

Alan Reynolds on Taxes

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The Cato Institute's Alan Reynolds has a [piece](#) in the Wall Street Journal about taxes:

A 2008 study of 24 leading economies by the Organization of Economic Cooperation and Development (OECD) concludes that, "Taxation is most progressively distributed in the United States, probably reflecting the greater role played there by refundable tax credits, such as the Earned Income Tax Credit and the Child Tax Credit. . . . Taxes tend to be least progressive in the Nordic countries (notably, Sweden), France and Switzerland."

The OECD study—titled "Growing Unequal?"—also found that the ratio of taxes paid to income received by the top 10% was by far the highest in the U.S., at 1.35, compared to 1.1 for France, 1.07 for Germany, 1.01 for Japan and 1.0 for Sweden (i.e., the top decile's share of Swedish taxes is the same as their share of income).

A link to the OECD study, which is not included at WSJ.com, is [here](#).

More from the Reynolds piece: "Raising the dividend tax to 20% could easily yield no additional revenue if it resulted in high-income investors holding fewer dividend-paying stocks and more corporations using stock buybacks rather than dividends to reward stockholders."

One quibble is that Mr. Reynolds writes, "Lower tax rates on capital gains increase the frequency of asset sales and thus result in more taxable capital gains on tax returns." I'm not sure that increasing the frequency of asset sales is a particularly wise goal to set for tax policy. One can make the case that tax policy should encourage long-term ownership – buying a stock rather than "renting" it, owning a home rather than flipping it. Others would prefer that tax policy be neutral as to the frequency of asset sales. Also, it's not necessarily the low rates that cause frequent asset sales but the expectation that the rates will rise, which causes asset sales aimed at locking in the low rates before they go up — the "[Ralph Lauren Effect](#)."

Update: In the comments section, Mr. Reynolds [responds](#) to my quibble.

by Ira Stoll | Dec 23, 2010 at 9:12 am

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