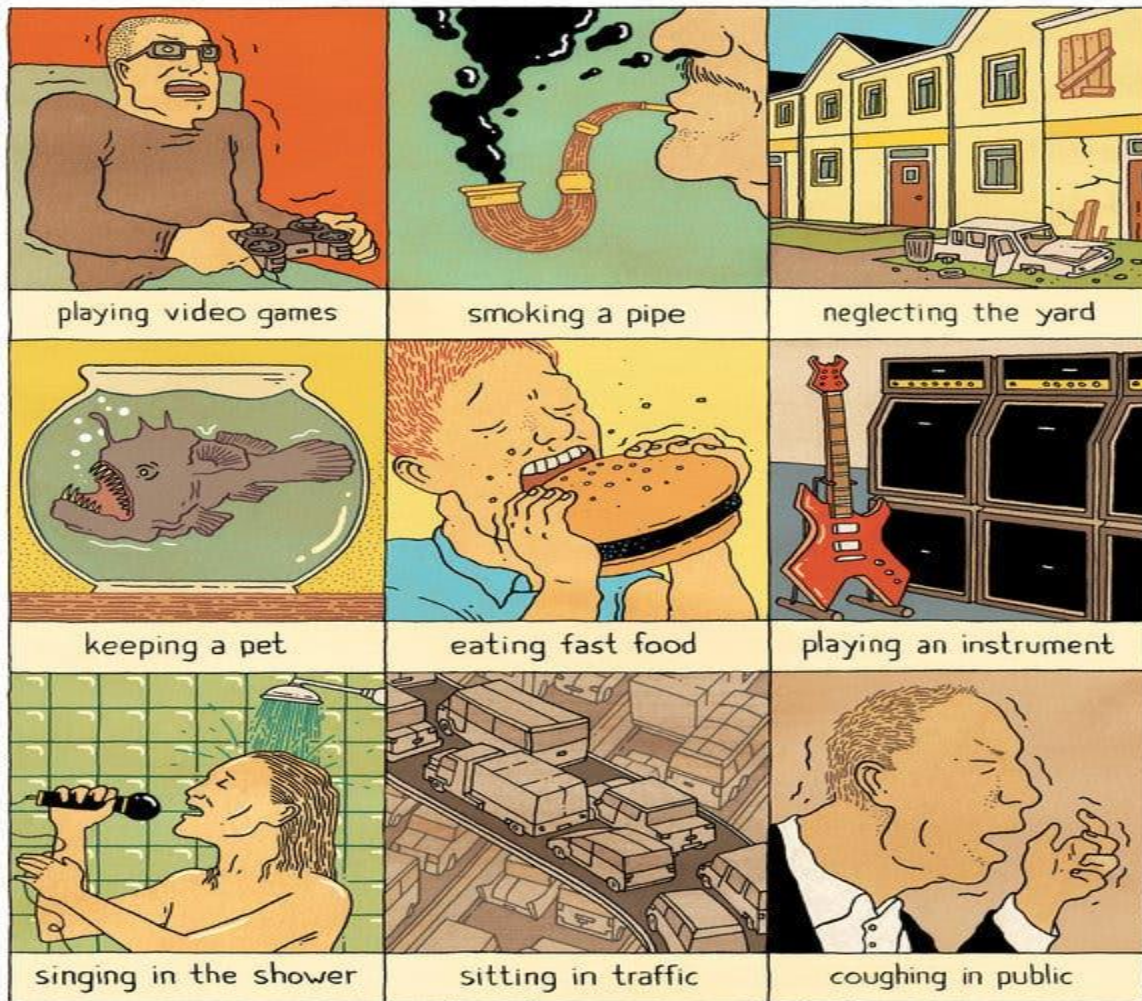


Should We Tax People for Being Annoying?

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Driving home during the holidays, I found myself trapped in the permanent traffic jam on I-95 near Bridgeport, Conn. In the back seat, my son was screaming. All around, drivers had the menaced, lifeless expressions that people get when they see cars lined up to the horizon. It was enough to make me wish for congestion pricing — a tax paid by drivers to enter crowded areas at peak times. After all, it costs drivers about \$16 to enter central London during working hours. A few years ago, it nearly caught on in New York. And on that drive home, I would have happily paid whatever it cost to persuade some other drivers that it wasn't worth it for them to be on the road.

Instead, we all suffered. Each car added an uncharged burden to every other person. In fact, everyone on the road was doing all sorts of harm to society without paying the cost. I drove about 150 miles that day and emitted, according to E.P.A. data, about 140 pounds of carbon dioxide. My very presence also increased (albeit infinitesimally) the likelihood of a traffic accident, further dependence on foreign oil and the proliferation of urban sprawl. According to an influential study by the I.M.F. economist Ian Parry, my hours on the road cost society around \$10. Add up all the cars in all the traffic jams across the country, and it's clear that drivers are costing hundreds of billions of dollars a year that we don't pay for.

