



## WSJ writes that gas taxes make sense

Posted by [Jerome a Paris](#) on February 9, 2007 - 4:27pm

Topic: [Economics/Finance](#)

Tags: [gas tax](#), [oil](#), [peak oil](#), [wall street journal](#) [[list all tags](#)]

### *What is the most economically sound way for the government to encourage development of alternatives to fossil fuels?*

▪ Taxes that raise the cost of purchasing fossil fuels	54%	
▪ Subsidies for producers of alternative fuels	13	
▪ Regulations that require energy companies use more alternatives	4	
▪ Other	28	

*Note: Percentages don't add up to 100 due to rounding.*



The above numbers come from a [poll of market economists](#) who are asked their opinion on various macro-economic topics (click on pic to enlarge).

So, that's 3 reasons (beyond the fact that it's in the WSJ) not to think it's a good thing, right?

- poll
- market
- economist

The core issue is that energy is currently not priced correctly, and is thus cheaper than it should be - and we therefore, naturally, use more than we could and should.

Now I know that saying that it is "cheaper than it should be" sounds pretty bad, so let me explain.

We ARE paying more for our energy than we think we are. It's just that this cost does not appear as a monetary price when we actually buy the gas. It is paid in indirect ways:

- taxes to subsidize oil and coal companies
- taxes to pay for the military forces that ensure the security of maritime lanes (and occasionally occupy oil-rich countries)
- higher interest rates that increase the price of other investments, if the above is paid by government debt rather than taxes (if the government borrows a lot of money, it crowds out other borrowers and makes it more expensive for all to borrow, *ceteris paribus*)
- lives of soldiers involved in the above

healthcare costs for asthma patients and other pollution related diseases

costs caused by global climate change (cf NOLA)

That cost is not borne by the consumers of the oil/the gas. It is disproportionately borne by the poor (cf NOLA, cf Iraq Vets, cf Bush tax breaks). But it's not valued.

A policy that forces energy sources to reflect their indirect costs does not make those energy sources more expensive, it only brings in the open costs already incurred in another way - and it allocates that cost to those that are actually using the energy, thus ensuring that they are actually responsible for what they do and, more to the point, that they have the incentive to do something

about it - because they're the ones with the best ability to influence their use of energy.

A gas tax is a very effective way to translate the indirect costs of burning oil into an actual monetary cost borne by end users, so it is a rational economic tool (to "internalize externalities" in econospeak), and it is not altogether surprising that economists would support it.

Two points are worth bearing in mind.

The first one is that it is a great thing that economists are finally recognizing that there actually are externalities associated with gas use. That's thanks to "hippies" and "green extremists" and other similarly blighted progressives repeating that simple message for a long time, being ignored, insulted and demonized for a long time in the process - but prevailing because they were right. As we have lots of other ideas that are in that "pipeline" toward public acceptance, this is an optimistic thing to note.

The other is that market economists are, naturally, driven by money, and find decisions made purely on monetary considerations to be good decisions. But effective does not necessarily mean good. Forcing only the poor to bear the brunt of an adjustment may be effective from the point of view of economics, but it's bad policy (and hopefully, bad politics as well). And yet that's the logic behind a lot of reforms that say: let markets act.

Famines are efficient market solutions to food scarcity.

People freezing to death because they are unable to pay for heating oil is an effective market solution.

Thus a gas tax cannot and should not be enough, if it is ever used. It should always be accompanied by measures to help alleviate the monetary pain it will cause to the poor - tax reform to change the burden on the poor, use of the tax receipt towards investment that provide substitutes (public transport, help to save energy at home, etc...)

One of the reasons I support the gas tax is that in fact it is not, in itself regressive - it only makes the regressive nature of the cost of oil \*appear\* more starkly. That means that, politically, it cannot happen without a package to change that fact - which will help to change the underlying regressive status quo.

As you know, we are trying to restart the **Energize America** work on dKos. EA does NOT include a gas tax, because discussions here made it clear that it would not be supported politically. But it does include a number of measures aimed at making, in less direct ways, the externalities of some of our favorite energy sources appear more starkly, and at encouraging behavior that avoids the sources of energy with the most hidden effects. That includes incentives to use less energy, or more of the better sources of energy.

The important thing to flag is that we must keep up on the idea that some forms of energy uses have very high hidden costs, already borne today by the poor and the weak, and thus that it is progressive politics to tackle that - and that it requires a coherent, global programme (a 'holistic' approach, would say **A Siegel**), and not simplistic solutions.

Energy policy should focus on these costs, and ensuring that all Americans (and all Westerners), not just those that can afford to ignore the problem by paying more, pay their share.



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