0.396*** (0.042)
very small firm (1-9) × log(median assets)					0.052*** (0.017)	
top 10% × very small firm (1-9) × log(median assets)					-0.109*** (0.038)	
very small firm (1-9) × log(banks pc)						-0.911*** (0.194)
top 10% × very small firm (1-9) × log(banks pc)						2.361*** (0.586)
Observations	242,651	242,651	112,393	112,393	16,086	16,086
Bank FE	✓	✓	✓	✓	-	-
Year FE	✓	✓	✓	✓	-	-
State*Size FE	-	-	-	-	✓	✓
State*Year FE	-	-	-	-	✓	✓

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ALTERNATIVE CHANNELS

TABLE: Collateral, venture capital, public goods, and local demand

VARIABLES	(1) net JCR	(2) no boom states net JCR	(3) no VC net JCR	(4) net JCR	(5) edu sample net JCR	(6) net JCR	(7) net JCR	(8) tradable net JCR
top 10% × small firm (1-499)	-0.136*** (0.020)	-0.143*** (0.023)	-0.163*** (0.023)	-0.292*** (0.038)	-0.593*** (0.077)	-0.213*** (0.022)	-0.225*** (0.023)	-0.291*** (0.027)
house price growth × small firm (1-499)	0.100*** (0.015)							
log(VC deals) × small firm (1-499)				0.003** (0.001)				
education exp. × small firm (1-499)					0.025*** (0.006)			
Observations	16,435	13,291	15,035	9,450	10,120	192,968	192,968	155,589
State*Size FE	✓	✓	✓	✓	✓	✓	✓	✓
State*Year FE	✓	✓	✓	✓	✓	✓	-	-
State*Naics*Year FE	-	-	-	-	-	-	✓	✓

DIFFERENT OUTCOME VARIABLES

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
VARIABLES	JCR	births JCR	cont JCR	JDR	deaths JDR	cont JDR	RAR	ln(emp)	ln(firms)	Δ JC	Δ firms
top 10% \times small firm (1-499)	-0.402*** (0.027)	-0.189*** (0.014)	-0.214*** (0.017)	-0.240*** (0.017)	-0.158*** (0.013)	-0.085*** (0.011)	-0.639*** (0.044)	-2.696*** (0.301)	-2.158*** (0.192)		
top 10% \times young (0-5)										-0.240*** (0.039)	-0.371*** (0.032)
Observations	16,435	16,435	16,435	16,435	16,435	16,435	16,435	16,435	16,435	3,196	3,196
State*Size FE	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
State*Year FE	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
State*Age FE	-	-	-	-	-	-	-	-	-	✓	✓

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ROBUSTNESS CHECKS: STATE-YEAR LEVEL

VARIABLES	(1) top 1% net JCR	(2) no recession net JCR	(3) no GFC net JCR	(4) pre 2008 net JCR	(5) no boom years net JCR	(6) net JCR
top 10% × small firm (1-499)		-0.166*** (0.023)	-0.136*** (0.021)	-0.106*** (0.026)	-0.179*** (0.023)	-0.139*** (0.031)
top 1% × small firm (1-499)	-0.201*** (0.025)					
Observations	16,435	14,678	15,495	12,675	12,675	16,435
State*Size FE	✓	✓	✓	✓	✓	✓
State*Year FE	✓	✓	✓	✓	✓	✓
Controls	-	-	-	-	-	× small

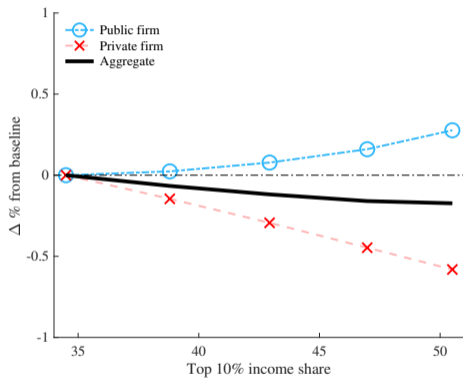
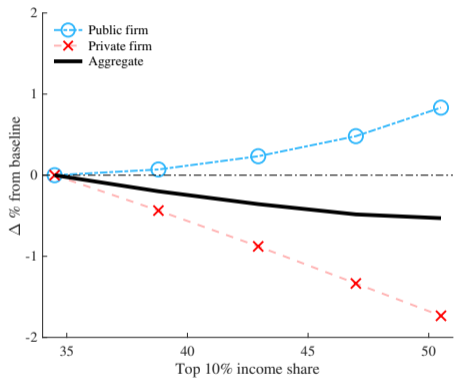
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EXTERNALLY CALIBRATED PARAMETERS

