

A triple-dividend from Pigovian gasoline taxation?

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Evan Turgeon, a lawyer working for the Cato Institute, has an article on gasoline taxation in the *Journal of Land, Resources & Environmental Law*: "[Triple-Dividends: Toward Pigovian Gasoline Taxation.](#)"

The "triple dividends" asserted are benefits to the U.S. domestic economy, the national security outlook, and the environment. In general the idea is that if we increase the gasoline tax while eliminating a host of other programs that address related issues in piece-meal fashion, overall we'd be much better off.

I'd agree that in principle Turgeon is right. In practice, it would depend on how high the gasoline tax is raised and how many of the piece-meal programs are actually eliminated. Among the programs Turgeon thinks could be eliminated are CAFE standards and renewable fuel mandates, subsidies and tariffs. Turgeon also argues that we could reduce U.S. overseas military involvement if we reduced oil imports.

But I'm not quite convinced that a higher gasoline tax will actually reduce oil imports, which Turgeon said would keep more money in the domestic economy and produce an economy boost. Higher gasoline taxes will reduce the demand for gasoline, so tending to reduce the quantity of crude oil to supply U.S. consumers and so reducing world crude oil prices a bit. But whether that reduction comes at the expense of domestic or foreign producers depends on which producers tend to have higher costs. If, as is reasonable to believe, U.S. domestic producers tend to be higher cost than many foreign producers, then as crude oil prices tend to fall the percentage of oil we import could rise. We could become more "addicted" to foreign sources of supply, with indeterminate effects on U.S. military activity.

I'd argue with a number of other points in the paper, too, though some of my objections are likely just to the way a lawyer is writing about market activity. One further substantive issue concerns OPEC, as Turgeon credits OPEC with much too much influence on the oil market. Many careful examinations of OPEC and oil markets find that Saudi Arabia may have sufficient market power to influence prices and sometimes exercises it, but OPEC as a group does not have systematic effects on prices. Turgeon's mistake here is pretty common, but a little digging here could have helped avoid it.

I also object to the idea that federal gasoline taxes are an appropriate tool for dealing with congestion issues. I can drive for hours across Texas without encountering any congestion but for the drive-in window at the Dairy Queen. Raising the federal gasoline

tax on my cross-Texas travels will provide no congestion-reducing benefits. Toll roads, HOT lanes, and hi-tech congestion pricing for roads are much better approaches.

Even with my criticisms, I'd be in favor of trading a higher gasoline tax for the elimination of CAFE standards and renewable fuels policies. A definite win-win there for taxpayers/consumers/citizens.

Citation: Evan N. Turgeon, "[Triple-Dividends: Toward Pigovian Gasoline Taxation](#)," *Journal of Land, Resources & Environmental Law*, Vol 30, No 1 (2010).

Abstract: The American public's demand for inexpensive gasoline and indifference to the risks posed by climate change have shaped the nation's traditional and alternative energy policies. Public opinion encourages lawmakers to implement inconsistent and economically inefficient policies, which not only fail to satisfy the nation's energy needs but produce a host of secondary economic, national security, and environmental problems.

This article advocates replacing the United States' current panoply of ineffective government subsidies and mandates with an efficient, market-driven solution: higher federal gasoline taxes. Whereas previous environmental tax proposals assume constant tax revenue, this article considers the potential to reduce costly foreign policy expenditures in light of decreased domestic petroleum demand. This broader view suggests that Pigovian gasoline taxes would yield triple-dividends, simultaneously benefiting the United States' economy, national security outlook, and environment. Recognizing the incentives responsible for current energy policies provides insight into how higher federal gasoline taxes might successfully be promoted and enacted.