



Nicholas Gregory Mankiw is an American macroeconomist. From 2003 to 2005, Mankiw was the chairman of President George W. Bush's Council of Economic Advisers. He is a professor of economics at Harvard University.

“Economists have often advocated taxing consumption rather than income, on the grounds that consumption taxes do less to discourage saving, investment and economic growth. . . . The main issue for the soda tax, however, is whether certain forms of consumption should be singled out for particularly high levels of taxation. . . .

Taxes on gasoline can be justified along these lines. Whenever you go out for a drive, you are to some degree committing an antisocial act. You make the roads more congested, increasing the commuting time of your neighbors. You increase the likelihood that other drivers will end up in accidents. And the gasoline you burn adds to pollution. . . .

Taxing soda may encourage better nutrition and benefit our future selves. But so could taxing candy, ice cream and fried foods. Subsidizing broccoli, gym memberships and dental floss comes next. Taxing mindless television shows and subsidizing serious literature cannot be far behind.”

“Can a Soda Tax Save Us From Ourselves?,” N. Gregory Mankiw

EXAMPLE 6 Analyzing Possible Effects of Taxes

It is often assumed that the basic goal behind taxation policies is to raise money that will be spent to help all members of society. Discuss ways in which the following taxes might help the people who are paying the taxes.

- a. A property tax that is used to fund local public schools
- b. A gasoline excise tax that is used to build and improve roads
- c. A tax on fast food that is used to lessen medical insurance premiums
- d. A tax on casino gambling that is used to buy prescription medicines for seniors

SOLUTION

- a. **Property tax:** Home owners pay property taxes directly, and renters pay property taxes indirectly. The general argument is that everyone benefits from having well-educated members of society, regardless of whether the people who are paying the property tax have children in school.
- b. **Gasoline excise tax:** This is an often-cited example of a tax that directly benefits the people who are paying the tax. The argument is that people use gas to travel on roads. They benefit from the tax because they will continue to have new and improved roads to travel on.
- c. **Tax on fast food:** There is a growing interest in this type of tax. The general argument is that fast food contributes to obesity, which contributes to increased medical expenses and higher insurance premiums. The idea behind this tax is that people who eat fast food should contribute more toward their own medical expenses.
- d. **Tax on casino gambling:** Casino patrons are often 65 or older. So, it could be argued that the tax benefits many of the people who pay the tax.

✓ Checkpoint

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Suppose you are a member of a state legislature that is voting on starting a special tax on soda. Would you vote for or against the bill? Explain your reasoning.