Panel (a): externally calibrated parameters

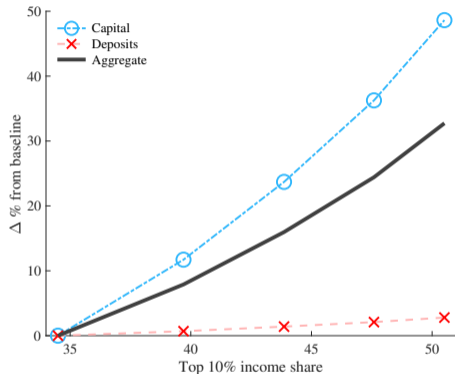
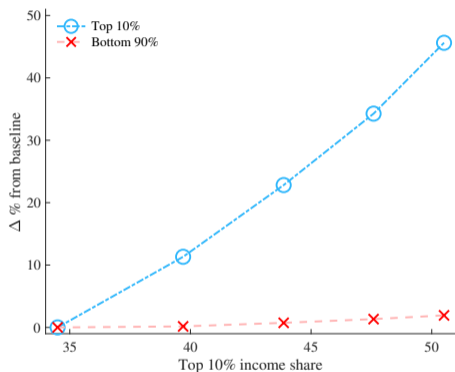
Parameter and description	Value
σ Relative risk aversion	1.50
ν Frisch elasticity of labor supply	3
ρ Persistence of productivity	0.92
σ_ϵ Std. dev. of productivity	0.12
μ_L Mass of L type households	0.9
μ_H Mass of H type households	0.1
ρ_z Firm productivity autocorrelation	0.9
$\tilde{\alpha}$ Private firm returns to scale	0.99
$\tilde{\mu}_e$ Mass of entrants	0.1527
λ Public firm exit probability	0.10

GENERAL EQUILIBRIUM EXPERIMENT: EMPLOYMENT AND WAGES



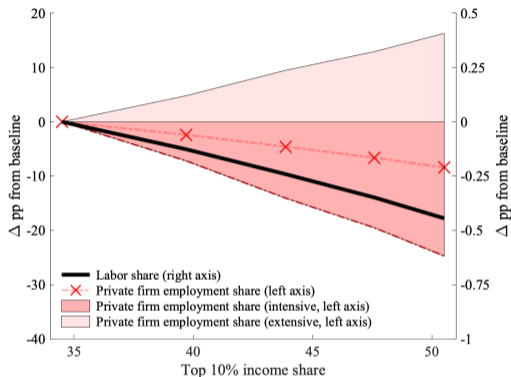
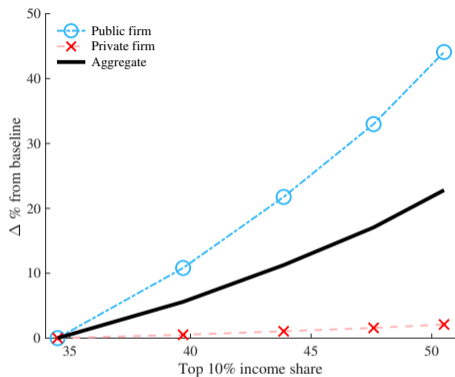
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ALTERNATIVE EXPERIMENT



- ▶ SBTC incurs a disproportionate increase in top income shares
- ▶ Savings in all asset types increase with particularly significant increase in capital

ALTERNATIVE EXPERIMENT



- ▶ The economy expands substantially with 20% higher output, mostly due to growth of public firms
- ▶ Private firm employment and labor share also decrease though the magnitude of effects on private firm employment share is much stronger