This is how economists think, anyway. And that's why a majority of them support some form of Pigovian tax, named after Arthur Pigou, the early-20th-century British economist. Pigou developed the idea of externalities: the things we do that affect others and that the market is unable to price. A negative externality is like the national equivalent of what happens when you go to dinner with three friends and, knowing that you'll pay only a fourth of the bill, decide to order an expensive entree. Pigou argued that there are so many damaging things that we do — play music too loudly, drive aggressively — and that we'd probably do less if we had to pay for them.

The \$10 I cost the economy was based on Parry's algorithm, which calculates that drivers should pay a tax of at least \$1.25 a gallon. Forty percent of that price, he says, is the cost that each vehicle adds to congestion. Another 40 cents or so offsets the price of accidents if we divided the full cost — more than \$400 billion annually — by each gallon of gas consumed. (Only about 32 cents would be needed to offset the impact on the environment.) According to Parry's logic, if we paid a tax of \$1.25 per gallon instead of the current average of 50 cents, the price of gas would increase by about 25 percent to around \$4 a gallon, which is still well below what much of Europe pays. But it would still encourage us to drive less, pollute less, crash less, lower the country's dependence on foreign oil and make cities more livable. Not surprisingly, several studies have found that people — especially in Europe, where the gas tax is around \$3 a gallon — drive a lot less when they have to pay a lot more for gas.

The idea of raising taxes to help society might sound like the ravings of a left-wing radical, or an idea that would destroy American industry. Yet the nation's leading proponent of a Pigovian gas tax is N. Gregory Mankiw, chairman of President George W. Bush's Council of Economic Advisers and a consultant to Mitt Romney's 2012 campaign. Mankiw keeps track of others who support Pigovian taxes, and his unofficial Pigou Club is surely the only group that counts Ralph Nader and Al Gore along with leading conservatives like Charles Krauthammer, Alan Greenspan and Gary Becker as members.

Republican economists, like Mankiw, normally oppose tax increases, but many support Pigovian taxes because, in some sense, we are already paying them. We pay the tax in the form of the overcrowded roads, higher insurance premiums, smog and global warming. Adding an extra fee at the pump simply makes the cost explicit. Pigou's approach, Mankiw argues, also converts a burden into a benefit. Imposing taxes on income and capital gains, he notes, punishes the work and investment that improve society; taxing negative externalities allows the government to make money while discouraging activity that hurts the overall economy.

There are some obvious problems with their approach. Nobody actually knows the precise cost of any negative externality. (Estimates for the collective impact of a ton of carbon range from \$1 to \$1,500, for instance, which could lead to all kinds of price disagreements on a Pigovian gas tax.) So Mankiw prefers to focus on simpler factors to deduce externalities. It's not terribly difficult to figure out how many people drive on a certain road per hour and how much time they lose by being stuck in traffic, he told me. Still, he said, "you've got to take your best guess."

Another major drawback is that it's hard to know where to stop. All of us are constantly affecting those around us in positive and negative ways, which in turn affect the economy, however indirectly. In my Brooklyn neighborhood, I notice that some neighbors have well-tended gardens that make my walk to the subway more enjoyable. Others, less so. (Taken as a whole, they also play a subtle but significant role in determining property values.) Can't we tax the sloppy and subsidize the beautifiers? Every time someone drops out of high school, he increases the likelihood of crime and reliance on public assistance and decreases the overall rise in G.D.P. Should we tax them? Or their teachers? What about taxing obese people who increase the costs of our health care system? Or should we tax fast-food companies instead? (This fall, voters in California defeated ballot measures to impose a tax on sugary drinks.)

Economics offers no objective criteria for deciding what to tax or by how much. That's one reason many libertarians, like Russ Roberts, a George Mason University economist, will never join the Pigou Club. Sure, he says, externalities exist, but that doesn't mean the government needs to tax them. Yet in the past few weeks, there has been intense discussion among some economists about one particular externality: the social cost of gun ownership. A National Bureau of Economic Research study by Philip Cook and Jens Ludwig determined that guns cost society, on average, a minimum of \$100 each and as much as \$1,800. Some economists say that a Pigovian tax on weapons, rather than strict regulation, could break the political impasse on gun control.

But the economic argument is not persuasive enough to sway the politics. Pigovian taxes are most likely to be adopted in cases like congestion pricing, when everybody paying the cost can instantly see the benefit. Driving always involves negative externalities. It is impossible for even the most careful driver in the most environment-friendly car to avoid negatively impacting others. Guns are different. Some gun owners cause enormous damage, but most cause none at all. What is the societal cost of a gun that has never been used? So far, economists have struggled to come up with a compelling answer.