

At the end of an interesting and constructive piece, [David Frum stumbles on the idea](#):

[T]he U.S. needs to reconsider the way it finances Medicare and the Social Security retirement system. The payroll tax has become more and more important to U.S. finances since 1980. Before the crash, payroll taxes supplied almost 40% of all federal revenues. These taxes fall heaviest on middle-income Americans.

President Obama's payroll tax holiday expires at the end of this year. As we debate whether to renew the holiday, we should be debating whether we cannot finance the federal government in more creative ways, **through taxes on consumption or carbon pollution**, for example, rather than a tax on the first \$110,000 of labor income.

I've never been a fan of payroll taxes. Public Finance Rule #1 is that you tax things you *don't* want, not things that you do. Paying for Social Security (and also Medicare) through taxing wages serves as a tax on employment and thus also provides an incentive against hiring in the first place.

Thus, linking a carbon tax with a reduction in payroll taxes not only helps middle-class incomes but also stimulates employment. What could be bad? Well, two things:

First, a consumption tax is generally regressive. One can create a progressive consumption tax, as Cornell's Robert Frank has done, but that involves more far-ranging tax reform, and thus undercuts the simplicity (and political salience) of the straightforward tax swap. Of course, since payroll taxes are currently regressive, this is less of an overall problem, but why replace one regressive tax with another?

Second, if a carbon tax works, it will gradually put itself out of existence. The point of a carbon tax is to reduce the use of carbon, which means reducing the revenue brought in by the tax. That would threaten the long-term viability of Social Security, which currently is in good financial shape, and pose greater problems for Medicare, which has enough financial problems on its hands than to worry about more (if programs have "hands").

But there is an important kernel of an idea here: environmental policy must be linked as often and as directly as possible to middle-class benefits. And the tax switch represents a primordial attempt to do that. Frum's idea is a good one. No wonder he has gotten kicked out of the Conservative Movement.

