

# SMART TAXES RULE

by David Bean



Imagine sitting in the sun on a deck, overlooking a stream and drinking a superb local microbrew in sight of the state capitol building. You peer down into the water and to your amazement see a pair of sixty pound salmon spawning under your gaze. One can experience this in Salem on Pringle Creek. It could happen in Portland too, if we directed the economic currents to support a more livable environment.

While not a panacea to every problem, markets can effectively enforce sustainable economics. A finely tuned economy provides essential resources, products, and services; distributes them to—even protects them for—consumers and producers; and thereby provides people the means to engage their talents and have them be valued.

While some claim that market economies are benign, beneficial and intelligent in their distribution of resources, recall the bulls and bears, the history of panics, depressions and recessions. When markets turn down they are neither kind nor wise, either with regard to human sentiment or prudent use of resources, human or natural.

When an economy is “out of tune”, government can try to step in. Even when economies are “in tune”, it is customary for government to maintain roads, public safety, schools, environmental protection and—if voluntarism proves inadequate—libraries, museums, etc.

Government is much like the flywheel of an engine. The engine generating wealth is the economy. The more out of balance the engine, the larger must be the flywheel. The more dislocation that is caused by the economy, the more functions (and therefore costs) must be born by government.

Idealists dream of an engine without a flywheel, of correcting the imbalances and

dislocations at their source. It has yet to happen. Our goal should be to create more balance between economy, populace, and environment. Through smart taxation, we can. Smart taxes guide producers and consumers away from damaging our future. To avoid the tax cost, firms and citizens become smarter; hence the name.

Smart taxes fall not on goods, such as homes or businesses, nor on incomes, such as wages and dividends, which are returns to input. Instead, they fall on the behavior that creates the problem needing regulation, absorbing the income from the bad behavior. Smart taxes are distinct from fees for services; they are more like fines which should grow according to the size of the offense. If the fine is \$1 per gallon for spilling 100 gallons of oil in the river, it should be \$5 per gallon for spilling 1,000 gallons.

## Markets can effectively enforce sustainable economics.

Here are a few more examples of smart taxes.

- A “thermal pollution tax” for land holders who raise the temperature of streams by clear cutting or through flawed riparian management.
- A “recidivism tax” for repeat offenders.
- A “congestion tax” for firms that make employees drive to distant offices.
- A “tasteless repetition tax” for builders who build no variety into their subdivisions—say, a \$10,000 tax for building identical

houses side by side graduated down to no fee for having the identical house 11 houses away.

- A “speculation tax” on profits from quick turnaround house sales—as that just bids up taxes for local residents.

Levying fees where the economic wheel needs slowing, smart taxes regulate economically; they allow citizens the choice of avoiding costs. In highly regulated areas, it is easier to take costs into account in the planning process than to discover them late and send them to the legal department and later to the lobbyist. With an explicit fee structure, smart taxes can replace a great deal of regulatory cost. The determining and enforcing of smart taxes is much simpler, more straightforward than regulation. One page of smart tax fees can contain as much information as an entire manual of regulations.

By making clear the specific object of taxes, smart taxes decrease cynicism toward government. While smart taxes raise essential revenue for essential tasks, such as enforcing environmental standards, they will never raise the total public budget. As people avoid polluting and depleting, smart tax revenues will decrease.

It is easier to work with, rather than against, economic forces. It is up to us all to propose smart taxes to our legislators. What is your idea of a smart tax?

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