

The New York Times

February 20, 2011

Find the Taxes That Do Double Duty

By ROBERT H. FRANK

THE nonpartisan Congressional Budget Office projects a cumulative federal deficit of nearly \$3.8 trillion over the next four years. So the \$100 billion in annual spending cuts advocated by House Republicans will have a negligible impact on that total.



More troubling, many of their proposals promise only to

increase it. Nutritional support for low-income women and infants was cut by more than \$1 billion, training and employment grants to states by \$1.4 billion. Such programs exist not only to help people in need, but also to prevent costly problems down the road. Cutting them will make future deficits larger, not smaller.

Clearly, reduced spending alone can't solve our deficit problem. With baby-boomer retirements looming and the electorate unwilling to embrace large cuts in [Social Security](#) and [Medicare](#), we must also raise additional revenue.

The good news is that doing so will not require difficult sacrifices from anyone. But it will require a Congress that is willing to redesign tax policy from the ground up. Although Tea Partiers and others decry taxes of all kinds, many levies actually make the country richer, not poorer. The way forward lies in greater reliance on these kinds of taxes.

A tax on any activity not only generates revenue, but also discourages the activity. The second effect, of course, underlies the claim that taxes inhibit economic growth. That's often true of taxes on useful activities, a primary source of current tax revenue. Job creation, for example, is discouraged by the payroll tax, and investment is discouraged by the income tax, which is also a tax on savings.

But the reverse is true when we tax activities that cause harm

to others. By entering a congested highway, we help to impose delays that in turn cost others thousands of dollars — even though entering those highways may save us only negligible time when compared with alternatives. In buying a heavy vehicle, we put the lives of others at risk, even though a lighter one might have served us almost as well.

Taxes levied on harmful activities kill two birds with one stone. They generate desperately needed revenue while discouraging behaviors whose costs greatly outweigh their benefits.

Antigovernment activists reliably denounce such taxes as “social engineering” — attempts to “control our behavior, steer our choices, and change the way we live our lives.” Gasoline taxes aimed at discouraging dependence on foreign oil, for example, invariably elicit this accusation.

But it’s a strange complaint, because virtually every law and regulation constitutes social engineering. Laws against homicide and theft? Because they aim to control our behavior, steer our choices, and change the way we live our lives, they are social engineering. So are noise ordinances, speed limits, even stop signs and traffic lights. Social engineering is inescapable, simply because narrow self-interest would otherwise lead people to cause unacceptable harm to others. Only a committed anarchist could favor a world without social engineering.

If outright prohibitions are an acceptable way to discourage harmful behavior, why can't taxes be used for the same purpose? Taxes are, in fact, a far cheaper and less coercive way to curtail such behavior than laws or prescriptive regulations. That's because taxes concentrate harm reduction in the hands of those who can alter their behavior most easily.

When we tax pollution, for instance, polluters with the cheapest ways to reduce emissions rush to adopt them, thereby avoiding the tax. Similarly, when we tax vehicles by weight, those who can get by most easily with a lighter vehicle will buy one. Others find it cheaper to pay the tax.

The list of behaviors that cause undue harm to others is long. When we drink heavily, we increase the likelihood that others will die in accidents. When we smoke, we cause others to suffer tobacco-related illnesses. When we emit carbon dioxide into the atmosphere, we increase the damage from greater climate volatility.

EVERY dollar raised by taxing harmful activities is one dollar less that we must raise by taxing useful ones. The resulting revenue would enable us to reduce not only the federal deficit, but also the highly regressive payroll tax. And cutting that tax would stimulate hiring and help low-income families meet the burden of new taxes on harmful activities.

Wasteful government spending, of course, should be cut whenever possible. Military spending and subsidies to oil companies dodged the recent House budget ax, as did the notoriously inefficient ethanol subsidy program. These and other outlays merit closer scrutiny, to be sure.

But again, poorly conceived spending reductions often do more harm than good. Postponing highway repairs actually increases future deficits, because costs escalate so rapidly when maintenance is deferred.

Taxing harmful activities is the best way to raise the revenue essential for reducing deficits. Only someone who thinks that people have a right to cause undue harm to others could object that such taxes violate anyone's rights. And because such taxes make the national economic pie bigger, it makes little sense to object that we can't afford them.

The new taxes should be phased in only after the economy is back at full employment. But even with federal taxes at their lowest level since the 1950s, we are unlikely to summon the political will to take that step until leaders stop insisting that all taxes are evil.

Robert H. Frank is an economics professor at the Johnson Graduate School of Management at Cornell University.