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## Heads, You Win. Tails, You Win, Too.

By ROBERT H. FRANK

NO one enjoys paying taxes — and no politician relishes raising them. Yet some taxes actually make us better off, even apart from the revenue they provide for public services.

Taxes on activities with harmful side effects are a case in point. Strongly favored even by many conservative Republican economists, these levies are known as Pigovian taxes, after the British economist Arthur C. Pigou, who advocated them in his 1920 book, “The Economics of Welfare.” In today’s deeply polarized political climate, they offer one of the few realistic hopes for progress.



Kyle Fewell

To see how Pigovian taxes work, consider a driver checking out the offerings at his local auto dealership. He is trying to decide between two vehicles, one weighing 6,000 pounds

and the other, 4,000 pounds. After comparing sticker prices, mileage estimates and other features, he views the choice as roughly a tossup. But because he has a slight preference for the larger vehicle, he buys it. His decision, however, could be viewed as a bad choice for society as a whole, because of the side effects. The laws of physics tell us that heavier vehicles tend to cause more damage in crashes. They also spew more emissions into the air and cause more wear and tear on roads.

By providing an incentive to take those external costs into account, taxing vehicles by weight would make the total economic pie larger. Those who don't really need heavier vehicles could buy lighter ones and pay less tax. Others could pay the extra tax as fair compensation for their heavier vehicles' negative side effects.

But the mere fact that Pigovian taxes produce greater benefits than costs doesn't make them an easy sell politically. Like other changes in public policy, a Pigovian tax produces winners and losers. And it's an iron law of politics that prospective losers lobby harder to block change than prospective winners do for its adoption. That asymmetry creates a powerful status-quo bias that makes even broadly beneficial policy changes hard to achieve.

Yet, in principle, any change that makes the economic pie larger makes it possible for everyone to enjoy a bigger slice

than before. The practical challenge is to slice the larger pie so that everyone comes out ahead. A first step toward a vehicle-weight tax would be to make it revenue-neutral — for example, by returning its revenue in the form of lump-sum rebates to each buyer. That would soften the blow, while preserving the incentive to buy lighter vehicles.

For example, if the tax were 20 cents a pound, a 6,000-pound vehicle would be taxed at \$1,200, as opposed to \$800 for a 4,000-pound one. If an equal number of vehicles of each weight were sold, all buyers would get a \$1,000 rebate when the total tax income was redistributed. The buyer in our example would thus be making a net payment of \$200 because of the tax, but his total outlay would have been \$400 lower if he'd bought the smaller vehicle instead.

Although revenue neutrality would help, buyers who really need large vehicles might feel aggrieved. Paradoxically, the key to mollifying them is to propose Pigovian taxes not just on vehicle weight but also on a swath of other activities that cause undue harm to others. We could tax drivers contributing to traffic congestion, for example, on the grounds that entering a crowded roadway causes delays to others. We could tax noise, carbon emissions and other specific forms of air and water pollution. Although some people would end up as losers under any single one of these measures, virtually everyone would come out ahead under a

broad suite of Pigovian taxes.

That's because adopting a large number of them is like repeated flips of a coin whose odds are stacked heavily in your favor. If someone offered a chance to flip a coin that paid \$10 for heads and lost \$1 for tails, would you take it? It's an attractive gamble, obviously, but if there is only a single flip, there's a 50 percent chance that you'll be a loser. After many flips, however, you'd almost certainly be a net winner.

Likewise, any single Pigovian tax is an attractive gamble for the average taxpayer, who would get a rebate equal to the amount she'd paid in tax and would benefit from the resulting reduction in harm. Under a collection of such taxes, the odds of being a net winner go up sharply. Only the minuscule minority who cause much more than average amounts of harm in almost every category might end up paying more total tax than before. And even those few would still be net winners, because of the corresponding reductions in harm.

A BROAD slate of Pigovian taxes would thus meet the challenge of how to divide the larger pie so everyone comes out ahead. And because the prospect of a continued divided government makes short-run legislative progress unlikely on other fronts, why not pick this low-hanging fruit right now?

The case for Pigovian taxes isn't easily reduced to bumper-

sticker slogans. Still, the basic ideas are not complicated, and President Obama has the biggest megaphone on the planet. It should be easy for him to persuade rational voters to embrace policies that would make virtually everyone better off.

But he must also persuade House Republicans. Getting their votes will be the real test of his celebrated rhetorical skills.

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