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Bag Taxes Disappointing in Debut

By Justin Higginbottom

Introduction

Since January 2010, shoppers in Washington, D.C. have had to pay five cents on most paper or plastic bags at grocery and convenience stores.¹ In early results, shoppers are often unwilling to pay, so carry-out bag use is greatly reduced, revenue from the tax is low, and the mayor has suggested transferring what little has been collected out of an environmental fund into a general fund. Whether the citizens consider the new tax a success depends on which of the many, often contradictory purposes they remember from the debate over passage.

In at least 17 jurisdictions nationwide, bag tax proposals are pending (see table). Sometimes they are pitched as “fees” and sometimes as “taxes,” with important rhetorical, political and legal ramifications. In almost all cases, proposed bag taxes do not come close to meeting the definition of a fee. Even when pitched more honestly as taxes, they are likely to fall short of ambitious environmental clean-up goals. Also, bag taxes cause unintended effects, such as stimulating bulk purchases of plastic bags, perhaps of a type that would cause equal environmental damage. And bag taxes invariably get caught up in the political process in which special interests in business and government are served more than the public’s interest.

Whether assessed theoretically or practically, bag taxes are not a promising development in tax policy.

Exaggerated, Contradictory Claims for Bag Taxes

The bag tax legislation enacted in Washington, D.C. was entitled the “Anacostia River Cleanup and Protection Act.” Pictures of the litter-strewn river and its tributaries served as campaign posters for the new tax, and city officials promised that the law would decrease bag litter generally, and that the additional revenue would pay for environmental education campaigns and cleaning up the Anacostia River.

¹ <http://dccouncil.us/lims/legislation.aspx?LegNo=B18-0150>

This list of environmental goals is far from being met, but it is actually far more realistic than was advertised in Seattle, Washington, as part of that city’s unsuccessful campaign for a 20-cent bag tax.² Those environmental goals included:

- Reducing greenhouse gas emissions
- Reducing landfill deposits
- Reducing street and ocean litter

More practically, the Seattle bag tax promised to funnel money to retailers who would keep 4 cents per bag, far more than their cost, and to increase the flow of revenue into the city’s solid waste reduction fund.

But the Northwest Economic Policy Seminar published an influential paper that put many of the Seattle claims into perspective, showing how little would be accomplished in the areas of global warming³ and landfill deposits.^{4,5,6} Pictures of marine life killed by plastic have been an effective tool for promoting bag taxes to combat ocean litter⁷ even though a 1997 study on the subject said bags weren’t the culprit, identifying other plastic products such as fishing gear and ropes instead.⁸

Proposed Legislation to Tax Bags		
State	Legislation	Description
Alaska	AK S.B. 22	15 cents per plastic bag
California	CA A.B. No. 68	At least 25 cents per paper plastic
Colorado	CO S.B. 156 (rejected Feb. 2009)	6 cents per plastic bag
Connecticut	CT H.B. 5215	5 cents per paper or plastic bag
Hawaii	HI S.B. 2125	20 cents per plastic bag
Maine	ME S.P. 131	10 cents per plastic bag
Maryland	MD S.B. 462	5 cents per paper or plastic bag
Baltimore	Bill #08-0208	25 cents per paper or plastic bag
Massachusetts	MA H.B. 2686	5 cents per plastic bag
Nevada	NV S.B. 397	10 cents per plastic bag
New Jersey	NJ A.B. A.B. 2121	5 cents per paper or plastic bag
New York	NY S.B. No. 4866	5 cents per plastic bag
Rhode Island	RI S.B. 804	15 cents per plastic bag
Texas	TX H.B. 1361	7 cents for plastic bag
Vermont	VT H.B. 262	17 cents per plastic bag
Virginia	VA H.B. 1115	5 cents per paper or plastic
Note: Bag tax legislation generally only applies to carryout bags and may have exclusions similar to that of Washington D.C.		

² <http://clerk.ci.seattle.wa.us/~scripts/nph-brs.exe?s1=bags&s2=&s3=&s4=&s5=&Sect4=and&l=20&Sect2=THESON&Sect3=PLURON&Sect5=CBOR1&Sect6=HITOFF&d=CBOR&p=1&u=%2F~public%2Fcbor1.htm&r=1&f=G>

³ <http://www.seattlebagtax.org/RuckerReport.pdf>

⁴ <http://www.perc.org/articles/article224.php>

⁵ <http://www.washingtonpolicy.org/Centers/government/policynotes/SeattleBagTaxPN.pdf>

⁶ <http://www.epa.gov/osw/nonhaz/municipal/pubs/msw07-rpt.pdf>

⁷ <http://www.care2.com/causes/environment/blog/how-many-marine-mammals-did-your-plastic-grocery-bag-kill-today/>

⁸ <http://www.timesonline.co.uk/tol/news/environment/article3508263.ece>

Charging for Bags: Tax or Fee?

A government may describe a proposed charge for bags as either a pigouvian tax or a fee for service. Named after British economist Arthur Pigou, a pigouvian tax targets a product that has some bad side effect, a “negative externality” in economic lingo. The explicit idea of the tax is to depress purchases, and a perfect pigouvian tax would decrease the targeted activity to a socially optimal level. In the present case, a perfect bag tax would greatly limit bag litter without making bags unaffordable for the people who most need them.

