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The Solve-Everything Tax

By JOHN TIERNEY

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.

All we have to do is raise the federal gasoline tax by 50 cents per gallon and refund all the new revenue directly to Americans by putting it in new Social Security individual accounts. I realize how crazy this sounds, given the current public anger at high gas prices, but bear with me.

The $3-per-gallon price probably isn't going to last. Suppose, as some experts do, that the price will end up sooner or later back around $2 per gallon. And suppose you gradually phase in the tax only when prices fall - say, an extra dime of tax per gallon whenever the retail price falls by 20 cents. Consumers would still see their costs declining at the pump, so there'd be no sudden shock at any tax increase.

Some people would complain about any new tax, but at least they'd get their money back. Americans hate seeing today's gas taxes being diverted to thousands of pork-barrel projects like horse trails in Virginia and the bridge to nowhere in Alaska. These new tax revenues would be divided equally among all workers and go right into their personal accounts.

As much as Democrats hate private accounts, they couldn't complain that anyone was "raiding" the Social Security "trust fund" for these accounts. Recalcitrant Democrats would have to explain why they oppose an energy policy favored by environmentalists and a social program that would transfer money to the poor. Since low-income people tend to drive less than the average American, they pay less in gas taxes than average, so they'd make money when the revenue was divided equally.

Any new tax, of course, terrifies Republicans. When I mentioned this idea to one White House official, he went immediately into off-the-record mode and warned me, "You realize you're never going to get invited to Grover's Wednesday meetings." Those are the weekly conservative strategy sessions convened by Grover Norquist, the head of Americans for Tax Reform and enforcer of the no-tax pledge signed by a majority of the members of the House.

But Norquist reassured me I would not be cast into the abyss. He said a 50-cent gas tax, with all the revenue refunded to personal accounts, wasn't verboten. "If it were attached to one of the annual tax cuts that we've been passing so that the overall package reduced taxes, it wouldn't violate the no-tax pledge," he said.

Some conservatives I consulted, on and off Capitol Hill, were opposed to the new tax and didn't like taxing drivers to pay for retirement accounts. But others were intrigued by the prospect of offering Democrats something new in exchange for pension reform.

"If you used a gas tax as an end run to start personal accounts for people, you might strengthen their savings habits and get them to start contributing their own money," said Gary Becker, the Nobel laureate economist. He and other economists especially liked the notion of encouraging energy conservation through a gas tax instead of the current approach of mandating fuel-economy standards for cars.

A 50-cent tax would save much more gasoline and avoid some of the perverse effects of the fuel-economy rules, which encourage people to drive more because their new cars save them money on gas. A gas tax makes people drive less, not only saving gas but also easing congestion on the roads and reducing pollution.

Although 50 cents per gallon may seem high (slightly more than the total current federal and state taxes on gas), it's in line with the calculations of the economists Ian Parry and Kenneth Small. They figure that the tax should increase 60 cents per gallon to compensate for the congestion, pollution and other costs that drivers impose on society.

A 50-cent tax increase would reduce driving but still yield nearly $70 billion in extra revenue annually, according to Peter Van Doren, the editor of the journal Regulation at the Cato Institute. There would be enough to put about $440 into the personal account of every worker now paying into Social Security.

As those workers watched their nest eggs grow, they'd want to put more of their Social Security taxes into personal accounts instead of the mythical trust fund now being squandered by Congress. And then, after we've reformed Social Security while saving the planet, we could take on something really challenging.

For Further Reading

"Does Britain or The United States Have the Right Gasoline Tax?" by Ian Parry and Kenneth Small. American Economic Review 95, pp.1276-1289, 2005.

"Clearing the Air: The Costs and Consequences of Higher CAFE Standards and Increased Gasoline Taxes" by DAVID AUSTIN and TERRY M. DINAN. Journal of Environmental Economics and Management, Forthcoming.