A Higher Gasoline Tax Will "Solve Everything"? It Just Ain't So!

BY ROY CORDATO

Regrettably, I have to criticize someone who, in the past, I have admired a great deal. John Tierney is an iconoclastic columnist for the *New York Times* who has been writing on environmental issues for at least a decade. His now-classic 1996 *Times Magazine* story critical of recycling was a well-researched article that I have referred to many times.

Unfortunately, in an October 4, 2005, column titled "The Solve-Everything Tax" Tierney buys into a laundry list of economic and scientific fallacies as justification for a new 50-cent-per-gallon gasoline tax.

He opens by saying, "I have a modest proposal to fight global warming, save energy, cut air pollution, ease traffic congestion, reduce highway fatalities and, while we're at it, reform Social Security." But in fact, Tierney's "Solve Everything Tax" would solve nothing and would causes problems of its own. Let's take his claims one at a time.

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Fight global warming. In a 1998 *Geographical Research Letter* article Thomas Wigley, a scientist who accepts the alarmist vision of global warming, concluded that if the Kyoto Protocol were implemented with 100 percent compliance the result would be global average temperatures in 50 years that are an undetectable 0.126 degrees Fahrenheit cooler than they otherwise would be. This result has gone unchallenged. Even if one accepts the alarmist position that global warming is primarily human induced and that its effects will be dramatic, extensive, and harmful, a 50-cent-per-gallon gasoline tax will do nothing to alleviate the problem.

Save Energy. It is not the role of government to tell people which productive inputs they should economize on and which they should use more of. Market prices reflect relative scarcities, and people will make tradeoffs in their lives and productive activities accordingly. For Tierney to suggest that he or policymakers know better what resources should be conserved invokes what Hayek called a "pretense of knowledge" and substitutes the decisions of central planners for freely choosing individuals.

Cut air pollution. Assuming that Tierney is referring to ground-level ozone (smog), the primary pollution "problem" still attributed to cars, then this tax is likely to accomplish little. Nationwide, ground-level ozone has been in steady decline for many years and this is likely to continue. Older, more-polluting cars are being replaced by newer, cleaner cars, and in the next few years more stringent federal regulations are coming on line. Leaving aside arguments that both the federal ozone standard and these new rules are overkill, if nothing more is done, most if not all of the country will be in compliance with this standard within the next several years. Tierney doesn't explain why a permanent tax increase on gasoline is necessary to attack what is at most a short-run problem.

Ease traffic congestion. Congestion is experienced primarily during morning and evening rush hours. Commuting to work is probably the most important use that

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people make of their cars. Economic analysis suggests that the higher prices brought about by a new 50-cent tax—which will translate into less than a 50-cent price increase at the pump—will get people to economize on the least, not the most, important uses of their car. In other words, people are most likely to decide to go to restaurants or movie theaters that are closer to their homes, or take vacations that do not involve quite as long a drive. None of this will have an effect on traffic congestion during rush hour.

Reduce highway fatalities. To the extent that this tax encourages the purchase of lighter, more fuel-efficient cars it will actually increase highway fatalities. This has been the well-documented result of federal Corporate Average Fuel Economy (CAFE) standards.

Reform Social Security. For Tierney this is the clincher. It is what ensures that his gas tax is indeed the "solve everything tax." The idea is that the revenue from the gas tax would fund private accounts for Social Security so, as Tierney puts it, "at least they'll get their money back," referring to purchasers of gasoline. The idea that people who pay the gas tax will "get their money back" in the form of a private retirement account is based on several false assumptions. First it assumes that these accounts will somehow be set up in proportion to the amount of gas tax that people pay. If this is not the case, then the whole program would be nothing but a coercive wealth transfer from those who pay relatively more in taxes to those who receive relatively more in "retirement account money." But even if Americans were given retirement accounts that exactly equaled the amount paid in gas taxes, they would still be made worse off. This is because without the tax, the money can be used at any time for any purpose—to pay the rent, buy new clothes, and make car payments, and so on. But money received as a retirement account would be restricted to retirement use. Hence from the perspective of economics that money is less valuable to the taxpayer than the money paid in taxes. This takes into account that the money in the account would accumulate interest. If the gasoline-tax payer preferred to put this money away in an IRA or other retirement account and have it accumulate interest, he would have that option without the "help" (coercion) of Tierney's gas tax.

The idea of funding private accounts for Social Security with a tax increase is certainly not a novel idea. But according to Tierney, this isn't just any tax increase. This is a tax increase that would be good for society even if Social Security were not the target of its booty.

Unrealistic Assumptions

Finally, to put some "rigor" into his proposal, Tierney turns to a study in the *American Economic Review* purporting to show that the gas tax "should increase by 60 cents per gallon to compensate for the congestion, pollution and other costs that drivers impose on society." Besides the fact that none of these revenues would be used to "compensate" anyone for anything, to arrive at such a conclusion the authors of this study had to make assumptions about market prices and what they represent that have no relationship to the real world. When assessing the tax calculations made in these kinds of studies, Nobel laureate James Buchanan concluded in his book *Cost and Choice*, "[T]he analyst has no benchmark from which plausible estimates can be made." Ultimately, these calculations require the same information that an all-knowing economic central planner would need to efficiently plan an entire economy. This is why "pollution taxes" advocated by many economists as a "market based" policy are actually a "stealth" form of socialism. Ultimately, taxes of this sort, while derived in an air of rigor and mathematical elegance, are arbitrary and meaningless in terms of their stated goal—increasing economic efficiency and social welfare.

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In reality, Tierney's tax is nothing special. Like a typical "sin tax," its intentions are paternalistic. And like all other taxes, it coercively transfers wealth and distorts economic decision-making.