

## RESOURCES

### RESOURCES FOR THE FUTURE

1616 P Street, NW  
Washington, DC 20036-1400  
202-328-5000

Fax: 202-939-3460

Email: [editor@rff.org](mailto:editor@rff.org)

Address changes: [hase@rff.org](mailto:hase@rff.org)

World Wide Web: [www.rff.org](http://www.rff.org)

### OFFICERS

President, Paul R. Portney  
Vice President—Finance and Administration,  
Edward F. Hand  
Vice President for Programs, Raymond J. Kopp  
Secretary and Director of Development,  
Lesli A. Creedon

### BOARD OF DIRECTORS

Darius W. Gaskins Jr., Chair  
Catherine G. Abbott, Joan Z. Bernstein,  
Julia Carabias Lillo, Norman L. Christensen Jr.,  
James H. S. Cooper, John M. Deutch,  
Anthony S. Earl, Dod A. Fraser, Kathryn S. Fuller,  
Mary A. Gade, Robert E. Grady,  
F. Henry Habicht II, Thomas C. Jorling,  
Lawrence H. Linden, Frank E. Loy, Lawrence U.  
Luchini, Jim Maddy, Karl-Göran Mäler,  
Frank L. Matthews, William D. Nordhaus,  
James F. O'Grady Jr., Steven M. Percy,  
Mark A. Pisano, Paul R. Portney,  
Roger W. Sant, Robert M. Solow,  
Joseph E. Stiglitz, Edward L. Strohbehn Jr.,  
Linda C. Tallaferro, Victoria J. Tschinkel

### RESOURCES

Director, *Communications Planning and Strategy*,  
Jonathan J. Halperin  
Editor, Felicia Day  
Assistant Editor, Eric Tischler

Published quarterly since 1959, *Resources* (ISSN 0048-7376) contains news of research and policy analysis regarding natural resources and the environment. The views offered are those of the contributors and should not be attributed to Resources for the Future, its directors, or its officers.

©2002 Resources for the Future. All rights reserved. No part of this publication may be reproduced by any means, either electronic or mechanical without permission from the publisher. Contact Felicia Day at RFF (email: [editor@rff.org](mailto:editor@rff.org)).

*Resources* is sent to individuals and institutions without fee. To subscribe, contact Scott Hase at RFF ([hase@rff.org](mailto:hase@rff.org)) or 202-328-5006. The publication is also available on the RFF website, [www.rff.org](http://www.rff.org).

Photo Credit: Elaine Mode

 Printed on recycled paper with 20% post-consumer content.



Paul R. Portney

## IF ONLY WE KNEW...

A month or so ago, I participated in a fascinating conference organized by *Fortune* magazine, which was attended by interesting people from the United States and around the world. During a panel discussion on climate change in which I participated, one of the speakers correctly pointed out that global warming was an “externality”—that is, a consequence of fossil fuel use that doesn’t get factored into energy producers’ or users’ decisions. If we only knew, he said, how much the environmental and other unpriced consequences of gasoline consumption were, for instance, we could tax it appropriately and let the market then decide how much should be used. He thought \$7.00 per gallon might be the appropriate tax and some others nodded approvingly.

What a wonderful moment to be the president of Resources for the Future! On my way to the conference, I had used the flying time to get caught up on recent research done by my colleagues. One of the things I had just read dealt with, of all things, the “optimal” tax on gasoline. My colleague Ian Parry, in collaboration with Kenneth Small of the University of California at Irvine, has been reviewing the literature on the adverse consequences of gasoline use—environmental, security, congestion, and safety-related. They find, as you will see in the article in this issue, that the tax that would “internalize” all these negative effects would be about \$1 per gallon in the United States and about \$1.35 per gallon in the United Kingdom (whence Mr. Parry originally hails). As I pointed out to the conferees, this would be about two-and-a-half times the current average combined federal and state taxes on gasoline in the United States (40¢ per gallon) and less than half of the present federal tax on gasoline in the United Kingdom (\$2.80 per gallon).

Three quick caveats are in order. First, Parry and Small are very careful to point out that attaching dollar values to things like the health consequences of polluted air, the time lost sitting in stalled traffic, or the macroeconomic benefits of reducing our use of imported oil is tricky work. Not surprisingly, their findings on optimal taxes are sensitive to the values for these things they find in the open literature. Second, democracies tax for reasons wholly unrelated to negative externalities. As we are reminded each April 15th in the United States, for example, we tax labor even though we want to encourage, not discourage, its supply. Ditto with taxes on capital. Third, we ought to be concerned not only with efficient but also equitable taxation. Thus, it matters greatly upon whom the burden of taxes falls and whether any glaring inequities can be addressed through income transfers or other means. This issue pops up in any discussion of the attractiveness of higher gas taxes.

My point is that we don’t need to guess wildly at externality values. Economists and policy analysts at RFF, universities, and other research organizations work hard to uncover the valuations that people place on environmental and other unpriced consequences, and they make them available to all participants in policy debates. If decisionmakers will listen, and treat these values cautiously, the resulting decisions will be better informed and, for that reason, just plain better.

As you read this, RFF’s 50th anniversary celebration will be days away (October 15th). Let me take this opportunity, then, to thank those of you who have contributed in one way or another to making this milestone possible. Whether by working on the RFF staff, by assigning RFF materials for classroom use, by writing to us with suggestions for improvement or by sending financial support, you have played a role in our success. With a great deal of hard work on our part, and continued help from you, as well, the next 50 years will be even better than the first!

*Paul Portney*