A government charge is a fee, on the other hand, when the person paying is the one who benefits from the program funded by the fee. An entry fee to a national park is the classic example: the people who enjoy the park pay for the rangers and other costs.

This matter of whether a charge for bags is a fee or a tax is no mere academic issue. In California, for example, the state legislature can only pass a tax hike with a two-thirds majority. Only a simple majority is necessary for a fee. And nationwide, because fees benefit the payers, any proposal for a new fee is more likely to be accepted by the public; suspicion of new taxes remains high.

To identify a properly designed fee, follow the money. If the fee revenue is spent on general services, not on a service related to the taxed product, it is not a fee. This can sometimes be hard to determine because jurisdictions often pay for services out of a general fund, making tax dollars fungible. It is still possible to compare the amount raised to the amount spent, but it is easier in the cases where the government creates a specific fund that receives and disburses monies only if they are related. If funds are disbursed from a targeted fund to pay for unrelated services, the fee more resembles a tax used to raise general revenue.

This is what may happen in Washington, D.C., where the bag tax revenue may be spirited out of the river clean-up fund. Just four months after enactment of the bag tax, and with only \$150,000 collected, Mayor Fenty proposed raiding the fund through an inter-governmental transfer in order to pay for general city services not necessarily related to any environmental programs.⁹

Even a sincere effort to design a fee for river clean-up would probably fail. If the costs of cleaning up the river should fall on the same people who benefit most from it, then we have to know who benefits most from a litter-free river. Is it property owners with a view of the river? Fishermen and boat owners? People who drive along the river frequently?

In short, the Washington, D.C. charge per bag is a tax, not a fee; and every other charge proposed in other jurisdictions is a tax as well.

Bag Taxes as a Pigouvian Tax

The Seattle and Washington bag taxes make the most sense labeled as a tax meant to curb consumption—or a pigouvian tax. If it achieves sensibly formulated environmental goals while still leaving bags affordable for the people who need them most, then it might be considered successful.

⁹ <http://greatergreaterwashington.org/post.cgi?id=5395>

We have already recounted the unrealistic environmental goals set by Seattle advocates for the bag tax. It is quite possible that those exaggerations doomed the idea when it was put to a referendum in mid-2009.

In Washington, D.C., how much environmental clean-up might be achieved by the bag tax? Plastic bags make up a little over 20 percent of the trash in the Anacostia River but over 45 percent of the observable trash in the Anacostia tributary streams, likely because of the vegetation (paper bags are thought to disintegrate in the river or before reaching the river). On streets, plastic bags are less than five percent of litter; paper products make up most street litter.¹⁰ Reducing plastic bag use might lead to the most *observable* effect by reducing litter in tributaries, but it can only lead to a modest reduction in total litter in the Anacostia River.

Substitution Effects

Disposable bags serve a purpose in many households. Grocery bags are often re-used at home for trash liners, lunch bags, or to clean up after pets. People might purchase bags to fill these needs with a decrease in the home supply of grocery bags. When Ireland introduced a 20-cent tax on plastic bags, it was reported that the sale of trash can liners increased by 77 percent.¹¹ While people may substitute grocery bags for more re-usable options, in many cases one needs a throw-away bag and will purchase products that have the same chance of ill effects as grocery bags.

Effect on Business and Neutrality

Not all bags are equal in D.C. Some bags exempted from the tax include: bags used by consumers to package bulk items, to wrap items where dampness may be a problem, to bag bakery goods, to bag prescription drugs, and of course, to bag newspapers. Most notably exempted from the tax are recyclable plastic or paper carryout bags. If bag pollution is a real concern it would be best if all bags were taxed, with no business given an exemption.

Businesses, excluding manufacturers of bags, do not have much room to complain under some proposed bag taxes. With the proposed Seattle bag tax a business could have kept five cents from each bag sale, or if the business grossed less than one million dollars it could have kept the entire 20 cents. In D.C., businesses keep one cent out of the five-cent tax and need not report it as income.

Total Bans

Some places have had success banning plastic bags. This regulatory approach removes any doubt in the minds of the taxpayers whether the motive is environmental improvement or revenue generation. In Alaska, many small towns have banned non-biodegradable shopping bags.¹² Hawaii has proposed a state-wide ban on plastic bags (HI S.B. 584), while Maui has already banned them. San Francisco and Palo Alto have also banned plastic grocery bags.¹³ Currently Massachusetts has proposed a ban (MA S.B. 395).

¹⁰ http://ddoe.dc.gov/ddoe/lib/ddoe/2009.01.29_Trash_Report_1.pdf

¹¹ <http://www.cga.ct.gov/2008/rpt/2008-R-0685.htm>

¹² <http://www.adn.com/news/alaska/story/872189.html>

¹³ <http://www.sfbos.org/ftp/uploadedfiles/bdsupvrs/ordinances07/o0081-07.pdf> and <http://www.cityofpaloalto.org/civica/filebank/blobload.asp?BlobID=17474>

Conclusion

Government-imposed charges for bags are best described as pigouvian taxes, though it is not clear how much environmental benefit the citizens will receive if fewer bags are used. The tendency, as in Seattle, is for public officials to greatly exaggerate environmental benefits. And with the likelihood of inter-governmental transfers, bag taxes may just be another way for a state or city to grab general revenue.

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