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16 Jul 2009 08:36 am

Another Bad Argument Against Taxes

By *Conor Clarke*


Here's one from [The Cato Institute's Chris Edwards](#), who describes the House plan as a "Socialist Surtax for Health Care" (what the heck makes something socialist, anyway?) and says that "what's striking is how far American economic policy is moving to the left of policies in other major nations." By "other major nations" he means, of course, those socialist fools in Europe. Edwards goes on to argue that the new surtax (plus some other Obama tax increases that haven't been enacted yet) would "push the top [American tax] rate to 51 percent, which would be higher than many nations that were traditionally more socialist than America, including France (46%), Germany (48%), and Italy (45%)." Socialism!

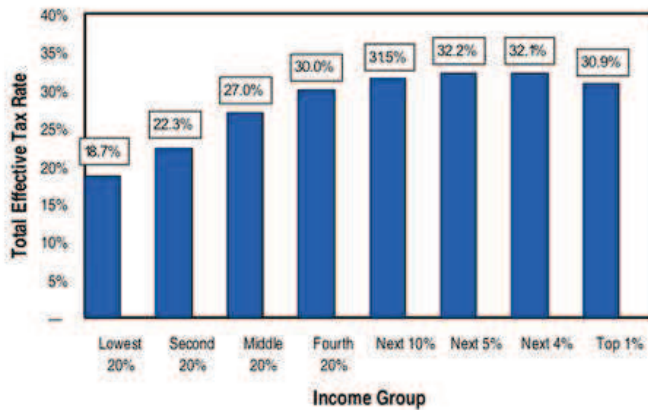
But can you spot the sleight of hand? Edwards is talking about the *top marginal income tax rate*, not the *total effective tax rate*. The marginal income tax rate is what applies to your last dollar of of wage income. The total effective rate is what you pay on the average dollar of any income. Marginal rates matter, of course. But they also kick in at different levels and are offset by a variety of other policies. The total effective rate gives you a much, much better sense of how the government nibbles away at your earnings. (For a quick example of how easy it is to be misled people by talking about marginal rates: the top rate in the 1950's was higher than 90%.)

Why is there such a difference between effective and marginal rates? One reason is that we tax capital gains and dividends at a lower rate than wage income. (This is why, for example, Warren Buffett complains that his secretary taxes at a higher effective rate than he does: so much of his income is from dividends and capital gains.) It's also why, when you look at the distribution of effective rates, the tax system looks a lot less progressive (excuse me, socialist) than it otherwise would:

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(Chart is from the Citizens for Tax Justice; my original write-up is [here](#).)

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